Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: PEC Ltd.

Security: PEC Ltd.

Meeting details:
Date: 25 October 2018
Time: 3.00 p.m.
Venue: Amara Hotel Ballroom 2, 165 Tanjong Pagar Road, Singapore 088539

Company Description

PEC Ltd. provides mechanical engineering and contracting services to the oil and gas, petrochemical, pharmaceutical, and oil and chemical terminal industries. The company operates in three segments: Project Works; Plant Maintenance and Related Services; and Other Operations. It offers engineering, procurement, and construction (EPC) services, as well as engineering design and maintenance services; EPC project management and consultancy services; plant maintenance services, including plant turnarounds and upgrading, and makes up services; and mechanical, piping, structural, tankage, electrical and instrumentation, heat treatment, testing and isolation, painting and blasting, scaffolding, insulation and refractories, fireproofing, and hydro jetting services. The company also provides heavy machinery and construction equipment leasing services; civil, mechanical, and electrical engineering project services; and engineering technology, economic environmental, and health consultancy services. In addition, it engages in information technology and consultancy operations; the marketing and provision of CAR-BER tools and services; the commissioning of energy power, and utility and infrastructure related facilities and services; and dormitory activities. The company provides its services in Singapore, India, Malaysia, China, Indonesia, Myanmar, Thailand, Vietnam, and the United Arab Emirates. PEC Ltd. was founded in 1982 and is headquartered in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=IX2)

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

(i) **Project/EPC:** The group reported revenue of $335.9 million for the financial year ended 30 June 2018. This is more than 40% lower than the revenue of $575 million reported in FY2016. While revenue from maintenance services continues to increase, hitting $226.6 million in 2018, the group's project revenue was just $108.8 million in 2018 although, on 11 September 2018, the group announced new contracts worth $250 million with existing clients in key Asia and Middle East markets. **Can management describe, in greater detail, its efforts at trying to win new contracts especially from new customers? How does the group balance (a) the need to put in competitive bids to win projects and (b) the need to obtain an adequate return for shareholders by pricing services and products commensurately with the level of risk?**

(ii) **Foreign currency exposure: As the group derives more of its revenue outside of Singapore, has the board evaluated the need to better manage its foreign currency risks?**

(iii) **Vietnam: With the group involved in the start-up, commissioning and maintenance of the Vietnam's Nghi Son Refinery and Petrochemical (NSRP) plant, what was the revenue achieved in FY2018? When does the group expect the revenue and profit from Vietnam to be significant?**

(iv) **Multi-skilling: As the group trains its staff with multiple skill sets to handle diverse tasks, how does the group ensure a high retention of such skilled staff?**

2. The "impairment of trade receivables" is a key audit matter (KAM) highlighted by the Independent Auditor in their Report on the Audit of the Financial Statements (page 36). Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM, the group's trade receivables amounted to $96,159,097, representing 27% and 39% of the total assets and total equity respectively.

In Note 19 (pages 104 to 105 – Trade receivables), the aging analysis as at the end of the reporting period is shown, as follows:

	Group 2018 $	Group 2017 $
Trade receivables past due but not impaired:		
Less than 30 days	6,556,658	18,101,045
31 – 60 days	2,794,224	3,478,439
61 – 90 days	288,149	19,145,540
More than 90 days	54,456,983	29,332,774
	64,096,014	70,057,798

(Source: Company annual report)

There is a significant increase, to $54.4 million, in trade receivables past due by more than 90 days but not impaired. In 2015, the amount past due more than 90 days was just $5.7 million at the end of FY2015.

In Note 40 (page 121 – Financial risk management objectives and policies: Credit risk), it was disclosed that, at the end of the reporting period, approximately 53% (2017: 50%) of the group's trade receivables was due from 1 customer located in United Arab Emirates.

(i) **Can management show a more meaningful analysis by providing an upper limit to the aging (with the appropriate breakdown)? Specifically, what is the amount that is past due by more than a year?**

(ii) **What are the specific reason(s) for the sharp increase in trade receivables past due by more than 90 days but not impaired?**

(iii) **What is the process by management to evaluate the collectability of these long outstanding debts?**

(iv) **What guidance has the Audit and Risk Management Committee (ARMC) given to management to manage its credit risk, and avoid excessive credit risk concentration?** As at the end of the reporting period, 53% of $94.4 million, or approximately $50 million, is due from one party in the U.A.E.

(v) **What are management's efforts in collecting these long outstanding debts?**

(vi) **Would it be opportune for the ARMC to review the group's credit policies?**

3. With the appointment of Ms Tan Whei Mien, Joy on 27 October 2017, the board comprises six directors, of whom two are executive directors, one non-executive non-independent director and three non-executive independent directors.

The independent directors are business/corporate professionals with experience in investments (specialising in healthcare and resources), legal, operations and logistics.

The group is a plant and terminal engineering specialist with fabrication facilities across the world, serving the oil & gas, petrochemicals, oil & chemical terminals and pharmaceutical sectors.

(i) **As the group operates in a highly specialised field, has the nominating committee (NC) determined the overall desired competency matrix of the board, including relevant industry and sector experience?**

(ii) **Would the board and the group benefit from having independent directors with experience in the process industry?**

(iii) **Can shareholders understand how the independent directors collectively have been able to engage the executive directors/non-executive non-independent director in robust and meaningful discussion in the board on issues that would benefit from them having some form of industry knowledge/experience, such as business strategies, annual budget, capital expenditure plans, performance review and sustainability issues?**

A copy of the questions for the Annual Report for the financial year ended 30 June 2017 could be found here:

https://sias.org.sg/qa-on-annual-reports/?company=PEC%20Ltd

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