Issuer: AGV Group Limited

Security: AGV Group Limited

Meeting details:
Date: 23 March 2018
Time: 8:30 a.m.
Venue: Raffles Marina Level 2, Bridge Room, 10 Tuas West Drive, Singapore 638404

Company Description

AGV Group Limited, together with its subsidiaries, provides hot dip galvanizing services to steel and iron fabrication industries in Singapore. The company also engages in consultation and contract works relating to galvanization. AGV Group Limited provides its products and services to utilities, public construction, telecommunications, transport, petrochemical, defense, aerospace, automotive, and general industrial markets. The company was incorporated in 2015 and is based in Singapore. AGV Group Limited is a subsidiary of MA Builders Pte Ltd.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=1A4)

1. As noted in the Chairman's Statement (pages 2-3 of the annual report), the company announced that it had entered into a memorandum of understanding (the "MOU") on 5 January 2018 with Myat Mi Ba Company Limited ("MMB") to incorporate a new joint venture company in Myanmar for the purposes of providing hot dip galvanizing services to the Myanmar market.

(i) **Can the company help shareholders understand the dynamics of the Myanmar construction market (especially in the hot dip galvanizing services segment)? What is the level of commercial due diligence carried out by the company prior to signing the MOU with MMB?**

(ii) **As a new entrant to the Myanmar market, what is the group's strategy to compete with the locals and the incumbents? How does the group intend to differentiate the joint venture company from the competitors?**

(iii) **What is the planned capital expenditure for the joint venture company? Can management provide a breakdown of the capital expenditure?**

(iv) **As the company holds an effective interest of 80% in the joint venture company, how is the group going to fund the planned expansion?** The group's cash and cash equivalents stood at S$0.3 million as at year end.

In addition, the company has also established a new wholly-owned subsidiary in the People's Republic of China ("PRC") to engage in the business of providing solutions for water and waste treatment. **Can the board elaborate further on this diversification into water and waste treatment in the PRC? How can the company, with its current management depth, technical expertise in water and waste treatment and strength of the balance sheet, support this expansion into water and waste treatment in the PRC?**

2. As noted in the Corporate Governance Report (page 25), the Audit Committee ("AC") comprises the independent directors, namely, Mr Jack Chia Seng Hee (as chairman), Mr Toh Hock Ghim and Mr Benjamin Choo. The duties of the AC include, inter alia, reviewing with the external auditors the audit plan, including the nature and scope of the audit before the audit commences, and reviewing the statement of financial position and statement of comprehensive income of the Company and the statements of financial position and consolidated statement of comprehensive income of the Group, before approval by the Board.

(i) The company has a financial year ending 30 September 2017 but it is only holding its AGM on 23 March 2018. **Can the audit committee elaborate further why it had not pro-actively appointed and engaged an independent third party valuer in good time to conduct and complete the purchase price allocation exercise following the business combination between Asia Galvanizing (S) Pte Ltd and AGV Holdings Pte Ltd so that the company could release its financial statements and hold the annual general meeting in accordance with the Listing rules?**

In addition, on 5 March 2018, the company announced that there are material variances between the unaudited financial statements (announced on 26 January 2018) and the audited financial statements as the external auditor has proposed certain adjustments and reclassifications which the management of the company has adopted accordingly. As a result of the material adjustments, the group's losses for the financial year increased from $(2.94) million (as reported in the preliminary unaudited results on 26 January 2018) to $(4.29) million (as shown in the audited financial statements on 5 March 2018).

Excluding the adjustments due to the belated finalisation of the purchase price allocation exercise, the reasons given included the reclassification to separate deferred tax liabilities from deferred tax assets and the reclassification to apportion finance lease payables between current and non-current. These would appear to be rather rudimentary.

(ii) **What assurance can the audit committee give shareholders that the financial statements of the group have been drawn up in accordance with Singapore Financial Reporting Standards ("FRS") including related Interpretations of FRS ("INT FRS")?**

(iii) **Can the audit committee confirm that the internal finance team is well resourced with experienced staff to prepare the financial statements?**

(iv) Can the audit committee explain their individual and collective efforts in the preparation of the group's financial statements? What improvements have the audit committee made to the financial reporting process so that there will not be material adjustments following the audit by the external auditors?

3. On 8 February 2018, the company announced that it had entered into a subscription agreement with various investors pursuant to which the subscribers will agree to subscribe for up to 18,000,000 new ordinary shares in the issued and paid up capital of the company at an issue price of S$0.11 to raise approximately $1.94 million.

On 1 March 2018, the company announced that it had entered into a termination agreement with the subscribers to formally terminate the subscription agreement "with mutual consent and with no further recourse after due consideration by both parties and taking into account the current unfavourable market sentiments".

The condition of the market was not one of the Conditions Precedent as set out in the subscription agreement.

(i) Can the board explain why the company had given the proposed subscribers a "free option" to terminate the subscription due to unfavourable market sentiments for the subscribers?

On 5 March 2018, the company had also announced that the company's Independent Auditor had, without qualifying their audit opinion, included an emphasis of matter in respect of the group's ability to continue as a going concern in the Independent Auditor's report on the audited financial statements of the Group for the financial year ended 30 September 2017.

(ii) Following the termination of the share subscription, what are the company's options to strengthen the financial position?

*** In addition, the following question is adapted from the questions posted to the company regarding the annual report and financial statements for the financial year ended 30 September 2016 and updated following the publication of the AR2017.

The group's entertainment expenses jumped to $446,000 in FY2016 and remain at the elevated level of $433,000 in FY2017. The group has also incurred "business development expenses" of $437,000 in FY2017. To put things in perspective, the FY2016 $446,000 entertainment expense is 72% of the reported profit of $0.623 million, and the group reported lower revenue, higher expenses and a full year loss attributable to shareholders of $4.1 million for FY2017. Compared to the net proceeds of $4.31 million from the IPO, the FY2016 and FY2017 entertainment expenses accounted for over 20% of the net proceeds.

Can the company and the audit committee provide a detailed breakdown of the entertainment expenses and the business development expenses? Please also elaborate further on the group's effort to rein in its expenses.

*** It is also noted that the AGM is scheduled to start at 8:30 a.m. on 23 March 2018, at Raffles Marina in Tuas West Drive. This would make it difficult for shareholders to attend the AGM given the timing and the choice of the location. **Can the board help shareholders understand the choice of timing and location of the AGM? Would the board make greater effort to ensure that the company's general meetings are easily accessible to shareholders both in terms of timing and location?**

A copy of the questions for the Annual Report for the financial year ended 30 September 2016 could be found here:

https://sias.org.sg/qa-on-annual-reports/?company=AGV%20Group%20Ltd

The company's response could be found here: -----