



Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: AGV Group Limited

Stock code: 1A4

Meeting details:

Date: 28 January 2021

Time: 10.30 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

Q1. The group, which provides hot-dip galvanising services in Singapore and Malaysia, was listed in August 2016. The financial highlights of the group in the past 5 year are shown on page 10 of the annual report and reproduced below:

	FY2020 S\$'000	FY2019 S\$'000	FY2018 S\$'000	FY2017 S\$'000	FY2016 S\$'000
Revenue	10,265	6,498	8,155	18,009	20,230
(Loss)/Profit for the year before tax	(2,652)	(7,673)	(13,869)	(4,638)	997
(Loss)/Profit for the year after tax	(2,781)	(8,404)	(13,366)	(4,288)	623
(Loss)/Profit attributable to					
Owners of the Group	(2,281)	(6,793)	(11,764)	(4,089)	623
Non-controlling interests	(500)	(1,611)	(1,602)	(199)	–

(Source: company annual report)

In addition, even after carrying out a rights issue in FY2020, the group is in a capital deficit position of \$(3.5) million. The group has been in a capital deficit position since FY2018, just two years after its listing.

A positive development for the group is the recommencement of the Malaysian operations in December 2020 after the completion of refurbishment and upgrading works of the Malaysian factory. Since FY2017, productivity has been affected due to leakages of the zinc kettle and the Malaysian operation has been suspended for more than a year.

- (i) **Would the board/management help shareholders understand the ground sentiments and economic conditions (including market demand for hot-dip galvanizing services) in Malaysia as a result of the COVID-19 pandemic?**
- (ii) **In particular, how will the extension of the movement control order affect the group?**

As noted in the chairman's statement, the utilisation rate for the Singapore plant improved to 34% in FY2020, compared to 22% in FY2019.

- (iii) **What are the major opportunities in Singapore in the next 18-24 months? What is management's strategy to capture a greater share of the market?**
- (iv) **Can the board/management help shareholders understand the group's competitive advantage and elaborate further on how it intends to create long-term value for shareholder with the current business model?**

Q2. On 21 February 2020, the company proposed a renounceable non-underwritten rights issue of up to 929,732,200 new ordinary share in the capital of the company at an issue price of \$0.025 for each right share on the basis of 5 rights shares for every 1 ordinary share of the company.

On 7 July 2020, the company announced that, as at the close of the rights issue on 30 June 2020, valid acceptances and valid excess applications amounted to 22.56% and 30.85% respectively.

- (i) **Has the board carried out a review to understand the reasons for the low valid acceptances by shareholders (other than the undertaking shareholders)?**
- (ii) **With the benefit of hindsight, what could the board have done differently? Has the board/management evaluated the market's understanding of the group and the appreciation of the group's business model and growth prospects?**

The company has raised net proceeds of approximately \$5.158 million. By 5 January 2021, the company has utilised 100% of the net proceeds, with 51% being used for general working capital and 49% being allocated to the group's operations in Malaysia.

The independent auditors have included a material uncertainty related to going concern in the report on the audit of financial statements (page 62). In particular, as at 30 September 2020, the group reported net liabilities of S\$3,520,000 and net current liabilities of S\$1,048,000. The group also reported net loss of S\$2,781,000 and operating cash outflows of S\$124,000 for the financial year then ended. The group has financial liabilities of more than \$7 million which is expected to be settled within a year from the reporting date.

On 19 November 2020, the group announced a proposed sale and leaseback of its property located at Johor Bahru.

- (iii) **Has the uncertainty related to the group's going concern affected its ability to secure jobs and win contracts from its customers?**
- (iv) **Does the group have the working capital to support its strategic goals? If not, what are the options available to the group to further strengthen its financial position?**

Q3. On 23 January 2020, the company published the findings of the independent review which relates to the disposal of a subsidiary in the People's Republic of China. The independent reviewer noted that the group's board approval matrix was inadequate and that there was a lack of internal expertise on compliance with the Catalist Rules. Certain breaches of the rules of the SGX Listing manual were also identified by the independent reviewer.

- (i) **Can the board update shareholders on the improvements made to its governance and risk management framework, including the board approval matrix?**
- (ii) **Has the group developed its own internal capabilities and improved its knowledge of the Catalist rules?**
- (iii) **In particular, what is the level of familiarity of the executive officers and key management personnel on Catalist rules and on the roles and responsibilities of a director of a listed issuer?**
- (iv) **What is the level of involvement by the sponsor in helping the company with its compliance with the Catalist rules?**

In addition, although the group has relatively significant amounts of fixed assets and inventory, the independent reviewer noted that previous internal audits have not covered the review of fixed asset and inventory management.

- (v) **Can the board/audit committee help shareholders understand if the internal audit review of fixed asset and inventory management has been carried out/has been scheduled? What are some of the key findings from the internal audit of fixed asset and inventory management?**

[^]Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer's website, through "live" webcast and on SGXNet.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

[^] Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (<https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings>)



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