



**Securities Investors Association (Singapore)**

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UEN No: S99SS0111B

GST Reg No: M90367530Y

**Issuer:** AGV Group Limited

**Security:** AGV Group Limited

**Meeting details:**

Date: 30 March 2019

Time: 8.30 a.m.

Venue: Raffles Marina, Chart Room, Level 2, 10 Tuas West Drive, Singapore 638404

**Company Description**

AGV Group Limited, an investment holding company, provides hot dip galvanizing services to steel and iron fabrication industries in Singapore and Malaysia. The company also engages in consultation and contract works relating to galvanization. It serves customers in public and transport sectors. The company was incorporated in 2015 and is based in Singapore.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=1A4](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=1A4))

1. On 10 January 2019, the company announced the appointment of Mr. Chua Wei Kee as a non-independent non-executive chairman of the company, following the acceptance by the board of the recommendation by the nominating committee.

As disclosed by the company, on 3 December 2018, Mr. Chua Wei Kee subscribed for 15,000,000 shares in the company (or 8.07% of the enlarged share capital) at an issue price of S\$0.0189 for each subscription share, for a total consideration of \$283,500.

As Mr. Chua does not have any prior experience as a director of an issuer listed on SGX-ST, the company disclosed the following:

*Mr Chua Wei Kee will be briefed on the duties, responsibilities and liabilities of directors of companies in Singapore, as well as the business operations and regulatory issues relating to the Company to ensure that he is familiar with the Company's business and governance practices. Furthermore, the Company will encourage Mr Chua Wei Kee to participate in seminars and receive training to improve himself in the discharge of the duties as a Non-Independent Non-Executive Chairman of the Company.*

- (i) Can the company elaborate further on the briefings given/to be given to the non-independent non-executive chairman? Who will be providing the briefings to Mr. Chua?**
- (ii) Will the non-independent non-executive chairman be undergoing formal and structured training to allow him to discharge the duties of a director in a listed company in Singapore?**

In the company's announcement dated 26 October 2018 relating to the placement of 60,000,000 new shares (or 32.27% of the enlarged share capital) to the 4 subscribers of which one is Mr. Chua, paragraph 5.7 stated that each of the subscribers "has represented, warranted and undertaken to the company that it shall not act in concert or collaboration with anyone to obtain or consolidate control over the company, including as contemplated in the Singapore Code of Take-Overs and Mergers, to and for the benefit of the Company".

- (iii) Can the company clarify if the undertaking is indefinite?**

In the same announcement, the company has declared that the company's sponsor "has not conducted the necessary due diligence and checks on the subscribers".

- (iv) Would the company/sponsor help shareholders understand what kinds of due diligence and checks on the subscribers are necessary?**
- (v) Did the sponsor conduct the necessary due diligence and checks on the subscribers prior to the subscription of shares?**

2. In the financial year, the shareholding structure of the company has changed significantly with (a) a former director and substantial shareholder continuing the sale of

his shares coupled with (b) the subscription by 4 new shareholders of 60,000,000 new shares.

In addition, there were considerable changes to the board with 6 directors, namely Mr Yeong Chun Song, Mr Chia Seng Hee, Mr Benjamin Choo Chih Chien, Mr Richard Chung Kok Boon, Mr Toh Hock Gim, Mr Ang Ghee Ann, stepping down from the board since the last AGM.

Four new directors were appointed to the board, including Mr. Chua Wei Kee as the new non-independent non-executive chairman of the company.

The company has also entered into a memorandum of understanding with Hyday (South Pacific) Investment Pte. Ltd. to collaborate on certain initiatives relating to the development of the hot dip galvanising market in South East Asia and China while terminating its revised memorandum of understanding with Myat Mi Ba Company Limited to incorporate a joint venture company to provide hot dip galvanising services to the Myanmar market.

- (i) Have the numerous board changes caused any disruption to the board and to the group's operations?**
- (ii) Does the current board possess an appropriate balance and diversity of skills, experience and knowledge, and core competencies in key functions such as accounting and finance, and business and management experience, to provide the entrepreneurial leadership to lead the group during this challenging period?**

In addition, the group reported a loss of \$(13.4) million in FY2018, leading to a net liability position of \$(5.1) million as at 30 September 2018 from an equity position of \$10.5 million a year ago. This was partly due to the impairment of goodwill amounting to \$(4.3) million following the deterioration of the Malaysian operations. In addition, management has also stated that the its operating unit experienced structural damage to the zinc kettle which led to zinc leakages and that a sharp increase in zinc prices (by up to 44% over the previous year) led to a significant increase in the cost of sales while the group was unable to pass on the increase in costs.

- (iii) Can management elaborate further on the turnaround plans for the group, including how it intends to improve its operations (including the safety aspects), better manage commodity pricing risks and restore the volume and margins in its key markets?**
- (iv) Can the board confirm that the group remains a going concern? How is the board going to further strengthen the group's balance sheet other than the loan commitment of up to \$5.9 million from the four new subscribers?**
- (v) With the changes in the board and in the competitive landscape, please provide shareholders with an updated holistic overview of the group's strategic direction.**

3. On 15 March 2019, the company announced that there are material variances between the unaudited results (first announced by the company on 31 January 2019) and the audited financial statements for the financial year ended 30 September 2018 after the finalisation of audit by the independent auditors.

The external auditor has proposed certain adjustments and reclassifications which the management of the company has adopted accordingly.

Reasons for the material variances included:

- Elimination of inter-company sales of S\$744,000 (and the corresponding elimination of S\$703,000 to the cost of consumables and S\$41,000 to the other expenses)
- Reclassification of other expenses by their appropriate nature: S\$485,000 was re-classified to finance cost, S\$148,000 to employee benefits and S\$38,000 to operating lease
- Bank balances of S\$115,000 being re-classified as pledged fixed deposits
- Reclassification of trade and other payables to borrowings of \$674,000

For the financial year ended 30 September 2017, the company also announced that there are material variances between the unaudited results and the audited financial statements.

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore ("FRSs").

- (i) How can shareholders get the assurance from management that the financial statements are prepared in accordance with the Act and FRSs?**
- (ii) Has the audit committee evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?**
- (iii) Can the audit committee help shareholders understand their experience in financial reporting and internal controls?**

A copy of the questions for the Annual Report for the financial year ended 30 September 2017 and 30 September 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=AGV%20Group%20Ltd&cid=4461,4134>

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