



Securities Investors Association (Singapore)

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UEN No: S99SS0111B

GST Reg No: M90367530Y

Issuer: Swee Hong Limited

Security: Swee Hong Limited

Meeting details:

Date: 26 October 2018

Time: 3.00 p.m.

Venue: 35 Sungei Kadut Street 6, Singapore 728869

Company Description

Swee Hong Limited, an investment holding company, provides civil engineering works in Singapore. The company operates through Civil Engineering and Tunnelling segments. The Civil Engineering segment undertakes civil engineering works, which include road construction works, road maintenance works, sewerage rehabilitation, drains, soil improvement works, and other infrastructure works. The Tunnelling segment carries out micro tunneling works. The company was founded in 1962 and is based in Singapore. Swee Hong Limited is a subsidiary of KH Foges Pte Ltd.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=QF6)

1. On 5 August 2018, the company announced that it had entered into a non-binding memorandum of understanding to acquire the entire issued and paid-up share capital of Asiaframe Group Limited, which in turn owns an indirect wholly-owned subsidiary, Hunan Chudi Hengda Inspection Co., Ltd (“Hunan Chudi”).

Hunan Chudi is in the business of providing third party testing and inspection services in the Republic of China, including foundation inspection, construction material inspection, structural inspection and road and bridges inspection.

- (i) What is the expertise and knowledge of the group, its board, and the management team, in testing and inspection services?**
- (ii) How synergistic is the proposed acquisition to the current operations given that the group operates exclusively in Singapore while the proposed target has its operations principally based in Changsha, Hunan Province?**
- (iii) How did the company manage to deal-source for the proposed Asiaframe acquisition? Did the proposed deal come from investment bankers/professional brokers or consultants?**

The core performance of the Singapore operations slipped following cost overrun in the both the civil engineering and tunneling segment. Revenue in the civil engineering segment and the tunneling segment also dropped by 8% and 78% respectively. **With the completion of the tunneling projects, what are management’s efforts to secure new tunneling projects? What is the current order book? What are management’s plans to improve the efficiency and the profitability of the operations?**

2. In Note 21 (pages 80 to 82 – Borrowings), the company disclosed that it has taken loans from non-related parties where the interests to be paid are as high as 1.5% per month and to be paid in advance each month although some less onerous but still costly loans bear interests at 9-12% per annum.

- (i) Did the board approve the above-mentioned loans?**
- (ii) Were there any specific operational/unexpected needs that required additional funds in the group’s core business operations?**
- (iii) Has the board estimated the group’s cost of capital? With the interest rate as high as 1.5% per month, how prudent is it to use these short term, high-cost loans to finance the group’s operations?**

In addition, on page 81, it was disclosed that the company had acquired unsecured loans on a 3-month tenor, amounting to \$2,300,000 from non-related parties on 13 and 17 August 2018. The loans are to be repaid on 13 and 17 November 2018.

- (iv) Please disclose the interest rates on these new loans.**

3. On 13 October 2018, the company announced that there are material variances between the unaudited results (first announced by the company on 30 August 2018) and the audited financial statements for FY2018 after the finalisation of audit.

Reasons given included:

- Reclassification of foreign exchange losses in administrative expenses to other income
- Reclassification of finance lease payables to borrowings
- Reclassification of foreign exchange losses relating to cash and cash equivalents to be disclosed as 'effect of foreign currency difference'
- Cashflow from proceeds from issuance of convertible bonds to be disclosed as gross amount instead of net amount
- Gain on de-registration of a subsidiary corporation to be disclosed in operating cash flows
- Proceeds from issuance of borrowings to be disclosed as gross amount instead of net amount

The company has also announced material adjustments for the financial year ended 30 June **2017**, 30 June **2016** and 30 June **2015**. For the last **four** financial years, the company had to make material adjustments **all four** times following the finalisation of audit.

It is the responsibility of management to prepare the financial statements to give a true and fair view in accordance with the provisions of the Singapore 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 provisions of the Act and FRSs?**
- (ii) Since the resignation of Deepak Bhandari as Head of Finance with effect from 15 February 2018, has the position been filled?**
- (iii) Can the company provide shareholders with the profiles of its key management team?**

The audit committee (AC) comprises Mr Teo Boon Tieng (as chairman), Mr Peter Moe and Mr Anil Dhanpatlal Agrawal.

- (iv) As the directors have responsibilities to oversee the group's financial reporting process, can the directors, especially the directors in the AC, help shareholders understand their individual and collective efforts in the preparation of the group's financial statements to give a true and fair view in accordance with the provisions of the Act and FRSs?**
- (v) Has the (AC) evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?**



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- (vi) Do the AC members have the necessary accounting or related financial management expertise and experience to discharge their responsibilities as members of the committee?**

- (vii) What changes has the AC made to the group's systems and processes to improve the quality and accuracy of the financial statements?**