



**Securities Investors Association (Singapore)**

7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111

Tel: (65) 6227 2683 Fax: (65) 6220 6614

Email: [admin@sias.org.sg](mailto:admin@sias.org.sg) [www.sias.org.sg](http://www.sias.org.sg)

UEN No: S99SS0111B

GST Reg No: M90367530Y

**Issuer:** Hor Kew Corporation Limited

**Security:** Hor Kew Corporation Limited

**Meeting details:**

Date: 29 April 2019

Time: 9.00 a.m.

Venue: 66 Kallang Pudding Road, #07-01 Hor Kew Business Centre, Singapore 349324

**Company Description**

Hor Kew Corporation Limited is a Singapore-based investment holding company. The Company is a building construction company, providing a range of construction related products and services. The Company operates through property investment and development segment; construction segment; prefabrication segment, and Others segment. Its property investment and development segment is involved in the development, sales and leasing of residential, commercial and industrial properties. Its construction segment is in the business of constructing residential, institutional, industrial and commercial properties as the main contractor. The prefabrication segment is in the business of design, manufacture and sales of prestressed and reinforced concrete building components, as well as prefabricated architectural metal components. The Company, through its subsidiaries, is also engaged in the activities of property investment and development, and rental of machinery.

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

**Q1.** On 5 April 2019, the company announced that its independent auditor has included an assessment of the Material Uncertainty Related to Going Concern in its audit report on the company's audited consolidated financial statements for the financial year ended 31 December 2018.

As noted by the auditors:

*Material Uncertainty Related to Going Concern*

*As disclosed in Note 3 to the financial statements, the Group and the Company incurred a net loss for the financial year of \$30,848,000 and \$45,008,000 respectively. As at 31 December 2018, the Company's current liabilities exceeded its current assets by \$9,842,000.*

*These factors indicate the existence of a material uncertainty that may cast significant doubt on the Group's and the Company's ability to continue as going concerns. The directors of the Company, for the reasons as disclosed in Note 3 to the accompanying financial statements, have determined that it is appropriate for the financial statements to be prepared on a going concern basis.*

In Note 3 (page 99 – Critical accounting judgements and key sources of estimation uncertainty: Going concern assumption), the company and the board stated the following:

*The ability of the Group and Company to continue as going concerns is dependent on the Group's and Company's ability to generate sufficient cash flows to pay its debts and obligation as and when they fall due. In addition, the Group has sufficient unutilised banking facilities available for future use should the need arise. In the opinion of the directors, the Group and the Company are able to continue as going concerns for a period of 12 months from the date these financial statements were approved.*

- (i) Would the board help shareholders understand the pro-active efforts taken by the board and by management to (a) improve the cash flow generation and (b) improve the operations of the group?** The statement by the company and the opinion by the board give shareholders little assurance that hard decisions and decisive operational changes are happening on the ground to turn the company around.
- (ii) Please share its cash flow projections to help shareholders understand the liquidity risks faced by the group.**
- (iii) Would the board consider it opportune to carry out a comprehensive strategic review of the group's operations to assess the core competencies of the group, its management team and its financial strength and to fine-tune its strategies so as to create long-term sustainable value for all shareholders?**

**Q2.** In the Operations review, the group made a few revelations, including:

- recorded a gross loss of \$15.3 million as compared to a gross profit of \$5.9 million in FY2017.
- The negative gross margin of the group came from prefabrication activities and was due to low profit margins during project tenders that were eroded by increases in raw material costs as well as provision for onerous contracts
- [From the key audit matter] The group entered into contracts with customers to deliver precast concrete and prefabricated metal components. As a result of rising cost of materials, the group recognised provision for onerous contracts amounted to \$6,017,000
- General and administrative expenses increased from \$9.6 million in FY2017 to \$13.0 million in FY2018. This was mainly due to loss on foreign exchange of \$2.2 million, impairment loss on trade receivables of \$3.5 million and fair value loss on derivative financial instruments of \$0.3 million
- Finance costs increased by 25% from \$1.2 million in FY2017 to \$1.5 million in FY2018 mainly due to rising interest rates on our loans

Would the board/management provide shareholders with better clarity on the following operational matters? Specifically:

- (i) Tendering for projects: What is the level of coordination within the group when the group is submitting its tenders? What is the consideration given to profit margin? What due diligence is carried out to ascertain with high level of certainty the cost to meet its obligations under the tender? Does management secure its raw material or carry out some form of hedging to lock in the raw material prices after a contract is entered into? What guidance has the board given to the group to maintain its operational and financial discipline? What is the oversight by the board on key tenders, significant projects and on major operational decisions?**
- (ii) Risk management: Did management carry out effective risk management and identified all key risks associated to the major projects?**
- (iii) New projects: Would the group be suspending all projects until it gets its systems and processes in place?**

**Q3.** As the board is collectively responsible for the long-term success of the company, shareholders would like to ask the following:

- (i) Performance: Has the board monitored the performance of management?**
- (ii) Risk assessment framework: Did the board review the Risk Assessment Framework and assessed the key risks within the group's business, namely business and strategic risks, financial risks and operational risks? What were the key risks identified? How did the board monitored how these risks are managed?**

All three independent directors, namely Dr Low Seow Chay, Mr Lee Sen Choon and Mr William Chew Yew Meng have served on the board for more than 9 years.

Dr Low and Mr Chew were first appointed to the board on 3 April 2000.

Mr Lee was first appointed to the board on 1 January 2003.

Additionally, Dr Low Seow Chay was appointed as the lead independent director on 12 November 2013.

All three long tenured independent directors are also members of the nominating committee (NC), with Mr Chew as the chairman of the NC.

**(iii) Would the NC members help shareholders understand if it had assessed the effectiveness of the board as a whole and the contribution of each director to the effectiveness of the board?**

**(iv) What are the plans to rejuvenate the board?** Under the revised Listing Rules, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier vote by shareholders.

A copy of the questions for the Annual Report for the financial year ended 31 December 2017 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Hor%20Kew%20Corporation%20Ltd&cid=6675,4602>

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