Issuer: Hor Kew Corporation Limited
Security: Hor Kew Corporation Limited

Meeting details:
Date: 26 April 2018
Time: 9.00 a.m.
Venue: 66 Kallang Pudding Road, #07-01 Hor Kew Business Centre, Singapore 349324

Company Description

Hor Kew Corporation Limited, an investment holding company, provides an integrated range of construction related products and services primarily in Singapore. It operates through Property Investment and Development, Construction, and Prefabrication segments. The Property Investment and Development segment is involved in the development, sale, and leasing of residential, commercial, and industrial properties. The Construction segment constructs residential, institutional, industrial, and commercial properties as a contractor. The Prefabrication segment designs, manufactures, and sells prestressed and precast reinforced concrete building components, as well as prefabricated architectural metal components. The company also rents machinery. Hor Kew Corporation Limited was founded in 1979 and is based in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=BBP)

Q1. Following a review of the market and of the group's performance in financial year ended 31 December 2015, the group made a strategic move to pivot towards the precast and prefabrication business.

The FY2016 results were encouraging as the group reported profit attributable to shareholders of $1.5 million with revenue amounting to $67.9 million. In FY2017, revenue once again slipped, hitting $59.3 million, and the group reported a loss attributable to shareholders of $(3.2) million.

The decrease in revenue was driven mainly by the $23.0 million fall in revenue from its prefabrication activities. The prefabrication segment recorded a loss of $(7.5) million in FY2017 compared to a segment profit of $1.6 million in FY2016. Gross profit of the group deteriorated mainly due to lower gross profit margins of its prefabrication activities and lower revenue.

a) Despite the optimism shown by the company in the 2016 Annual Report, the performance of the prefabrication segment once again disappointed. **Can the company provide shareholders an update on the prefabrication/Prefabricated Prefinished Volumetric Construction (PPVC) market and how is the group positioned against the competitors?**

b) **Has the board/management reviewed the operations of the prefabrication segment and determined the reason(s) for the $(7.5) million loss in FY2017?**

The group's strategy for 2018 is to expand the precast and prefabrication business, improve production efficiency and continue working on cost savings.

c) **Would it be more prudent for the group to attain cost savings and further improve production efficiency before it scales up on the precast and prefabrication business/production?**

Q2. The "allowance for impairment of trade receivables" is one of two key audit matters (KAMs) highlighted by the Independent Auditor in their Report on the audit of the financial statements. Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As disclosed in Note 14 to the financial statements, the net carrying amount of the Group's trade receivables is stated at $30.48 million (2016: $32.25 million), which is 18% of the group's total assets (2016: 18%). In FY2017, the group recognised an allowance for doubtful receivables of $2.89 million (2016: $1.77 million).

a) **What is the breakdown of the doubtful debt of $2.89 million that the group recognised in the year? Please provide a breakdown showing the number of debtors, amount owed, aging and the financial status of the debtors.**

b) **What are management's efforts to collect the amount impaired?**

In addition, the age analysis of trade receivables past due but not impaired is shown in the table below (page 100 – Note 14 Trade receivables):

	Group	
	2017	2016
	$'000	$'000
Trade receivables that are past due:		
< 90 days	**9,644**	14,279
91 to 180 days	**2,196**	714
> 180 days	**4,486**	2,761
	16,326	17,754

(Source: Company annual report)

The amount past due for more than 180 days but not impaired has increased to $4.5 million.

c) Are there extenuating circumstances that led to trade receivables past due for more than 180 days ballooning to nearly $4.5 million?

d) What guidance has the audit committee (AC) given to management to ensure that the group does not take on excessive credit risk?

e) How robust is the group's credit evaluation process? How does the AC oversee this?

In addition, trade receivables that are individually determined to be impaired have increased to over $5.3 million, as follows:

14 Trade receivables (cont'd)

	Group	
	2017	2016
	$'000	$'000
Impaired receivables - individually assessed:		
< 90 days	**502**	128
91 to 180 days	**298**	243
> 180 days	**4,495**	2,923
	5,295	3,294

(Source: Company annual report)

f) What is the profile of the debtor(s) who have defaulted and/or are unable to repay the long outstanding debt?

g) How is the company working with the debtors to collect on the debt?

h) Should the AC review how the credit team assessed the creditworthiness of its customers? How can the AC further improve the process?

Q3. All three independent directors, Dr Low Seow Chay (appointed on 3 April 2000), Mr Lee Sen Choon (appointed on 1 January 2003) and Mr William Chew Yew Meng (appointed on 3 April 2000), have served on the Board for more than nine years from the date of their first appointment.

Notwithstanding that the long tenured non-executive directors have served on the board for more than nine years, the board has affirmed that Dr Low Seow Chay, Mr Lee Sen Choon and Mr William Chew Yew Meng continue to be considered Independent Directors.

a) Can the board explain in detail the particularly rigorous review that it carried out on the directors to review their independence?

b) How did the board evaluate the benefits that result from the refreshing of the board?

c) What are the company's near-term plans to progressively refresh the board?