



**NORDIC GROUP LIMITED**

(Company Registration Number: 201007399N)

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**RESPONSES TO SIAS' QUESTIONS ON NORDIC GROUP LIMITED'S ANNUAL REPORT 2018**

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The Board of Directors (the "Board") of Nordic Group Limited (the "Company") wishes to respond to the questions from Securities Investors Association ("SIAS") on 25 April 2019 relating to the Annual Report 2018 as part of their initiatives to improve the quality of Annual General Meetings. The replies are appended as follows:

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

- (i) **Project margin:** For FY2018, the group reported a gross profit of \$23.3 million, down from \$30.4 million a year ago. Gross profit margin decreased from 33.3% in FY2017 to 25.4% in FY2018 mainly due to "specific projects of lower margins" during the year (page 15 of the annual report). **Can management help shareholders understand if the lower margins were a result of competitive pressure or the nature/scope of project?**

*Company's response: The lower margins were due to nature/scope of certain projects.*

- (ii) **Maintenance services: What are the major opportunities to grow the maintenance services segment further in the next 18-24 months?** Revenue has been steady at ~\$37 million in the past two years.

*Company's response: Growing the maintenance services segment has always been our strategic focus. Maintenance services segment is about 40% of total revenue for the past 2 years and we will continue to seek opportunities to grow this maintenance services segment when maintenance contracts are due for renewal from existing and new customers. Upon completion of new projects, we will also follow up with the maintenance contracts of the new facilities.*

- (iii) **2 Tuas Avenue 10: With the group consolidating its operations at the new site, how much cost savings will the group be able to achieve? Has management also taken the opportunity to further streamline its workflow and processes?**

*Company's response: There is always cost savings in the consolidation of Group operations and we are still quantifying the cost impact as we fully integrate and benefit from the efficiencies from the consolidation.*

*We have further streamlined our workflows and processes with an enhanced IT infrastructure for the Group. Back office is centralized as a Group function in one location for better coordination and control.*

**(iv) Carbon allowance: Following the sale of the balance carbon emission trading units, can management elaborate further on the plans for this segment?**

*Company's response: All our investment in carbon allowances have been sold and profits of S\$0.7 million realized in the last 2 years. We will not be participating in this specific carbon allowance investment, henceforth.*

**Q2.** In the past years, the group has made strategic acquisitions to gain a foothold in new sectors. For example, with the acquisitions of Multiheight Scaffolding and Austin Energy Group, the group scaled up its exposure to the petrochemical and to the pharmaceuticals segments.

In 2017, the group acquired Ensure Engineering Pte Ltd ("Ensure") for approximately \$16 million. Ensure specialises in engineering repairs, maintenance, plant turnaround services as well as decontamination and recovery services. Ensure also expanded the group's clientele base from serving private sector into government agencies like Public Utilities Board and National Environment Agency.

**(i) Has Ensure been fully integrated with the rest of the group?**

*Company's response: Yes, we have fully integrated Ensure's operations into the Group.*

**(ii) Are there any synergies between the group's subsidiaries? How are the subsidiaries incentivised to work together?**

*Company's response: Yes, there are synergies in terms of complementary products and services that we can offer to our customers across the Group. Going forward, our Group will offer a suite of services such as Mechanical, Electrical and Instrumentation, Scaffolding, Insulation and Coating, Chemical Cleaning, Equipment Rental and Maintenance and Fabrication.*

*Shared budgets and KPIs are set for each of the business units to work together to achieve the Group's synergistic focus of offering a suite of services to our customers. Business units would be awarded with incentives aligned with the performance evaluation.*

**(iii) Has Ensure performed up to management's expectations?**

*Company's response: The maximum earn-out profit target for Ensure is \$4 million annually from FY2017 to FY2020. Ensure met the maximum profit target of \$4 million for FY2017 but fallen short in FY2018. The earn-out amount paid and payable is \$2 million for FY2017 and \$0.5 million for FY2018.*

**(iv) In the acquisition of Ensure, a contingent liability payable consideration of \$7.81 million was structured into the deal as an "earn-out" agreement. This represents 50% of the future profit performance from 2017-2020. The carrying amount was lowered to \$4.5 million as 31 December 2018. **Has the group paid out on the earn-out or was the earn-out amount reduced?****

*Company's response: The maximum earn-out profit target for Ensure is \$4 million annually from FY2017 to FY2020. Ensure met the maximum profit target of \$4 million for FY2017 but fallen short in FY2018. The earn-out amount paid and payable is \$2 million for FY2017 and \$0.5 million for FY2018.*

**(v) The group has executed well on the Merger and Acquisition strategy to expand the group's product range and services, acquire new customers and deliver higher earnings. **Is the group still looking to make strategic acquisitions? Are there any other complementary sectors or services that could be added to the group?****

*Company's response: The Group is always looking for M&A that focuses on the products and services that caters to the marine, oil & gas value chain. In the process, we have also enhanced our products and services into infrastructure, pharmaceutical and industrial sectors.*

**Q3.** The board comprises of five members, of which three are independent, namely Juliana Lee Kim Lian, Ong Hua and Hew Koon Chan.

All three independent directors were appointed 16 September 2010. As such, all three independent directors have served over 8 years 7 months, i.e. 5 months short of the 9 year period.

In August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance ("2018 CG Code"). As a consequence of the revised 2018 CG Code, the Singapore Exchange has made amendments to its Listing Rules which came into effect on 1 January 2019, except for the rules on the 9-year tenure for independent directors and the requirement for independent directors to comprise one-third of the board which come into effect on 1 January 2022. Under the revised Listing Rules, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier vote by shareholders.

It was disclosed that Mr Hew Koon Chan will not be seeking re-election as a director of the company due to the 9 year rule. A one-off director's fee of \$15,000 has been proposed for Mr Hew Koon Chan which is subject to approval by shareholders at the AGM on 29 April 2019.

**(i) Has the company evaluated the impact of the 2018 CG Code and the amendments to the Listing Rules on the board?**

*Company's response: Yes, the Board has evaluated the impact of the 2018 CG Code and the amendments to the Listing Rules on the Board.*

**(ii) Can the board help shareholders recall if it has appointed an independent director since its listing?**

*Company's response: The independent directors were appointed since its listing and no new independent director is appointed since then.*

**(iii) What is the search and nominating process for appointing new directors, especially independent directors? Has the nominating committee (NC) evaluated if the use of a professional search firm for independent directors may enable the board to cast its net wider and further improve the diversity and possibly the quality of the candidate pool?**

*Company's response: Potential candidates are first sourced through recommendations from, among others, directors, business associates and advisors. The NC also evaluates unsolicited offers of independent director candidacy. The Board takes cognizant of the potentially wider range of candidates that may come with using professional search firms or from other institutions such as SID, professional organisations and business federations. The NC will recommend the use of such professional search firms or institutions when it deems appropriate or in the event the channels currently adopted in searching for appropriate candidates are unable to satisfy the specific relevant experience and skillset being sought in the potential candidate.*

**(iv) Has the nominating committee reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in future director appointments?**

*Company's response: Our NC reviews and evaluates the performance and effectiveness of the Board as a whole and each Board Committee annually. Given the nature, size and scope of the Group's operations, we believe this Board comprises members who collectively provide the core competencies and diversity necessary to ensure an appropriate and desired balance of skills and experience. For our near term future director appointments, the NC continues to focus on core competencies such as accounting and finance, business acumen, industry knowledge, strategic planning expertise, familiarity with regulatory requirements, risk management knowledge, remuneration knowledge and related experience.*

- (v) **Given that all the independent directors were appointed on the same day, what are the company's other near term plans to refresh the membership of the board progressively to comply with the new 2018 Code in good time?** Doing so would avoid undue disruption and maintain institutional knowledge and continuity in the board.

*Company's response: We have worked out a rotational plan based on the timeline of the 2018 Code to avoid undue disruption and maintain institutional knowledge and continuity in the board.*

- (vi) **Would the company also clarify on the proposed one-off director's fee of \$15,000 for Mr Hew Koon Chan?** No reason has been provided for the proposed fee.

*Company's response: This is one-off gratuity payment to our independent director who has retired in the 2018 AGM and did not seek re-election after serving the Board for about 9 years.*

**BY ORDER OF THE BOARD**

**Chang Yeh Hong**  
**Executive Chairman**  
**29 April 2019**