



**Securities Investors Association (Singapore)**

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UEN No: S99SS0111B

GST Reg No: M90367530Y

**Issuer:** Transcorp Holdings Limited

**Security:** Transcorp Holdings Limited

**Meeting details:**

Date: 22 March 2019

Time: 3.00 p.m.

Venue: Level 1, Function Hall 1, NTU@One-North Campus, 11 Slim Barracks Rise, One-North Alumni House, Singapore 138664

**Company Description**

Transcorp Holdings Limited, an investment holding company, engages in the wholesale and import of motor vehicles in Singapore. It is also involved in the rental and leasing of private cars without operator. The company was formerly known as Transview Holdings Limited and changed its name to Transcorp Holdings Limited in March 2014. Transcorp Holdings Limited was founded in 1984 and is based in Singapore.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=T19](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=T19))

1. Would the board/management provide shareholders with better clarity on the following operational, financial and governance matters? These are mostly related to the key audit matters highlighted by the Independent Auditor in their report on the audit of the financial statements (pages 50 to 55 of the annual report). 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. Specifically:

- (i) **Net realisable value of inventories:** In FY2018, the company recognised a write down in inventories amounting to \$(1.60) million. This follows an impairment of \$(1.07) million recognised in FY2017. In accordance to the group's accounting policies, inventories are stated at the lower of cost and net realisable value. As at 31 October 2018, the net realisable value of inventories amounted to \$1.89 million. **Can management provide a breakdown by the number of cars, the age of cars, and the carrying value of the cars? What was the involvement of the audit committee in assessing the carrying value/net realisable value of the group's inventories?**
- (ii) **Impairment of advance deposits to a supplier:** As at 31 October 2017, advance deposits paid to a supplier for the supply of motor vehicles as \$4.03 million. During the financial year, the group recognised an impairment of \$2,695,471 as the refund was not forthcoming. The company has announced that the amounts are secured by letters of undertaking from a deemed shareholder of the company (being the ex-executive chairman of the company and spouse of a controlling shareholder of the company) and the owner of the supplier. **Please identify the supplier. Can the audit committee confirm that the advance deposits placed with the supplier were on normal commercial terms? Is the supplier a related party or an interested person? In the event of a default by the supplier, would the company be calling the letters of undertaking from the deemed shareholder of the company?**
- (iii) **Good faith deposit (\$6,003,000):** On 31 October 2017, the company signed a Memorandum of Understanding ("MOU") with Dongshan Dibao Property Co., Ltd ("Project company") for the exclusive right but not the obligation to participate up to an interest of 51% in a property development project in Dongshan. On the same day of signing the MOU, the company has paid the project company a sum of \$6,003,000 as good faith deposit upon signing of MOU. The proposed transaction was considered as an Interested Person Transaction ("IPT") as the project company is held by Madam Cheng MingMing, a controlling shareholder of the company. **What was the level of due diligence carried out by the company and by the board (especially the audit committee) prior to the payment of the \$6 million in good faith deposit? Can the board elaborate in greater detail the deliberations that the then-board/audit committee had over the payment? Were the risks associated with the project and the good faith deposit properly evaluated? Given that this was an IPT, were there interested persons involved in the board discussion/deliberation? Who were the directors who approved the transfer of the \$6 million good faith deposit?**

During the financial year, an impairment of \$3,275,811 relating to the good faith deposit was recognised as there is uncertainty over its recoverability. **Given the circumstances of the payment of good faith deposit, coupled with the uncertainty over its recoverability, would the audit committee/independent directors be reviewing the adequacy and effectiveness of the group's risk management and internal control systems (including financial, operational, compliance and information technology controls)? Would the audit committee be appointing an independent reviewer to investigate the circumstances, and responsible parties involved in/surrounding the payment of the good faith deposit that has been impaired, and identify any possible breaches of the Singapore Exchange Rulebooks, Companies Act (Cap 50) and/or Securities and Futures Act (Cap 289), in relation to any internal control lapses and identify the parties responsible for any possible breaches?**

- (iv) **Motor Megamall:** As disclosed in Note 12 (page 82 – Available-for-sale financial assets), the group has a 10% equity interest in Motor Megamall Pte. Ltd, carried at a cost of \$1.5 million. **Would the audit committee and the independent auditor help shareholders understand if it carried out an impairment test? What is the objective evidence/test to show that there is no impairment required for the available-for-sale financial asset? What are some of the assumptions used to support the valuation of the underlying business?**
- (v) **Interested Persons Transactions/Fees:** In accordance with Rule 907 of the Catalyst Rules, the group listed the interested persons transactions on page 45 of the annual report. The group paid Madam Chu Wan Zhen and Madam Cheng MingMing \$210,000 and \$216,000 respectively for the provision of consultancy services. **Given the current financial position of the company/group, and that Madam Cheng MingMing has been involved in the two prior acquisitions as vendor/partner, can the board justify the need to procure consultancy services from these interested persons to expand the group's operations?** As at 31 December 2018, the group has cash and cash equivalent of \$19,542.

2. As noted in the chairman's statement and 2018 Year in review, revenue for the year dropped from \$6.08 million in FY2017 to \$2.26 million. For the whole year, the group sold just 25 cars in FY2018, which is about 2 cars each month. The performance of Regal Motors has fallen way short of management's expectations and even new strategic initiatives and plans by management did not produce their intended results.

Gross loss was jumped to \$(1.80) million in FY2018 as compared to \$(0.44) million in FY2017 as older vehicles acquired during the acquisition of Regal Motors had to be sold at deeper discounts.

As mentioned above, the group continues to impair its inventories. More than \$(2.6) million in inventories were impaired, along with the impairment of \$(6.4) million in goodwill in FY2016.

In addition, the group continues to be plagued by issues linked to Regal Motors. Similarly, as mentioned above, the company impaired an additional \$(2.7) million in advance deposits made to the supplier.

- (i) Would the audit committee and the external auditor elaborate in detail how the “purchase price allocation” for the \$20 million acquisition of Regal Motors was determined/carried out?**
- (ii) Has the company disclosed the final “purchase price allocation (PPA)”?** If it had, can the company restate the final “purchase price allocation” for the benefit of shareholders? If not, please explain why it had not done so and make the PPA public.
- (iii) What was the level of due diligence carried out by the company prior to the acquisition of Regal Motors? What was the involvement of the then-independent directors? What was the extent of the commercial and legal due diligence carried out by the then-independent directors? Please disclose the scope of the due diligence.**
- (iv) Has the board/audit committee reviewed the acquisition of Regal Motors and considered how the company’s deal sourcing, deal structuring and valuation processes could be further improved?** This is critical as the company’s subsequent proposed investment into the Dongshan development project has also ran into problems. **How satisfied is the audit committee with the internal controls and risk management framework relating to the group’s acquisition approach?**
- (v) Have the independent directors considered carrying out a special audit relating to the acquisition of Regal Motors?**

3. The board currently consists of four directors, three of whom were appointed after 19 November 2018. Mr Chia Siak Yan Vincent, as the acting non-executive chairman and independent director, was first appointed to the board as independent director on 13 July 2017.

The other directors are Mr You Zihui (executive director, appointed 19 November 2018), Ms Ding Xinyan (independent director, appointed 19 November 2018) and Mr Kevin John Chia (non-executive director, appointed 11 January 2019).

On page 27 of the annual report, the company stated that all 4 directors have no prior experience as a director of a listed company in Singapore and will undergo training on the roles and responsibilities of a director of a listed company.

- (i) Can the company help shareholders understand if the current board has the necessary experience and expertise to discharge their fiduciary duties and responsibilities fully given that all four board members are first-time directors and the company is in a transition?**

In addition, the company also saw significant changes to the board composition in the financial year.

- Mr Peter Lai Hock Meng was appointed as non-executive chairman and independent director on 3 August 2018 and resigned effective 12 December 2018.
- Mr Tan Wee Peng Kelvin resigned as lead independent director on 31 October 2018. Mr Tan was the chairman of the audit committee.
- Mr Tan Wee Heong was appointed as non-executive non-independent director on 25 May 2018 and resigned on 3 August 2018.
- Mr Goh Chin Soon resigned as executive chairman on 27 February 2018. Mr Goh was appointed on 27 June 2016.
- Mr Tan Chade Phang Roger resigned as independent director at the Annual General Meeting held on 27 February 2018.

For each cessation, the company's sponsor has stated that it "is satisfied, based on enquiries made" that there are no reasons for the cessations other than those stated in the announcements.

The reasons given were mainly "for personal reasons" or "to pursue other interests". Two directors who were appointed to the board resigned within two months and four months of their appointments.

- (ii) Can the sponsor elaborate in greater detail the questions that were asked during the "exit interview" with the directors?**
- (iii) Can the sponsor disclose the full list of questions asked?**
- (iv) What is the criteria used by the sponsor to be "satisfied" that there are no other reasons for the cessations, especially for directors who resign from the board with 2-4 months of their appointments?**
- (v) Has the sponsor considered it necessary to carry out more in-depth interviews with the former directors?**

In addition, the former chief financial officer (CFO) of the company resigned on 5 November 2018. Mr Lim Boon Ping was appointed to the job on 3 July 2017. Mr Lim was in the CFO role for approximately 16 months. His replacement, a Mr Wang Yingyang, was appointed on 3 December 2018 and resigned 4 days later, on 7 December 2018, "to pursue other career opportunities".

- (vi) Similarly, can the sponsor elaborate in greater detail the questions that were asked during the "exit interview" with the CFOs? How in-depth and how probing was the interview?**
- (vii) Can the sponsor disclose the full list of questions asked?**

**(viii) Given that the CFO resigned from the job after 4 days, what was the criteria used by the sponsor to be “satisfied” that there are no other reasons for the cessation?**

Lastly, the sponsor, Asian Corporate Advisors Pte. Ltd, replaced the former sponsor on 1 September 2017. The registered professional is Mr Liau H.K.

**(ix) Can the company help shareholders understand the reason(s) for the change in sponsor?**

**(x) How was the sponsor selected? What was the search and evaluation process to pick a new sponsor?**

**(xi) Can the company help shareholders understand the track record of the sponsor?**

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

<https://sias.org.sg/qa-on-annual-reports/?company=Transcorp%20Holdings%20Ltd&cid=6254,4458>

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