



**Securities Investors Association (Singapore)**

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**Issuer:** NGSC Limited

**Security:** NGSC Limited

**Meeting details:**

Date: 29 Aug 2018

Time: 2.00 p.m.

Venue: SAFRA Yishun, Allamanda & Balsam Ballroom, 60 Yishun Avenue 4, Singapore 769027

**Company Description**

NGSC Limited, an investment holding company, provides satellite-based telecommunications services primarily to educational and financial institutions. It builds, operates, and leases base station controllers for universal service obligation sites to enable the telecommunication services in remote areas; and provides data center, network, and engineering services. The company also sells satellite communications equipment. In addition, the company engages in the development of Internet and satellite communication system technology, as well as computer technology; satellite communication system devices trading business; and provision of connectivity services. Further, it is involved in the satellite telecommunications related sales and services rendering activities. It has operations in Singapore, the People's Republic of China, and Indonesia. The company was formerly known as Next-Generation Satellite Communications Limited and changed its name to NGSC Limited in December 2017. NGSC Limited was founded in 1953 and is based in Singapore.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=B07](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=B07))

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

- (i) **HUH Group:** In the financial year, the group did not recognise any revenue in its consolidated income statement although its jointly controlled entities, HUH Group (consisting of HughesNet China Company Limited (“HNC”) and Beijing China Satcom Unified Network Systems Technology Co., Ltd. (“BUN”)), had revenue of \$140 million but is in a negative equity position. **Can management help shareholders understand the level of control on the financial and operational matters of HUH Group? What is the level of oversight in the day-to-day running of HUH Group? What are management’s efforts to turnaround the performance of HUH Group?**
- (ii) **Impairment:** In FY2016 and FY2017, management did not carry out a review of the recoverable amounts as it is of the view that there is no indication of impairment. During the financial year FY18, the group made an impairment loss of approximately \$28.62 million (2017: \$Nil) on its investment in joint ventures and the Company made an impairment loss of \$31.33 million (2017: Nil) on its investment in subsidiaries (page 34). Impairment assessment of joint ventures and subsidiary are performed when an indication of impairment exists. Impairment is recognised when the carrying amount of the joint ventures exceeds its recoverable amount. **Would management help shareholders understand what are the indications of impairment used in their assessment? How has the economic and/or operational conditions changed in the last year that led to the group to recognise an impairment of \$28.6 million on its investment in joint ventures/\$31.3 million in subsidiaries? What was the audit committee’s (AC) role in the assessment of the indication of impairment?**
- (iii) **Trading in derivative contracts:** As an emphasis of matter in the Independent Auditor’s Report (page 32), the independent auditor has noted that, as at 31 March 2018, the group has a derivative contract for a notional amount of US\$1.97 million and incurred a loss of \$207k during the financial year. The total amount of deposits placed in the trading account at InterActive Broker was \$679k (equivalent to USD 500k). This deposit has since dropped to \$474k (equivalent to USD 350k) with the \$207k loss incurred. **Please identify the “seasoned professional with over decades of experience [who] has been approved by the Board to exercise authority over this trading account”. Can the company confirm that the group is now exposed to risks of derivative trading? Would this alter the risk profile of the group? What are the safeguards put in place by the board? Would the company be seeking shareholders’ approval to include derivative trading as a one of the core activities of the group?**
- (iv) **Board size:** With a market capitalisation of approximately \$13 million, and given the current scope and nature of the operations of the group and the need to turnaround the group’s performance, **has the board, especially the nominating committee (NC), evaluated the competencies required in the**

**board to ensure that there is an appropriate balance and diversity of skills and experience to help the group turnaround its performance? Has the board evaluated its size and composition to ensure that the board is effective in decision making and is not unwieldily large?**

- (v) **Role of director:** Madam Sri Tjintawati Hartanto was appointed to the board in 2009 and has been re-designated as a non-executive non-independent director of the company. In the profile of Madam Hartanto (reproduced below), it is stated that Madam Hartanto “*supports the company in its affairs on a “when-needed” basis*”. All directors are to objectively discharge their duties and responsibilities at all times as fiduciaries in the interests of the company. **Would the board elaborate further on the arrangement with Madam Hartanto?**

**Sri Tjintawati Hartanto  
Non-Executive Non-Independent Director**

Madam Sri Tjintawati Hartanto was appointed to the Board in January 2009. She is a non-executive director who supports the Company in its affairs on a “when-needed” basis. Madam Hartanto also provides an oversight over the Group’s current business in Indonesia. She possesses more than 20 years of experience in accounting, finance and administration.

(Source: Company annual report)

- (vi) **Special Committee: For the benefit of new and old shareholders, can the company disclose the members of the Special Committee? Can the Special Committee provide better clarity on the estimated timeline of the follow-up actions to be taken, if any?**

2. As noted in the Letter to shareholders, one of the principal activities of the group is to invest in convertible notes to derive interest income.

In Note 15 (pages 85 to 93 - Other receivables, deposits and prepayments), the group has provided details of the receivables related to the group’s investments in the past year and from prior years, including:

- **Loan agreement with Zhong Ping Trading Development Company Limited (incorporated in Hong Kong) and Mark Tam:** On 27 April 2017, the Company announced that it has entered into a loan agreement (the “Loan Agreement”) with Zhong Ping Trading Development Company Limited (“ZP”) and Tam Man Wai (“Mark Tam”) in connection with the grant of a loan to ZP of the principal amount of up to S\$3 million (the “Loan”). On 17 May 2017, the completion of the Loan has taken place and the Company has disbursed the Loan to ZP. The Board has granted the loan as this funding to ZP is an opportunity and a preliminary step towards

considering future investment in ZP, subject to due diligence and other matters to be considered in the event the Company decides to invest further in ZP. Meanwhile, the Company can derive interest income from the Loan.... On 9 May 2018, the Company announced that it has decided not to proceed with the Call Option. Accordingly, the Company entered into a settlement agreement with ZP, Mark Tam and the Vendor (“Settlement Agreement”) pursuant to which the parties have agreed to terminate the Call Option Agreement subject to ZP agreeing to prepay the Loan and interest under the Loan Agreement by 16 August 2018 (Final Prepayment Date) or such later date as may be agreed by the Company and ZP in writing in accordance with the terms of the Settlement Agreement. On 15 May 2018, a principal amount of \$1 million has been repaid to the Company, leaving a remaining balance of \$2 million plus interest which will be due on 16 August 2018. On 20 August 2018, the company announced that received the partial repayment of S\$2,000,000 from ZP as at the date of this announcement and the parties have agreed that the final repayment of S\$1,000,000 will be repaid by ZP in four equal monthly instalments, and for the final instalment to be paid by 16 December 2018.

- **Subscription of convertible notes from JeeOne International Holding Limited:** On 18 September 2017, the Company entered into an agreement (the “Subscription Agreement”) with a Hong Kong incorporated company, JeeOne International Holding Limited (“JeeOne”) to subscribe for \$937,800 (equivalent of RMB 4.5 million) convertible notes with 7% interest per annum (payable every 6 months in advance). On 19 September 2017, the Company remitted approximately \$891k [equivalent to USD 662,451.18 (being RMB 4.5 million net 3.5% interest payable in advance)... On 18 March 2018, JeeOne defaulted its interest payment of \$33k (equivalent to RMB 158,794.52). After some internal deliberation, the Board on 12 July 2018 through a legal counsel in Hong Kong served a statutory demand letter to JeeOne for both the principal and interest of \$924k (equivalent to RMB 4,658,794.52).... Accordingly, management has made an allowance for impairment amounting to \$937,800 (equivalent of RMB 4.5 million) during the financial year.

In short, both “investments” made in the last year did not turn out favourably for the group and, within a year or so, the group has experienced delays in repayment of the principal amounts and suffered an impairment.

- (i) **Would the board help shareholders understand the level of due diligence carried out before the group grants loans and subscribes for convertible notes?**
- (ii) **How are these deals sourced?**
- (iii) **What is the involvement of the independent directors in the deal sourcing and the due diligence process?**
- (iv) **What is the approval process for the group’s “investments” into loans and convertible notes?**

- (v) What is the track record and experience of management in investing in convertible notes and loans? What competency is there in the management team to allow the group to make such investments and deliver good returns for the benefit of all shareholders?**
- (vi) Given that the recent deals have not turned out as expected, would the board, especially the independent directors, consider it prudent to put on hold all of the group's investments and carry out a strategic review to assess the core competencies of the group, its management and its financial strength and to fine-tune its strategy so as to create long-term sustainable value for all shareholders?**

3. On 7 August 2018, the company announced that there were certain material differences between the audited financial statements for FY2018 and the Unaudited FY2018 Results (first released on 30 May 2018) following the finalisation of the audit.

As a result, loss for the year increased from \$(24.2) million to \$(26.8) million. The group's total assets also decreased from \$25.2 million to \$22.7 million while total equity

Reasons given included:

- Increase in other income: Being the reclassification after the completion of the audit to better reflect the presentation of expenses amounted to S\$0.2 million
- Decrease in administrative expenses: Over-accruals of professional expenses being reversed as at 31 March 2018 amounted to S\$170,000 and offset by the under-provision of audit fees amounting to S\$35,000, resulting in a net decrease of S\$135,000 in administrative expenses
- Increase in other expenses: Further impairment of joint venture, impairment of S\$0.94 million arising from the loan to a third party; and reclassification of S\$0.2 million
- Decrease in investment in joint venture: Further impairment was due to the completed valuation report dated 5 July 2018 by an independent valuer

The AC comprises three independent directors, namely Mr Ng Hsian Pin (as chairman), Mr Li Man Wai and Mr Edward Fu Shu Sheen.

- (i) As the directors have responsibilities to oversee the group's financial reporting process, can the directors, especially the directors in the AC, help shareholders understand their individual and collective efforts in the preparation of the group's financial statements so as to give a true and fair view in accordance with the provisions of the Act and FRSs?**
- (ii) Has the AC evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?**
- (iii) What changes has the AC made to the group's systems and processes to improve the quality and accuracy of the financial statements?**