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: PEC Ltd.

Stock code: IX2

Meeting details:
Date: 28 December 2020
Time: 3.00 p.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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Q1. On page 3 of the annual report, the group disclosed its five-pronged strategy, which is:

- Strengthen its global footprint
- Keep a balanced revenue stream
- Add to niche capabilities and products
- Deepen existing engineering and ICT capabilities
- Explore adjacent industries

(i) **Opportunities:** In the chairman and CEO's statement, it was disclosed that there are opportunities in the oil storage terminal facilities segment and in the maintenance segment especially in China, Malaysia and the Middle East. **What are the specific tenders/opportunities in the above-mentioned segments in the next 18-24 months? Does the group see any silver lining during this challenging time?**

(ii) **Maintenance projects:** The group also secured two new operating maintenance sites in the People's Republic of China. **Can management elaborate further on its strategy to grow its client base for maintenance projects? How does the group differentiate itself from the incumbent service provider and/or other competitors?**

(iii) **Centre of Excellence (CoE): How does the board envisage the CoE to strategically enhance and transform the group's value proposition in the mid/long term?**

(iv) **Vietnam/Nghi Son Refinery and Petrochemicals Complex: Can management help shareholders better understand the progress made by the group in Vietnam?** The group completed its 9th integrated fabrication and maintenance facility in Vietnam in 2019 and has a maintenance contract at Nghi Son Refinery and Petrochemical Complex.

Q2. In the unaudited financial statements first announced on 28 August 2020, management stated that it had decided to provide for the full impairment of outstanding trade receivables amounting to approximately $43 million from a customer of a completed overseas project.

This is most likely due to the work carried out by the group for a United Arab Emirates (UAE) customer given that the group has more than $104 million in trade receivables due from its customers in the UAE (page 100). As at 30 June 2020, one such customer in the UAE accounted for 69% of the group's trade receivables (or $97.3 million out of $141.1 million).

Subsequent to the release of the unaudited full year results, the group received partial payment from the said customer, following which management reversed the full impairment of receivables due from the said customer (originally at $43 million) and recognised a partial impairment of $(10.7) million.

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(i) **Would management disclose the amount that has been collected from the said customer with long-outstanding receivables?**

In the company's announcement dated 15 October 2020, management has disclosed that the company remains in further discussions with the said customer for payment of *further outstanding trade receivables incurred and being incurred* [emphasis added].

(ii) **Would management confirm that the group continues to provide services to the said customer even though the group had initially impaired outstanding trade receivables of more than $43 million? If so, what is the rationale of doing so?**

(iii) **Can management confirm that the project were completed in 2016/2017 and that these trade receivables have been outstanding for more than 3 years?**

(iv) **What are the safeguards put in place to ensure that the group does not have excessive and concentrated credit risks due to a particular customer?**

(v) **Would the board be reviewing the group's credit risk policies and framework?** In Note 38(a) (page 97 – Financial risk management objectives and policies: Credit risk), the company stated that it trades only with recognised and creditworthy external parties. **How does the board monitor the compliance of the group's credit risk policies?**

Q3. In the financial highlights (page 4 of the annual report), a summary of the group's cashflow statement in the past three years is shown (reproduced below):

Cashflow Statement (S$ million)	FY2018	FY2019	FY2020
Net cash (used in)/generated from operating activities	(7.1)	22.3	**36.3**
Net cash used in investing activities	(6.0)	(17.8)	**(16.8)**
Net cash (used in)/generated from financing activities	(7.6)	3.4	**(14.6)**
Cash & cash equivalents at beginning of financial year	107.0	86.7	**93.4**
Cash & cash equivalents at end of financial year	86.7	93.4	**100.1**

(Source: company annual report)

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As seen from the table above, the group has an increasing cash pile of between $86.7 million and $100.1 million in the past three financial years.

(i) **Has the board reviewed the group's growth strategy and evaluated the optimal capital structure to achieve a better balance between growth and long-term value/returns for shareholders?**

(ii) **In addition, has the board reviewed the group's working capital requirements? How can the group further improve its credit management given the uncertainties in the global economy?**

(iii) **What are the group's major capital expenditure items planned in the next 18-24 months?**

The board has proposed a final dividend of $0.005 per ordinary share for FY2020 as a token of appreciation for the continued steadfast support by shareholders, in view of the "need to conserve cash during this coronavirus pandemic and difficult economic times". Total dividends amount to $1.273 million if shareholders approve the proposed resolution.

(iv) **Has the board evaluated if its financial position and cash flow needs and reviewed if it is in a position to continue paying $0.02 per ordinary share given the financial position of the group?** The dividend was only announced on 9 December 2020 after the group received partial payment from the customer with long outstanding debt.

In addition, at 5:30pm on 9 December 2020, the company secretary published a dividend announcement on SGXNet that indicated a dividend rate of "SGD 0.5" per share. The initial announcement was only withdrawn the following day at 11:58am. Another dividend announcement stating a dividend amount of "SGD 0.005" per share was published at 12.26pm. Prior to the amendment to the dividend amount, market participants traded in the company's stock for the entire morning trading session on 10 December 2020 from 9am to 12noon. There were more than 50 trades carried out and the share price increased to as high as $0.435. In the afternoon trading session, following the amended announcement, the share price was not higher than $0.415 and ended the day at $0.410.

(v) **What is the oversight by the board on the company's significant and critical communications with the market and the shareholders?**

(vi) **Would the board be reviewing if the company secretary is qualified and is committing sufficient time, energy and attention to the group's affairs?**

(vii) **Would the board be increasing its oversight of the company's key announcements and communications to the market to ensure that they are factually correct and would not mislead any market participants?**

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^Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer's website, through "live" webcast and on SGXNet.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

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^ Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings)