
RESPONSES TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

The Board of Directors (the “**Board**”) of Nico Steel Holdings Limited (the “**Company**”) refers to the questions raised by Securities Investors Association (Singapore) (“**SIAS**”) in relation to the Company’s annual report for the financial year ended 28 February (“**FY**”) 2023 and the Company’s Extraordinary General Meeting (“**EGM**”) to be held by way of electronic means on 30 June 2023.

The Company’s responses to the questions received from the SIAS can be found in the Appendix to this announcement.

We would like to thank SIAS for submitting their questions in advance of the Company’s Annual General Meeting and EGM.

BY ORDER OF THE BOARD

Tan Chee Khiong Danny
Executive Chairman & President

Date : 29 June 2023

APPENDIX

QUESTION 1

In FY2023, the group experienced a decline in revenue, with a decrease of 21.4% from US\$20.9 million in FY2022 to US\$16.4 million.

Gross profit margin improved from 18.1% to 19.4% due to higher sales mix of metal alloys.

Net profit attributable to the equity holders of the company amounted to US\$71,000, a decrease of 78% compared to the net profit of US\$322,000 recorded in FY2022.

The group generated net cash from operations of US\$2.0 million in FY2023 compared to net cash used in operations of US\$(529,000) in FY2022. This positive cash flow was primarily driven by enhanced cash-flow management and increased cash inflow resulting from changes in working capital, including inventories, trade and other receivables, and contract assets.

As of February 28, 2023, the group maintained a net cash position and held cash and cash equivalents amounting to US\$3.7 million.

- (i) Could management provide clarification on whether the group's processing and production facilities in China and Thailand are currently operating at full capacity, and if they are still affected by any supply-chain disruptions that have reduced their capacities or efficiencies?**

Company's response

Please refer to pages 9 & 10 of the annual report of the Group released on 15 June 2023 for an explanation of the decrease in profitability of the Group.

The production facilities in China and Thailand are not in full capacity as revenues for the full financial year FY2023 when compared to FY2022 are down by about 21%.

As mentioned in the annual report, the decrease was mainly due to market disruption and lower demand owing to various factors including, supply chain disruption arising from COVID-19 containment measures, worldwide inflationary pressures on many items, including commodities like steel and other metals that the Group purchases for its businesses. Trade sanctions and restrictions on China imposed by the US, especially on its technology sectors, also affected the Group's overall performance.

In response to question (i), the Group's operations were affected by external factors, as described, which resulted in overall lower demands. The Group's poorer performance has not been the result of increased internal inefficiency at all.

- (ii) Could management provide the profile of the major customer to whom the group will be supplying its eco-recycle material?**

Company's response

As announced, the newly acquired major customer is a world renown technology brand owner. To give a bit more colour, the said customer is well-known to a lot of retail consumers of mobile phones.

- (iii) When will the master development and supply agreement start and can management quantify the impact on the group's revenue and earnings of this contract?**

[Company's response](#)

As announced and described in the Circular for EGM, orders under the MDSA will commence once the Group has been formally listed as a vendor in 2024. The Group understands from the new major customer this usually takes place in March or April of each year. Until orders have been placed under the MDSA, management is unable to provide such quantification.

- (iv) Can the board, especially the independent directors, provide clarity on the group's capital management framework and explain the optimal capital structure, including the appropriate utilisation of debt, to shareholders?**

[Company's response](#)

Please refer to page 87 to 89 of annual report for a description of the various bank loans the Group has. The debt the Group has is for working capital purposes, used for the purpose of purchasing inventories where the loan amounts are disbursed to the supplier subject to the bank's approval of the supplier's invoices and purchase orders submitted by the subsidiary. The repayment terms of loan A and loan B are 180 days and 150 days respectively which approximate the general credit terms given by suppliers that the subsidiary trades with.

Bank Loan C is taken up by Singapore subsidiary under Temporary Bridging Loan Programme for SMEs during the COVID-19. Bank Loan D is a RMB fixed rate short term loan for China subsidiaries' operation purposes.

THE GROUP'S DEBT IS, THEREFORE, USED FOR ITS WORKING CAPITAL AND OPERATIONAL NEEDS. IT DOES NOT INCUR DEBT FOR ANY OTHER PURPOSE.

- (v) Furthermore, considering the net cash from operations amounting to US\$2.0 million and the group's net cash position of US\$3.7 million, what were the deliberations by the board, particularly the independent directors, regarding the declaration of dividends as a means to reward shareholders? How does the group strike a balance between providing returns to shareholders through dividends and funding the group's growth?**

[Company's response](#)

As explained in the circular, to distribute dividends, a company must have distributable reserves and reserves that are not required for its operational needs. The Company's cash and cash equivalents and position are not to be confused with distributable reserves which are legally available for making a distribution.

QUESTION 2

In the company's corporate governance report, the company acknowledged the importance of corporate governance in maintaining high standards of accountability to its shareholders and made a commitment to comply with the recommendations made by the Code of Corporate Governance 2018 issued by the Monetary Authority of Singapore.

Provision 2.2 of the Code of Corporate Governance 2018 provides that where the chairman is not an independent director, the independent directors should make up a majority of the board and Provision 2.3 states that non-executive directors should make up a majority of the board.

The board currently comprises:

- Tan Chee Khiong Danny – executive chairman & president
- Tang Chee Wee Andrew – executive director
- Tang Chee Bian Steven – executive director
- Tan Poh Chye Allan – lead independent director
- Lee Eng Yew Michael – independent director
- Gavin Mark McIntyre – independent director

Accordingly, the company has deviated from Provisions 2.2 & 2.3 of the Code.

In addition, the executive directors, namely Mr Tan Chee Khiong Danny, Mr Tang Chee Wee Andrew and Tang Chee Bian Steven, are brothers.

The board has stated that “... *there is a sufficiently strong independent element on the board to exercise objective judgement on board affairs...*” (page 16). Listing Rule 710 of the SGX Listing Manual requires issuers to ***explicitly state***, when deviating from the provisions prescribed in the Code of Corporate Governance 2018, the provision from which it has varied, ***the reason(s) for the variation***, and the explanation(s) on how the practices it had adopted are consistent with the intent of the relevant principle [emphasis added].

- (i) **Can the nominating committee (NC) help shareholders better understand (a) the deliberations it had on and (b) the underlying reasons for the board's deviations from Provisions 2.2 and 2.3 of the Code other than simply stating that “*there is a sufficiently strong independent element on the board*”? In other words, is the board unwilling to comply with Provisions 2.2 and 2.3 or are there genuine reasons that made the board unable to comply with the provisions?**

Company's response

The Group is not unwilling to comply with the provisions of the Code. The Company is indeed helmed by a strong independent element comprised of its independent directors. The independent directors have been constructively and appropriately vocal and strong in providing their leadership in a constructive and independent manner.

Shareholders should also note that the Group's business is rather specialised, and it is the combined knowledge of the three Executive Directors that have enabled the Group's business to develop and grow, despite a very challenging environment, including receipt of the Delisting Notification. Notwithstanding, this does not mean that there is no independent voice on the board nor is there a concentration of leadership.

- (ii) Given that the three executive directors are brothers and hold a controlling stake in the company, how does the board achieve an appropriate balance of power and independent decision making?**

[Company's response](#)

Holding a controlling stake is not to be confused with a balance of power in the decision-making functions and leadership of the board. The executive directors and associates hold a total of slightly under 25% of the total votes of the Company. The other substantial shareholder is Value Capital Asset Management Private Limited who holds about 14%. Board decisions are made after robust discussions in the best interest of the Company, and not made based on controlling stakes in the Company.

Similarly, the board has deviated from Provisions 3.1 which requires the chairman and the chief executive officer (CEO) to be separate persons to ensure an appropriate balance of power, increased accountability, and greater capacity of the board for independent decision making. The reason given by the company is as follows:

This is because the board is of the view that the current composition and culture of the board have enabled the independent exercise of objective judgement on affairs and operations of the group by members of the board taking into account factors such as the contributions made by each member at board meetings which relate to the affairs and operations of the group.

- (iii) Notwithstanding the above, would the board, with the current composition, but with separate persons as chairman and CEO be able to achieve the same (or even better) given that the composition and culture will remain unchanged? Has the NC looked into that option?**

[Company's response](#)

The Group has been expending utmost efforts in implementing its New Strategy in relation to its business to ensure that the business continues to grow and change with the challenging environment. The directors are of the view that the challenges faced are not the result of whether it might have been better with separate persons as CEO and Chairman. The challenges have come about from the business environment as has been more fully described in the Circular for EGM.

The board has also stated the following: *In addition, the role of chairman and CEO will be rotated among the three executive directors for a period of two year each. As such, there is no need for the role of the chairman and the CEO to be separated.*

- (iv) Has there been any rotation of the chairman? How long has the incumbent served as the board's chairman?**

[Company's response](#)

No, there has not so far been any rotation. Danny Tan has been Chairman and President for 21 years.

- (v) **If there has not been any rotation, why has the board included this in the annual report? Should there be the rotation of chairman, has the NC deliberated on the usefulness of the rotation when it is limited to the three executive directors who are brothers?**

[Company's response](#)

The rotation structure was implemented prior to the difficult years of COVID-19 and prior to receipt of the Delisting Notification. Since the occurrence of COVID-19 and tensions arising between China and the US, the Board has been of the collective view that what is and has been critical for the Group is for its business to change with the challenging times and environment.

- (vi) **Would the lead independent director and the NC chairman lead a review of the board's composition with a view of reconstituting the board to better comply with all the principles and provisions of the Code of Corporate Governance 2018?**

[Company's response](#)

This has been the plan and intention of the NC, and will be effected as soon as the business of the Group sees more positive improvement.

QUESTION 3

Following the conclusion of the annual general meeting, the company will be holding an extraordinary general meeting (EGM) for shareholders to vote on the resolution to allow the company to delist **without** an exit offer.

The circular for the EGM can be found here:

https://links.sgx.com/FileOpen/Nico%20Steel%20Holdings%20Limited_Circular%20to%20Shareholders.ashx?App=Announcement&FileID=762517

In particular, shareholders should note the disclosures in paragraphs 6 and 8.3 (Reasons why the company has not been able to make an exit offer itself) and paragraph 8.4 (Voluntary winding up).

In addition, the board has repeatedly emphasised that the group's net tangible assets (NTA) of US\$16.7 million as at November 2021 and US\$16.1 million as at 28 February 2023.

- (i) **Can the independent directors (IDs) elaborate further on the reasons that an orderly disposal of the company's assets and businesses could not be carried out? What were the efforts by the IDs to explore this option?**

[Company's response](#)

Please refer to the Circular for EGM, wherein under paragraph 8.4, it has been explained why.

- (ii) **Since the notification of delisting by the exchange, what were the efforts by the IDs to prepare the company to make an exit offer?** For instance, the group was in a net cash position and cash and cash equivalent were as high as US\$5.0 million in February 2019.

[Company's response](#)

This has been explained in the Circular for EGM. Please read paragraph 8.3.

For instance, the Group was in a net cash position and cash and cash equivalents were as high as US\$5.0 million in February 2019.

Cash and cash equivalents are not to be confused with distributable reserves, as mentioned above.

- (iii) **In addition, did the IDs consider a sale and lease back of the Loyang property so as to monetise the group's assets to put the company in a position to make an exit offer which would not significantly and adversely affect the company's operations?**

[Company's response](#)

This has been explained in the Circular for EGM. Please refer to paragraph 8.3.2(b).

- (iv) **Why did the IDs consider the potential cross-defaults of the banking facilities to be a deal-breaker when the group is in a net cash position? Has the IDs overstated the challenges?**

[Company's response](#)

Please refer to paragraph 8.3.1 of the Circular for EGM for an explanation as to the relationship between cash and cash equivalents versus current [and long term] liabilities. The Group simply does not have a large enough margin of cash and cash equivalents when compared to current liabilities for each financial period as described in paragraph 8.3.1 of the Circular. No, the IDs have not overstated the challenges.

- (v) **In particular, with regard to the board's deliberations on a selective capital reduction, did the controlling shareholder abstain from the board's discussion given that he is conflicted?**

[Company's response](#)

To clarify, the idea of a selective capital reduction simply cannot not be carried out to satisfy the criteria of a fair and reasonable exit offer since, as already explained in the Circular for EGM, the Company does not have sufficient distributable reserves to make any offer that is fair and reasonable. So, the discussion as to a selective capital reduction did not progress to a stage where there was a discussion whether to undertake such an exercise or not. The Company was not and is not able to satisfy the requirements to make a selective capital reduction.

- (vi) Can the IDs state clearly why a selective capital reduction exercise is not possible (paragraph 6.4; page 18 of the circular)? Would the IDs confirm that the supposed lack of “distributable profits” is not a factor in a potential selective capital reduction exercise? Did the controlling shareholder explicitly object to the selective capital reduction? If so, what were the efforts by the IDs to convince the controlling shareholder to proceed with the selective capital reduction exercise? Should the IDs consider putting up a resolution to effect a selective capital reduction at the EGM for shareholders’ consideration?**

[Company’s response](#)

As explained above, and in paragraph 6.4 of the Circular for EGM, and the response above under (v), the Company does not indeed have distributable profits to make a fair and reasonable exit offer. It has been stated clearly in the Circular that the Company has statutory reserves, but it would not be sufficient to make a fair and reasonable exit offer.

As mentioned, the discussion at the board level did not progress to a discussion on whether the Company should undertake a selective capital reduction. The Company would not be able to by way of a selective capital reduction exercise be able to make a fair and reasonable exit offer.

- (vii) Similarly, given that the voluntary winding up resolution is an option available to shareholders, did the IDs consider putting that resolution to vote at the EGM? If not, why not?**

[Company’s response](#)

For the reasons and explanations provided in paragraph 8.4 of the Circular for EGM, NO, the IDs did not consider a voluntary winding-up resolution.

In paragraph 8.5, the IDs have stated that they are of the opinion that the proposal to delist without an exit offer “is in the best interests of the company and its shareholders (including minority shareholders), as the group is finally realising some of the expected results from the New Business Strategy, with the developments and projects as have been set out in paragraph 8.2.2”.

- (viii) Can the IDs confirm that over 1,400 minority shareholders will then become shareholders of a (unlisted) public company and will not be protected by the SGX listing rules should the delisting proceed?**

[Company’s response](#)

Yes, the IDs confirm that shareholders of the Company will become shareholders of a public but unlisted company. The reasons why the Company has not been able to make a fair and reasonable exit offer has been provided in the Circular for EGM. The IDs confirm that shareholders will be protected by the provisions of the Companies Act and fiduciary obligations of the directors of the board following delisting, noting that the Delisting Notification has been issued pursuant to the rules of the Listing Manual.

- (ix) Can the IDs also confirm that there will be virtually no practical means for small/minority shareholders to sell and monetise their shares of the company?**

[Company’s response](#)

As explained in the response to a question received from a shareholder, while there will not be a ready platform for the sale and purchase of the Company’s shares, shareholders can sell or purchase shares on a willing-buyer, willing-seller basis.

- (x) **What would happen if over 1,400 of the small/minority shareholders reject the proposal to delist without an exit offer?**

[Company's response](#)

The directors are not able to speculate what the next course of action would be at the current time. It will have to enter into further discussions with the SGX, noting again that the Delisting Notification has been issued pursuant to the rules of the Listing Manual.

- (xi) **Given the importance of the meeting, did the board consider it necessary to conduct a physical meeting? Would the board adjourn and reschedule the EGM as a physical meeting?**

[Company's response](#)

The SGX has required that the EGM be held no later than 30 June 2023 in its letter of reply to the AC Letter of 29 November 2021.

- (xii) **In recommending shareholders to accept the delisting proposal, how will minority shareholders benefit from any improvement in the business performance of the group (possibly from the New Business Strategy) as a (unlisted) public company given that the controlling shareholder has demonstrated his inability/unwillingness to crystallise value for minority shareholders?**

[Company's response](#)

The IDs respond to the last sentence first in time. The IDs do not share the view that the controlling shareholder has demonstrated inability or unwillingness to crystallise value for minority shareholders. As with any company whether listed or not, when there are reserves for dividends, the board will recommend the same.