



**Securities Investors Association (Singapore)**

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**Issuer:** Intraco Limited

**Security:** Intraco Limited

**Meeting details:**

Date: 18 April 2019

Time: 10.00 a.m.

Venue: The National University of Singapore Society, Guild Hall, Kent Ridge Guild House, 9 Kent Ridge Drive, Singapore 119241

**Company Description**

Intraco Limited operates as an investment management company, Singapore, rest of ASEAN, and Greater China. It focuses on seeking out opportunities to expand its portfolio through strategic investments. The company operates through two segments, Projects and Trading & Others. It engages in the provision of passive fire protection products; color compounding and modified compounding of resins; and management and maintenance of 4G telecommunication infrastructure for the North East Line via its telecommunications infrastructure. The company also offers crane rental and other related services; and trades in and distributes plastic resin products. In addition, it sells conventional lighting products; and offers energy-savings, commercial wireless services, commercial wireless services; and supplies communications equipment to other service providers; and import, export, and wholesale of industrial materials, such as metals, plastics, petrochemicals, and rubbers. Further, the company is involved in the trade, marketing, and distribution of energy commodities; processing and trade of agricultural and food products, including frozen seafood and fertilizers; and management, operation, and mobile service of radio coverage systems, as well as in commission agency business. Intraco Limited was founded in 1968 and is based in Singapore.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=I06](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=I06))

1. Would the board/management provide shareholders with better clarity on the following operational and financial matters? Specifically:

- (i) **Plastic resin:** As noted in the Chairman's statement (page 6 of the annual report), the group's plastic trading business "performed well" and it successfully expanded its regional footprint to Indonesia. From Note 23 (page 140), it can be seen that the segment revenue was \$145.5 million while the segment profit before tax was \$1.137 million, or a pre-tax profit margin of 0.78%. **Can the company help shareholders understand how it could further improve the profitability of the segment? What is the target set by the board? Can the company elaborate further on the potential of the Indonesia market? Please also help shareholders understand the profile of the customers by industries and by location.**
- (ii) **Vietnam:** Revenue in Vietnam grew by more than a third, jumping to \$97.1 million (page 143) from \$70.3 million. **What are the key drivers for this improvement? How sustainable is the growth and how much more can the group grow the Vietnam business?**
- (iii) **Fire protection:** Revenue from the Fire protection segment accounted for just 5.4% of the total revenue. The chairman has said that the segment "remains an important profit contributor" to the group and the ability of the company to pay dividends will depend largely on the performance of the segment. **Can management help shareholders understand the market share of K.A. Group ("KA") in the fire protection segment? Who are the competitors in the fire protection segment? As KA mainly serves the commercial segment, will the financial and operational results be lumpy in nature? How much revenue was derived outside of Singapore? How does it intend to compete and gain market share in the region (including Vietnam, Myanmar and Malaysia) where the competitors may have a cost advantage over KA? Would the company be disclosing the forward order book?**
- (iv) **Property, plant and equipment (PPE):** As at 31 December 2018, the group has \$15.1 million in property, plant and equipment. This is more than doubled the PPE (\$7.4 million) as at 1 January 2017. In the past two financial years, the group has invested \$4.2-4.4 million in the "Trading and other" segment. **Can management help shareholders understand if the high level of capital expenditure for the segment will continue? Can management confirm that the investment is to support "Intrawave" instead of the trading business?**

2. As at 31 December 2018, the group has approximately \$40.5 million in cash and cash equivalents, following the redemption of debt securities amounting to \$9.5 million. The group also received more than \$1.3 million in dividends from its associate.

The group has total borrowings of \$9.6 million as at 31 December 2018. Total equity attributable to owners of the company stands at \$68.8 million.

Net cash flow from operating activities amounted to \$8.17 million in FY2017 and \$5.18 million in FY2018.

The company has stated that no dividends have been declared for the current financial year. This was because there was “insufficient distributable profits available for the declaration of dividend as there was a loss at company level despite net profits at group level.” (page 71). The losses arose due to fair value losses on the written call and put options in connection with the Company’s acquisition of the remaining 30% equity interest in K.A. Group.

In FY2017, the reason that the company gave for not declaring any dividends was for it to “preserv[e] its cash reserves to pursue strategic business opportunities”. As at 31 December 2017, the company and the group had cash and cash equivalents of \$9.1 million and \$30.7 million respectively.

**(i) Can the board elaborate further on the deliberations it has had on the declaration of dividends to reward shareholders?**

Although the company has accumulated losses of \$(23.6) million as at 31 December 2018, the current businesses are profitable and have generated strong positive cash flow. The losses at the company level are due to the drop in the non-cash value of the call and put options from \$5.5 million to \$2.5 million.

**(ii) Has the board reviewed the company’s capital structure? With over \$40.6 million in cash and cash equivalent, out of the group’s total equity of \$68.5 million, is the group overcapitalised for its current scale and business needs?**

**(iii) Has the board considered a capital reduction to write off the accumulated losses?**

3. The board comprises five non-executive directors, three of whom (including the chairman) are independent and two alternate directors. The company states that “More than half of the Board is made up of Independent Directors which is in compliance with the Code.”

The alternate directors are Mr Tony Chew Leong Chee (alternate director to Mr Charlie Ng How Kiat) and Mr Roland Ng San Tiong (alternate director to Dr Steve Lai Mun Fook). The company has disclosed that the “alternate directors attend most of the Board meetings, notwithstanding the attendance or presence of their respective principal director” (page 55).

Guideline 4.5 of the 2012 Code of Corporate Governance (CG Code) states that boards should generally avoid approving the appointment of alternate directors. Alternate directors should only be appointed for limited periods in exceptional cases such as when a director has a medical emergency. The CG Code further recommends that alternate directors be appointed for limited periods only.

- (i) Can the board help shareholders understand the rationale for the appointments of Mr Tony Chew Leong Chee and Mr Roland Ng San Tiong as alternate directors?**
  
- (ii) If the alternate directors play active roles and attend board meetings notwithstanding the attendance or presence of their respective principal directors, does it mean that the company may not have independent directors making up more than half of the board?**
  
- (iii) Would the nominating committee consider “converting” the alternate directors to non-executive directors if the NC deem the alternate directors qualified and able to contribute to the board?**

A copy of the questions for the Annual Report for the financial year ended 31 December 2017 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Intraco%20Ltd&cid=4512>

The company's response could be found here:

2017: [https://sias.org.sg/media/qareport/1524711722\\_Intraco\\_Response\\_to\\_SIAS\\_2018.pdf](https://sias.org.sg/media/qareport/1524711722_Intraco_Response_to_SIAS_2018.pdf)