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
GST Reg No: M90367530Y

Issuer: United Global Limited

Stock code: 43P

Meeting details:
Date: 22 May 2020
Time: 10.00 a.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. The group achieved a significant milestone in 2019 when Spanish oil major Repsol officially formalised its investment for a 40% stake in our United Oil Company ("UOC") subsidiary.

On the operational side, the results for 2019 were mixed. Revenue slipped 5.5% to US$102.5 million led by a 20.6% drop in revenue from manufacturing. While revenue from trading jumped from US$3.4 million to US$19.1 million, the group profit margin dropped from 9.7% to 2.2% (page 20 of the annual report).

Overall, for the financial year ended 31 December 2019, gross profit decreased by 3.8% to US$19.7 million and full year profit was US$66.5 million, including a gain on the 40% disposal of subsidiaries of US$24.8 million, and a gain on the re-measurement of remaining 60% stake in a joint venture of US$37.2 million.

The full year operating profit, after adjusting for the disposal of UOC and the revaluation of the JV, was approximately, US$4.5 million. In FY2018, the group reported a net profit of US$7.6 million.

(i) **Can management elaborate further on the "one-off arrangement with a joint venture partner" in the trading segment? What are the changes to the group's business model in the trading segment?**

In the operations review, the company stated that full-year revenue from the manufacturing segment slid 20.6% to US$83.4 million, resulting mainly from a decrease in sales volume, which in turn was primarily due to slower business at United Global's Indonesia plant.

(ii) **Would management help shareholders understand the underlying reasons for the slower business at the Indonesia plant?**

(iii) **What was the year-on-year change in the volume of products sold?**

(iv) **What are management's plans to pro-actively increase the sale of its manufacturing products?**

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Q2. The "Recoverability of receivables" is a key audit matter (KAM) highlighted by the Independent Auditor's in their Report on the Audit of the Financial Statements (pages 79 to 84). 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.

In the KAM, it was stated that:

> *During the year, a previously held subsidiary of the Group and a joint venture entered into sales transactions totalling US$22,408,000 with a third party and as at December 31, 2019, the Group and the joint venture has amount outstanding from this customer of US$3,502,000 and US$2,222,000 respectively.*
>
> *The Company also extended a loan of US$3,009,000 to the joint venture for working capital purposes and as at December 31, 2019, the Group has US$3,937,000 due from the joint venture.*
>
> *The third party customer is currently in dispute with other parties and accordingly, receipts from the customer to the Group and to the joint venture has been slow… Based on management's assessment, an allowance for impairment loss of US$1,056,000 has been set up against the amount due from its joint venture.*

Based on the disclosure in Note 7 (page 126 – Other receivables), the joint venture company is United Fuels Alliance Pte Ltd ("UFA"). However, the group has stated that UFA is not audited as the investment is insignificant during the year (page 134). UFA was accounted for using the equity method in these consolidated financial statements.

(i) **Can the board elaborate further on the profile of the third party customer?**

As disclosed in the KAM, the group entered into sales transactions totalling US$22.4 million with this third party customer in the financial year and the group has US$3.5 million outstanding from this customer.

(ii) **How robust is the group's credit risk framework given that the sales were all made in this last financial year?**

(iii) **Did the previously-held subsidiary and the JV adhere to the group's creditworthiness checks?**

(iv) **Did the 55% JV partner also made proportionate loans to the JV and recognised its share of impairment loss too?**

(v) **Would the audit committee ("AC") consider auditing the above-mentioned JV company?**

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As at 31 December 2019, the consolidated statements of financial position showed trade receivables of US$2,000 and yet in the KAM, it was said that the group and the joint venture has amount outstanding from this customer of US$3,502,000 and US$2,222,000 respectively.

(vi) **Can the audit committee and the independent auditor help shareholders reconcile the seemingly contradictory statements? Have the trade receivables has been "moved off the balance sheet" as the previously held subsidiary is now accounted for using the equity method?**

Q3. As noted in the Corporate governance report, the company has entered into separate service agreements with each of Mr Tan Thuan Hor, Jacky and Ms Ety Wiranto in which they are entitled to a tiered annual performance bonus payout in respect of each financial year, which is calculated based on a certain percentage, ranging from 1.0% to 5.75% of the group's audited consolidated profit before income tax for the financial year, before payment of the performance bonus to all executive directors who are entitled to the performance bonus and after deducting any profit before tax attributable to minority interests and ***excluding any gains or losses arising from extraordinary and exceptional items*** [emphasis added] ("Consolidated PBT") (page 58).

The company has stated that the executive directors are entitled to receive 5.25% and 5.75% of the amount of Consolidated PBT.

As such, Mr Tan Thuan Hor, Jacky and Ms Ety Wiranto received $3.25-$3.5 million and $3.0-$3.25 million respectively. In 2018, the directors received $0.75-$1 million and $0.5-$0.75 million respectively.

(i) **Given that the disposal of 40% of UOC resulted in a gain on disposal of US$24.8 million, and a gain on the re-measurement of remaining 60% stake in a joint venture of US$37.2 million (non-cash), did the board deliberate on whether the disposal gains should be regarded as gains arising from extraordinary and exceptional items?**

(ii) **Did the board, especially the remuneration committee, review the performance of the group for the year in which the group recognised a large impairment, achieved lower gross operating profit and operated at a lower utilisation?**

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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)