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Issuer: Nico Steel Holdings Limited

Security: Nico Steel Holdings Limited

Meeting details:

Date: 25 Jun 2019

Time: 2.00 p.m.

Venue: Napier Room 502, Level 5, RELC International Hotel, 30 Orange Grove Road, Singapore 258352

Company Description

Nico Steel Holdings Limited is an investment holding company and a service company providing support services as required by its subsidiaries. The Company's segments are Coil Centre; Plating, and Others. The Coil Centre segment includes the provision of metallurgical solutions, metal slitting services, and import and export trading. The Plating segment includes the provision of electro-plating process, metal surface treatment and chemistry blending for electronic products. The Other operations include trading of precious and base metals and investment holding. Its offerings include keyboards, liquid crystal displays and internal parts of notebooks, and tablet and laptops, among others. It serves telecommunications, hard disk driver, consumer electronics, thermal solutions and other industries. Its subsidiaries include Nico Steel Solutions (S) Pte Ltd, Nico Trading Solutions Pte. Ltd., Nico Steel Centre (Thailand) Co., Ltd and Nico Steel Solutions (Suzhou) Pte Ltd.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5GF)

[The following question on convertible bond was posted to the company following the review of the 2018 annual report. As the company/board has not responded, the question has been updated and reposted to the company.]

Q1. As noted in the Performance review, the group undertook the issuance of 2% redeemable convertible bonds (RCB) since March 2016. This was to “support the funding requirements for [the group’s] business operations” (page 11).

As at 11 September 2018, the RCB subscription agreement was terminated. As at 28 February 2019, all outstanding RCB had been converted into ordinary shares and the total number of issued shares has increased to 4,962,166,175.

Before the RCB subscription agreement was terminated, the conversion price slid in a spiral manner from \$0.010 to just \$0.001. The number of issued shares increased from 126,814,447 at the beginning of the 2017 financial year, to 1,912,166,175 as at the end of the 2018 financial year, to 2,612,166,175 as at 18 June 2018 and to 4,962,166,175 shares as at 28 February 2019/8 May 2019.

The number of shares is more than 39x following the conversion of the RCB. This raised \$10.0 million with net proceeds of just \$9.53 million to support the group’s growth.

- (i) Did the board, especially the independent directors, evaluate the impact of the RCB in its approval process?**
- (ii) Following the issuance and conversion of the bonds, has the board reviewed the impact and estimated the degree of dilution experienced by the original shareholders?**
- (iii) What is the real cost of the 2% RCB given that the conversion of the bonds has led to significant dilution of the interests of the original shareholders?**
- (iv) Is it prudent and financially sound for the board to undertake the 2% RCB issuance?**
- (v) Has the board evaluated the capital needs in the next 2-3 years required to support the business? Should the group be required to invest for further growth, what are the sources of funding currently available to the group?**

Q2. The group has several “notable achievements” following the transformation from a low value-add processing service provider.

For instance, in the corporate presentation dated 4 September 2018, the company stated that it supplies its customised metal alloys (CCU-BR / CA2) which can be found in “laptops, tablets and smartphones” sold by “The 1st trillion-dollar market capitalisation company”, which is the global brand owner.

In the FY2019 Results briefing dated 26 April 2019, the company stated that it “*continue[s] to be sole supplier on shielding solutions for renowned global brand owners and world’s largest drone manufacturer.*”

- (i) Would the board clarify if such orders/contracts are signed directly with the “renowned global brand owners”?**
- (ii) If not, is the group currently supplying its customised metallurgical solutions to the component manufacturers who then in turn supply the contract manufacturers?**
- (iii) In addition, how does the group ensure that its intellectual properties are respected? How sticky are these customers? What is the risk that the group will be replaced by other low-cost competitors?**
- (iv) Has the board evaluated the worst-case scenario of the trade tension between USA and China given that the group generates more than 83% of its revenue from China?**

Q3. On 29 April 2019, the company announced that it had submitted an application to the SGX-ST for an extension of 12 months of the Cure Period from 4 September 2019 to meet the requirements relating to the financial exit criteria set out in Rule 1314(1) of the Listing Manual for its removal from the Watch-list.

While the company has reported pre-tax profit of US\$468,607 in FY2019, the market capitalisation based on the 6-month volume weighted average price is approximately \$24 million.

Based on Rule 1314(1), an issuer needs to have an average daily market capitalisation of S\$40 million or more over the last 6 months to meet the Financial Exit Criteria.

- (i) What are the options available to the group given that the market capitalisation has to increase by more than 2/3 to meet the \$40 million market capitalisation mark? How feasible is it for the group to meet the threshold given that the total equity is just \$16.7 million?**

- (ii) **Should the board decide on any further corporate action(s), how does it ensure that shareholders are not unduly diluted?**
- (iii) **How can the independent directors provide shareholders with the assurance that the board would safeguard the interests of minority shareholders in the event that the group carries out any other corporate action(s)?**

In addition, the company was also put on the Minimum Trading Price (MTP) Watch-List on 5 June 2017. The company has up to 4 June 2020 to achieve a volume-weighted average price of at least S\$0.20 and an average daily market capitalisation of S\$40 million or more over the last 6 months.

- (iv) **Would the board update shareholders on the deliberations it has had with regard to exiting the MTP watch-list?**

Q4. The attendance of directors at board and board committee meetings is shown in the table below:

**ATTENDANCE AT BOARD/AUDIT COMMITTEE/REMUNERATION COMMITTEE/NOMINATING COMMITTEE MEETINGS
FY2019**

	Board	Audit Committee	Remuneration Committee	Nominating Committee
Number of meetings held	2	2	1	1
Number of meetings attended				
Tan Chee Khiong Danny	2	2*	1*	1*
Tang Chee Wee Andrew	2	2*	1*	1*
Tang Chee Bian Steven	2	2*	1*	1*
Tan Poh Chye Allan	2	2	1	1
Lee Eng Yew Michael	2	2	1	1
Gavin Mark McIntyre	2	2	1	1

Note:

* *By invitation*

(Source: Company annual report)

It is noted that the three executive directors are brothers and have more than 24% of the equity interests of the group.

- (i) **Can the board help shareholders understand if it is the usual practice for non-board committee members (i.e. the executive directors) to attend board committee meetings?**

- (ii) Were there specific agenda items or reasons to invite the executive directors to all the board committee meetings?**

- (iii) What is the dynamics of the board committee meetings when the board committee members may be reviewing and discussing matters that are related to or affect the executive directors?** Such board committee meetings would have included agenda items on performance assessment and remuneration of the executive directors and on the audit/financial reporting/internal controls of the group.

- (iv) Do the invited directors also actively participate in the discussions during the board committee meetings? If so, how are board committee meetings different from the board meeting?**

A copy of the questions for the Annual Report for the financial year ended 28 February 2018 and 28 February 2017 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Nico%20Steel%20Holdings%20Ltd&cid=6788,4658,4317>

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