



Securities Investors Association (Singapore)

7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111

Tel: (65) 6227 2683 Fax: (65) 6220 6614

Email: admin@sias.org.sg www.sias.org.sg

UEN No: S99SS0111B

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Issuer: Sincap Group Limited

Security: Sincap Group Limited

Meeting details:

Date: 30 April 2019

Time: 10.00 a.m.

Venue: 60 Benoi Road, #03-02 EMS Building, Boardroom, Singapore 629906

Company Description

Sincap Group Limited is a Singapore-based investment holding company. The Company is engaged in the trading of alumina and thermal coal, as well as the mining and sale of gypsum, in the People's Republic of China (PRC). The Company's segments include gypsum ore and powder, alumina products, coal products and property. Its gypsum ore and powder segment includes the mining of gypsum ore and powder, which involves the process of exploration and sale of gypsum ore and powder. Its alumina products segment focuses on the business of trading and sale of alumina. The Company's coal products segment is engaged in the business of trading and sale of coal. Its property segment focuses on property development and property investment. It has mining and exploration rights to gypsum reserves in the Dawenkou Gypsum District in Shandong Province. The Company's subsidiaries include Beijing Raffles Investment Advisory Co., Ltd., Sincap Australia Pte. Ltd. and Orion Energy Resources Pte. Ltd.

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

1. In 2018, the group acquired an additional 48.97% stake in Orion Resources Energy Pte. Ltd. (“Orion”) to bring its ownership to 99.97%.

The advantage of Orion is that it can procure coal at competitive prices from coal mines that may not have access to commodity traders and coal end-customers due to their lack of scale, and on-sells such coal to commodity traders and coal end-customers with whom the group have strong business relationships.

For FY2018, the group’s overall gross profit margin from coal trading dropped from 13% to 5%. In FY2017, the group had entered into long term supply contracts for the whole year when prices were low. In FY2018, the supply of coal was acquired on spot basis which is closer to the group’s selling price.

- (i) Can the board/management help shareholders understand the hedging framework and policy? How can management be confident that market/spot prices do not go against the group’s hedged prices?**

In the chairman’s message, it was also disclosed that Orion has entered into offtake agreements with Indonesian miners by paying up front deposits to secure a stable source of supply of coal at preferential prices in December 2018.

- (ii) Would the board consider this a material agreement and did it consider the need to disclose the offtake agreements on SGXNET?**
- (iii) Please disclose the terms of the offtake agreements.**
- (iv) What was the level of due diligence carried out by management prior to signing the offtake agreement and paying the upfront deposits?** In Note 15 (page 96 – Trade and other receivables), the group has disclosed that it received a total of RMB157 million from a customer and utilised RMB114.7 million of that to pay for the deposits under the offtake agreement.

2. Would the board/management also provide shareholders with better clarity on the matters outside of Orion? Specifically:

- (i) Tech investment:** On 20 March 2019, the company announced that it had entered into a Memorandum of Understanding with the vendor to negotiate exclusively on a possible collaboration, joint venture, investment and/or acquisition in relation to Techcomm Technology Limited and its wholly-owned subsidiary, Xiamen Xinya Science and Technology Ltd (“Xinya”). It was also disclosed that Xinya is working with more than a hundred merchants and it has a target to of 1,875 merchants by 31 March 2019. **Can the board help shareholders understand if the target is realistic and if Xinya achieved it? What is the experience of the board and of the management team in valuing technology start-up? Who is leading the negotiation with the vendor? What guidance has the board given to management to ensure that any deal would be structured such that the risks are considered and properly managed and that the group would avoid the risk of overpaying**

for an early-stage company? How different is Xinya's concept from a Hema store (by Alibaba) or an Amazon Go store?

- (ii) Richardson refund: What is the time frame to recover the amount? Given the group's financial strength and the existing operations, is the group still actively looking to invest in properties?**

3. On 12 September 2018, the company announced the proposed placement of 450,250,000 new ordinary shares, representing approximately 26.47% of the share capital of the company on an enlarged basis, to 8 subscribers at an issue price of S\$0.01 per Placement Share.

The placement was carried out at a discount of approximately 9.1% to the volume weighted average price of S\$0.011 for trades done on the shares of the company on the day.

As at 30 June 2018, the last reported (unaudited) net asset value per share was RMB14.49 cents.

Based on the announcement dated 12 September 2018, the company's NTA per share will be reduced from RMB16.5 cents to RMB11.8 cents following the two placements.

NTA

| | As at 31 December 2017 | | |
|---|--------------------------------------|---|-------------------------------------|
| | Before the Proposed Placement | Before the Proposed Placement (after the completion of the previous placement exercise on 22 May 2018) | After the Proposed Placement |
| NTA (RMB'00) | 148,354 | 178,159 | 200,150 |
| Number of issued shares of the Company ("Shares") | 900,500,410 | 1,250,750,410 | 1,701,000,410 |
| NTA per Share (RMB cents) | 16.5 | 14.2 | 11.8 |

(Source: Company annual report)

- (i) Did the board, especially the independent directors, consider the dilutive impact of the placement at a price below its NTA per share on minority shareholders?**
- (ii) What is the actual cost of capital to the group/existing shareholders as management raises fund by carrying out dilutive placements?**
- (iii) Did the independent directors evaluate the project returns from its investments vis-à-vis the real cost to capital?**

- (iv) Has the board evaluated the optimal capital structure? Is the current balance sheet sufficient to support the group's growth plans?**
- (v) Would the board, especially the independent directors, evaluate how it could safeguard the interests of minority shareholders as the group carries out its fund raising?**
- (vi) Should the company carry out another placement, would the board consider having a moratorium on the placement shares to prevent any undue short term speculation?**

A copy of the questions for the Annual Report for the financial year ended 31 December 2017 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Sincap%20Group%20Ltd&cid=6445,4573>

The company's response could be found here:

2017: https://sias.org.sg/media/qareport/company_responce/1524790570_Sincap-Annc-SIAS-questions-26042018.pdf