

Issuer: Infinio Group Limited

Security: Infinio Group Limited

Meeting details:

Date: 31 July 2017

Time: 11.00 a.m.

Venue: 28 Kallang Place, #04-01/05, Singapore 339158

Company Description

Infinio Group Limited does not have significant operations. Previously, the company was involved in the exploration and mining of gold mineral resources in Australia. Infinio Group Limited was incorporated in 1998 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5G4)

Q1. In the section titled “Operations Review” (page 7 of the annual report), it was disclosed that the group, pursuant to the licensing agreement with Kalms Vending Private Limited (“Kalms”), will diversify into the automated retail business which involves the retailing of merchandise, such as jewellery and premium gifts through automated retail machines and revenue from advertisements.

It was also disclosed that:

“For a start, the Group will only purchase 10 automated retail licenses to operate 10 automated retail machines in Singapore. Once the economic feasibility of the Business is proven, the Company will increase the number of licences with the aim to be the master licensee for Kalm’s automated retail machines in Singapore”.

- a) **What due diligence has been carried out by the company and by the board to evaluate the potential of the diversification into the automated retail business?**
- b) **What are the key risks in this new business? How has the company evaluated the market demand/adoption rate and how has it assessed the merchandise to carry?**
- c) **What is the price of a retail license/automated retail machine?**
- d) **Based on the company’s due diligence and estimates, what is the projected rate of return of investment of the new automated retail business?**

Q2. In the Independent Auditor’s Report, the independent auditors have issued a “Disclaimer of Opinion” (page 38). The independent auditors have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements. The Bases for Disclaimer of Opinion are Valuation of non-current assets classified as held for sale, Recoverable amount of the cost of investment in a subsidiary and Material Uncertainty Related to Going Concern.

Shareholders would like to ask the audit committee (comprising Chng Hee Kok (as chairman), Hong Seong Soo and Kun Swee Tiong Andy) for clarification on the financial statements. Specifically:

- a) **Valuation of non-current assets classified as held for sale:** FRS 105 Non-current Assets Held for Sale and Discontinued Operations requires the group’s mining rights (to Birthday Mine) which have been classified as “held for sale” in the consolidated statement of financial position to be measured at the lower of its carrying amount and fair value less costs to sell. **Given that management was unable to secure financing to commence the mining operations in Birthday Mine, what are the audit committee’s reasons to carry the mining rights at \$1,903,000? Please elaborate further on the basis and explain if this would be a prudent move. Does this give a true and fair view of the state of affairs of the group and of the company?**
- b) **Recoverable amount of the cost of investment in a subsidiary:** Similarly, as at 31 March 2017, the carrying amount of the Company’s cost of investment in subsidiaries amounting to \$1,903,000 relates to its investment in Summit Light Ventures Ltd which is the sole legal owner of the mining rights (Birthday Mine as described in the preceding paragraph). **Would the audit committee provide its justification to recognise the recoverable amount of the company’s investment in Summit Light as \$1,903,000? Does this give a true and fair view of the state of affairs of the group and of the company?**
- c) **Would each member of the audit committee let shareholders know their individual involvement in the preparation of the financial statements?**

Q3. On 1 September 2016, the company announced that it had entered into a subscription agreement with Advance Opportunities Fund I (“AOF I” or the “Subscriber”) to issue to the Subscriber 1.0% equity-linked redeemable convertible notes (RCN) due 2019 with an aggregate principal amount of up to S\$20,000,000.

Following changes to the terms, the 1% equity-linked RCN due 2020 in aggregate principal amount of up to S\$20 million will have 4 tranches of a principal amount of \$5,000,000 each.

- a) **What level of due diligence has the company and the board carried out on the subscriber? Has the company reviewed the track record of the subscriber?**
- b) **Has the board evaluated other funding options available to the group?**

The RCN has a floating conversion price feature as follows:

“The price at which each Share shall be issued upon conversion, at the option of the relevant Noteholder, 80% of the average closing prices per Share on any three (3) consecutive Business Days as selected by the relevant registered Noteholder during the 45 Business Days immediately preceding the relevant conversion date on which Shares were traded on the SGX-ST.”

- c) **Can the board help shareholders understand why it had accepted the floating conversion price feature?**
- d) **In the due diligence conducted by the board prior to the approval of the subscription agreement, what are the estimated costs of this source of funding? In the opinion of the board, would this source of funding lead to massive dilution of the existing shareholders?**
- e) **Given that the company is raising funds via the convertible notes (with floating conversion price feature which can lead to significant dilution to existing shareholders) to diversify into the automated retail business, has the board estimated/projected the amount of value creation?**