



Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Email: admin@sias.org.sg
www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y0Y

Issuer: Nico Steel Holdings Limited

Stock code: 5GF

Meeting details:

Date: 30 June 2023

Time: 2.00 p.m.

Venue: <<live webcast>>

Q1. 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?**
- (ii) **Could management provide the profile of the major customer to whom the group will be supplying its eco-recycle material¹?**
- (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?**
- (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?**
- (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?**

¹ https://links.sgx.com/FileOpen/NSH_Award%20of%20Contract_Final.ashx?App=Announcement&FileID=749212

Q2. 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?**
- (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?**

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?**

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?**
- (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?**
- (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?**

Q3. 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?**
- (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 equivalents were as high as US\$5.0 million in February 2019.
- (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?**
- (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?**
- (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?**

- (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?**
- (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?**

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

- (xiii) **Are the IDs (who are recommending to the over 1,400 small/minority shareholders of the company to accept the delisting without an exit offer) staying on as independent directors of the company should it be delisted?**
- (xiv) **Should the company be delisted, are the IDs committed to staying on as independent directors of the (unlisted) public company and helping the over 1,400 small/minority shareholders monetise their investments in the company in due course?**

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

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