

Issuer: Chinese Global Investors Group Ltd.

Security: Chinese Global Investors Group Ltd.

Meeting details:

Date: 30 October 2017

Time: 2.00 p.m.

Venue: 168 Robinson Road, FTSE Room, Level 9, Capital Tower, Singapore 068912

Company Description

Chinese Global Investors Group Ltd., an investment holding company, manufactures, installs, and sells waterproofing and concrete protection materials. It operates through three segments: Waterproofing; Financial Services and Investment Business; and Loan Financing. The company provides waterproofing services, including preservation, restoration, and maintenance of buildings and concrete structures. Its building protection solutions comprise roof, basement, and wall waterproofing systems; decorative and weather-resistance coatings; chemical-resistant wall and floor finishes; structural and waterproofing grouting systems; concrete repair and protection systems; concrete joint treatments; and roof gardens systems. The company also offers a range of financial services, including loan and mortgage financing, treasury investments, corporate finance advisory, securities and commodities trading, dealing in securities/debts, investments in trading equity securities, and asset management and research services. In addition, it invests in listed and unlisted securities, pre-initial public offerings, derivatives, and structured equity and debt products. Further, the company supplies and distributes specialized building materials; and operates as a contractor for various construction works. It has operations in Singapore, Malaysia, the People's Republic of China, Hong Kong, and India. The company was formerly known as Auswin Holdings Limited and changed its name to Chinese Global Investors Group Ltd. in February 2011. Chinese Global Investors Group Ltd. was founded in 1932 and is headquartered in Singapore.

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

Q1. On 9 October 2017, the company announced that the Independent Auditors, Crowe Horwath First Trust LLP have included a disclaimer of opinion on the consolidated financial statements of the Group in their Independent Auditors' Report dated 9 October 2017 in relation to the audited consolidated financial statements of the Group and the Company for the financial year ended 30 June 2017.

The Independent Auditor has said that:

We do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis of an audit opinion of these financial statements.

The basis for the disclaimer of opinion were:

- *Going concern assumption*
- *Disposal of a subsidiary*
- *Impairment of trade and other receivables*
- *Impairment testing on investment in subsidiaries and amount due from subsidiaries*

On 6 October 2016, the Independent Auditor had also included a disclaimer of opinion on the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company in their Independent Auditors' Report dated 4 October 2016 in relation to the consolidated financial statements of the Company and the Group for the financial year ended 30 June 2016.

For FY 2016, the basis for disclaimer of opinion were:

- *Going concern assumption*
- *Impairment of goodwill*

- a) **Would management clarify why it was not able to provide the Independent Auditor with sufficient appropriate audit evidence to provide a basis of an audit opinion of these financial statements?**
- b) **Is management working towards rectifying the issues brought up by the Independent Auditor? What improvements have been made to improve the internal controls and the keeping of financial records?**
- c) **Would the audit committee (AC) explain its efforts and involvement in the audit of the financial statements for the financial year ended 30 June 2017? In particular, what were the efforts by the AC to facilitate the independent auditors to get "sufficient and appropriate audit evidence" to resolve the matter brought up in the basis for the qualified opinion? The basis for disclaimer of opinion has grown from the last financial year.**

In the Directors' Statement (page 36), it was stated that, in the opinion of the directors:

(a) the statement of financial position and the statement of changes in equity of the Company and the consolidated financial statements of the Group as set out on pages 42 to 104 are drawn up so as to give a true and fair view of the financial position of the Company and of the Group as at 30 June 2017 and of the financial performance, changes in equity and cash flows of the Group and the changes in equity of the Company for the financial year then ended;

- d) **In view of the Disclaimer of opinion by the Independent Auditors, can the board explain and justify how it arrived at the opinion that financial statements are drawn up so as to give a true and fair view of the financial position of the Company and of the Group as at 30 June 2017?**

Q2. The group's investment business' portfolio consisted of mainly Hong Kong equities "had moved against the overall market trend for the last eighteen months".

The portfolio was sold following a review of the portfolio holdings, resulting in a loss of S\$0.78 million for FY2017.

The performance of the segment is tabulated and shown below.

		2014 \$	2015 \$	2016 \$	2017 \$
Statement of financial position	Held-for-trading investments	5,109,110	3,998,810	894,020	-
Consolidated statement of cash flows	Held-for-trading investments:				
	- Loss/(gain) on disposal	(574,576)	107,963	757,042	782,617
	- Fair value loss	562,710	423,813	1,968,757	-

(Source: Company annual reports)

- a) **Can the board let shareholders know how was the investment portfolio managed? How did the board assess that it had the right strategy and the right personnel to carry out the investment business?**
- b) **What was the terms of reference of the investment committee?**
- c) **Did the company have proper risk management controls in place and were the risk management policies observed?**
- d) **Please disclose the major holdings in the portfolio from the past few years.**
- e) **Can the board confirm that the portfolio value was \$894,020 as at 30 June 2016 and by the time the group liquidated its holdings, it recognised a loss of \$782,617?**

In addition, the group's foray into the loan financing business via a licensed loan financing subsidiary in Hong Kong was disposed in March 2017, after its acquisition in October 2015. However, after initial payment for its acquisition, the Group was unable to complete the said transaction and disposed of the entire business in March 2017.

- f) **Can management and the board help shareholders understand how strategic decisions are made? How prudent was it for the company to acquire new businesses while not having the necessary funding in place?**
- g) **Will the board review how the group carries out its strategic acquisitions, especially the safeguards and risk management framework that are in place?**

Q3. On 6 October 2017, the company announced that there are material differences between the Unaudited Results (announced on 29 August 2017) and the audited financial statements for FY2017 ("Audited Results").

Some of the reasons given for the material differences are summarised below:

- Reclassification of short term borrowings (\$1,942,693) to long term borrowings, being borrowings due beyond the next 12 months from 30 June 2017
- Reclassification of gain on disposal of subsidiary of S\$175,597 from other income to gain from discontinued operations

- Reclassification from allowances for doubtful debts written back to bad debts recovered of S\$65,121
 - Reclassification from other payables to interest paid of S\$164,393
- a) **As management is responsible for the preparation of financial statements to give a true and fair view in accordance with the provisions of the Act and FRSs, how can shareholders get the assurance from management that the financial statements are prepared in accordance with the provisions of the Act and FRSs?**
- b) **As directors' responsibilities include overseeing the group's financial reporting process, can the board help shareholders understand how it has helped management to improve its financial reporting?**

Specifically, the audit committee (comprising Dr. Cao Yong (as chairman), Mr. Peter Yong and Mr. So Yuen Chun) has the responsibility to "to review the quarterly, half-yearly and full year financial statements of the Company and of the Group, including announcements relating thereto, to shareholders and the SGX-ST, and thereafter to submit them to the Board for approval" (page 31).

- c) **Can the members of the audit committee explain their involvement in the preparation of the financial statements?**
- d) **What are the board's recommendations to management to prevent such material restatements from happening again?**