Securities Investors Association (Singapore)
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Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: NSL Ltd.

Security: NSL Ltd.

Meeting details:
Date: 26 April 2019
Time: 2.00 p.m.
Venue: Bridge Rooms 1, 2 and 3, Raffles Marina, 10 Tuas West Drive, Singapore 638404

Company Description

NSL Ltd. is a Singapore-based company, which is engaged in the provision of management services and investment holding. The Company's segments include Precast and Prefabricated Bathroom Unit (PBU) and Environmental Services. The Company's Precast & PBU division is engaged in the manufacturing of precast concrete components in Singapore, Malaysia and Dubai. The PBU business is a producer in Scandinavia. The Environmental Services division focuses on integrated environmental services in Singapore, covering the treatment and logistics services of oily and toxic waste for both land and marine sectors. The Environmental Services division is also a distributor of Automotive Diesel Oil and other petroleum products in Singapore. The Company has operations in Singapore, Malaysia, China and Hong Kong, Germany and Other countries. The Company's subsidiaries include Eastern Industries Private Limited, NSL Chemicals Ltd. and NSL Properties Pte. Ltd.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=N02)

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Q1. As seen in the 5-year Financial summary, the group's profitability suffered in the year and the group reported a loss attributable to shareholders of $(3.86) million. Although the reported revenue for FY2018 is the highest in the 5 year, both divisions slipped into losses. The PreCast & PBU division and the Environmental services segments both reported losses.

5-Year Financial **Summary**

Financial Profile (S$'000)	**2014***	**2015***	**2016**	**2017**	**2018**
Continuing Operations					
Turnover	337,996	337,364	336,968	356,150	376,584
Profit / (loss) before share of results of associated companies and joint venture	2,197	5,205	17,777	4,654	(2,633)
Share of results of associated companies and joint venture, net of tax	238	1,859	(291)	438	7
Profit / (loss) before tax	2,435	7,064	17,486	5,092	(2,626)
Taxation	(808)	758	(4,054)	(853)	(1,247)
Profit / (loss) after tax	1,627	7,822	13,432	4,239	(3,873)
Profit / (loss) attributable to shareholders					
- from continuing operations	(3,810)	8,272	13,885	4,363	(3,855)
- from discontinued operations	28,736	58,483	117,470	(450)	-
Total group profit attributable to shareholders	24,926	66,755	131,355	3,913	(3,855)

(Source: Company annual report)

(i) **Precast & PBU:** In Singapore and Malaysia, losses in the segment continued due to low project margin amidst very competitive market conditions. **Does management have an estimate of the group's market share? What are the pro-active measures taken by management to increase its margin? Can the group further consolidate its position through acquisitions? On the other hand, given the oversupply, would it be prudent to review the long term strategy?**

(ii) **Environmental services:** By 2Q2019, the group's organic wastewater treatment facility in Tuas would likely be operational. **What was the total capital expenditure into this organic wastewater treatment plant? How much time is needed to acquire customers and to scale up to breakeven, and to optimal utilisation?**

(iii) **Corporate Research & Development (CRD):** With a 30 year track record, CRD has implemented over 50 projects, generating new products and process improvement. It was estimated that the benefits amounted to over $120 million, with invested costs of $30 million. **Would management showcase some of the successes of CRD? What are the group's future plans for CRD? Has the group considered if CRD could be replicated in other countries such as Finland/Germany or United Arab Emirates?**

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Q2. The "Impairment assessment on loans and receivables" is a key audit matter (KAM) highlighted by the Independent Auditor's in their Report on the Audit of the Financial Statements (page 33). Key audit matters are those matters that, in the professional judgement of the Independent Auditor's, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM:

> *As at 31 December 2018, the Group had outstanding trade receivables of S$86,221,000 (net of accumulated allowance for impairment of trade receivables of S$18,667,000)… In estimating the expected credit loss, management considered historical loss rates for each category of customers within each revenue segment, and adjusted to reflect current and forward-looking macroeconomic factors affecting the ability of the customers to settle the receivables.*

In Note 39b (page 121 – Credit risk: Trade receivables), the group showed the provision matrix for its three divisions. The Precast and PBU segment is shown below:

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39b Credit risk (continued)

(i) Trade receivables (continued)

The Group's credit risk exposure in relation to trade receivables that are other than non-performing under SFRS(I) 9 as at 31 December 2018 are set out in the provision matrix as follows:

	Current $'000	Past due up to 3 months $'000	Past due 3 to 6 months $'000	Past due over 6 months $'000	Total $'000
Group					
Precast and PBU					
Expected loss rate	0%	0%	14%	19%	
Trade receivables	43,040	10,095	4,596	13,440	71,171
Loss allowance	-	-	642	2,580	3,222

(Source: Company annual report)

(i) **Can management provide an upper limit to the aging band? Please show reasonable bands.**

(ii) **Can management help shareholders understand how the historical loss rates compare with the expected loss rate? What kind of adjustment has management made to the expected loss rate?**

(iii) **What is the level of involvement by the audit committee in setting up the provision matrix, especially the expected loss rate?**

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Q3. In August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance ("2018 CG Code") and under the revised Listing Rules, the requirement for independent directors to comprise one-third of the board come into effect on 1 January 2022. In addition, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier vote by shareholders.

The company's independent directors, namely Prof Cham Tao Soon, Mr John Koh Tiong Lu and Dr Tan Tat Wai, were first appointed to the board on 26 May 1988, 30 January 2003 and 15 February 1993 respectively.

Prof Cham Tao Soon has been on the board for over 30 years.

(i) **Has the company evaluated the impact of the 2018 CG Code and the amendments to the Listing Rules on the board?**

(ii) **What is the search and nomination process for directors, especially independent directors? Would the nominating committee (NC) consider carrying out formal search through a professional search firm as it might increase the diversity and possibly the quality of its candidate pool?**

(iii) **Has the NC reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed by new director appointments?**

(iv) **What are the company's other near term plans to refresh the membership of the board to comply with the new 2018 Code in good time?** Doing so would avoid undue disruption and maintain institutional knowledge and continuity in the board.

A copy of the questions for the Annual Report for the financial year ended 31 December 2016 could be found here:

https://sias.org.sg/qa-on-annual-reports/?company=NSL%20Ltd&cid=6425,4249

The company's response could be found here: -----