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It's time SGX and sponsors get tougher with firms looking to list

The lack of scrutiny has let through companies with questionable business models. Companies with poor business models are more likely to turn to fraud to generate results. **BY MAK YUEN TEEN**

THEY say when life gives you lemons, you make lemonade.

I hope that this is not the philosophy of the Singapore Exchange (SGX), which has given investors quite a few lemon IPOs over the past few years, and especially in the past year. This has further soured investors' sentiments, already severely dented by corporate scandals, spectacular collapses and controversial delistings.

There is the case of Y Ventures, the data analytics-driven e-commerce firm on Catalist since July 2017, which announced in January this year that there were material errors in its unaudited results for the six months ended June 30, 2018. The "profit" of US$143,000 announced back in August 2018 has now turned into a loss of US$1.16 million.

The largest error was related to inventories and it turned out that it was using Excel to reconcile its inventory on a monthly basis. As is often the case, bad news is followed by more bad news. On Feb 28, it disclosed that its unaudited FY2018 loss has widened to US$3.89 million from an audited FY2017 loss of US$909,000.

On March 1, it announced the appointment of a new executive chairman, Eric Lew, who had spent more than 16 years as an executive director of SGX-listed Wong Fong Industries, and is said to have extensive experience in corporate strategy and business development. Mr Lew, who had just the day before being re-designated from executive director to non-executive director at Wong Fong, is to lead Y Ventures through its next phase of transformation and improve the group's growth (more to arrest its decline, in my view).

The appointment of an executive chairman with nearly all his prior working experience in the same engineering firm is rather unexpected, but may be an indication of a major change in business for Y Ventures, perhaps transforming from an e-commerce firm to a more traditional firm.

On Feb 4, I posted an article on Y Ventures and called for the suspension of trading of its shares and a special audit, as I believe that the material errors in its unaudited results raise serious concerns about mis-statements in all its prior unaudited and audited results, including those prior to its listing. At that time, it had already fallen from its IPO price of 22 cents to 8.1 cents; it closed on March 1 at 5.4 cents.

Whatever transformation it undertakes should not detract from the need for regulators to get to the bottom of the material errors and to determine if prior results are also affected, and to hold those responsible accountable.

Then there is the case of No Signboard, which also showed no sign of governance. The company listed on Catalist in November 2017 at 28 cents. It was queried by SGX for a 24 per cent price surge on Jan 31, 2019. On Feb 1, it reported a net loss of S$574,000 for the first quarter ended Dec 31, 2018, from a restated loss of S$416,000 a year ago for the same quarter.

What passed without proper explanation from the company and with no queries from SGX was why the Q1 profit of S$1.4 million reported a year ago was re-stated to a loss of S$416,000. Every single item that affected the profit and loss was restated, except for the listing expenses. Raw materials and consumables used was restated from S$1.32 million to S$2.29 million. Like Y Ventures, the sponsor for No Signboard is RHT Capital.

On Feb 3, No Signboard said that its chief executive Lim Yong Sim had "inadvertently instructed the company's broker to buy back shares of the seafood restaurant operator during a trading restriction period". The company had held its annual general meeting on the morning of Jan 31 to approve the company's share buyback mandate. Mr Lim later instructed the company's broker, UOB Kay Hian, to buy the shares at a price of up to S$0.14 each and shortly after noon on Jan 31, about 1.07 million shares were purchased. The company said it was an "honest mistake" on the part of Mr Lim as he did not realise that the share purchase at prices of up to S$0.14 exceeded the 5 per cent cap above the average closing price of the last five days permitted under the share buyback mandate of S$0.1226 as at Jan 31, 2019. This was why the stock surged nearly 24 per cent to S$0.15, which attracted the SGX query.

Not only did Mr Lim get the company's broker to buy back shares in violation of the share-purchase mandate, it was done during the blackout period preceding the announcement of the company's first-quarter results on Feb 1 – before the board and audit committee had held their meetings to approve the results. The share price of this seafood F&B company, which claims to be famous for its white pepper crab, has continued to crawl down to 10.2 cents.

Incidentally, both Y Ventures and No Signboard had their chief financial officer resigning at around the time that the results – now significantly re-stated – were first announced. In Y Ventures' case, it was after the results, and in the case of No Signboard, before the results.

Then we have Ayondo, which has the "distinction" of being the first fintech listed on SGX. It listed at S$0.26 per share and commenced trading in March 2018, after an initial attempted reverse takeover with Starland Holdings fell through. The sponsor is UOB Kay Hian.

On Jan 23, 2019, the chief executive of the company suddenly resigned. A month later, it was revealed that there was discontent and disagreement between the controlling shareholders and the CEO over issues such as the progress of the business, funding requirements, performance and future direction. On Feb 1, trading in the company's shares was suspended.

On Valentine's Day, it lost more love from its shareholders when it issued a convoluted announcement which may have obscured the obviously serious issues it is facing. It emerged that following what it called "feedback" from one of its employees – possibly a whistleblower's complaint – KPMG in the UK was engaged to re-assess the accounting and regulatory treatment of certain items in its 99.91 per cent owned UK subsidiary, Ayondo Markets Limited (AML). Ernst & Young LLP (EY) in Singapore are the group auditors and were the reporting accountants for the company's IPO and had issued unqualified opinions for prior financial periods.

The subsidiary was said to be audited by a non-EY firm. The auditor up to the financial year ended Dec 31, 2016 was Shelley Stock Hutter LLP. Ayondo later disclosed that Blick Rothenberg Audit LLP took over and is still the auditor for the UK subsidiary.

A report published on Dec 11, 2018 by *CA Magazine* said neither firm is among the top 30 accountancy firms in the UK.

KPMG in the UK disagreed with the treatment of the items in question. In the same announcement, it was disclosed that Ayondo's 99.91 per cent-owned indirect subsidiary, Sycap Group (UK), which owned AML, had entered into a non-binding agreement to sell AML, in order for fresh capital to be injected into it.

From this announcement, it is evident that the group structure of Ayondo is complex, with multiple layers of companies. It is hoped that the sponsor had assessed the business purpose of such a structure and done the necessary due diligence of each company within the group, since such complex ownership structures carry governance risks.

Ayondo's share price has been in free-fall since its IPO. Its share price had fallen to 4.8 cents, well down from its IPO price of 26 cents, before it was suspended from trading on Feb 1, 2019.

At the time of Ayondo's listing, I had tweeted that the listing will be a spectacular failure. Issues such as whether its business model involving social trading is a viable one, why the RTO failed, and why it chose to list on SGX and not Europe where most of its operations are based, raised question marks. Like Y Ventures and No Signboard, regulators must review the due diligence that was done, and whether the sponsors and auditors should be held accountable.

At 11.31 pm on March 1, Ayondo announced that it was applying for a one-month extension of time to release its unaudited FY2018 results, to hold its FY2018 AGM, and to release its Q1 FY2019 results. The reason given was the expending of additional resources and personnel in the finance team to respond to queries relating to compliance with regulatory requirements of the Financial Conduct Authority in the UK.

Granted that the shares were already suspended, why did the company wait until 29 minutes before the deadline to announce its unaudited FY2018 results to disclose that it was applying for an extension?

It appears that this year has started very much like how 2018 ended when it comes to new listings on SGX. On Jan 4, 2019, *The Business Times* published a report titled "All fun, no fear for Sim Leisure Group" about the proposed listing of Sim Leisure Group (SLG) on Catalist, with Zico Capital as the issue manager and sponsor. SLG operates what appears to be "back-to-basics" theme parks in Penang. It was hoping to raise funds for its first theme park in China, with some of the proceeds to be used for working capital for its Penang theme parks. It said the parks would have no roller coasters, but that the chief executive had expressed hope that, despite this, the stock would soar upon listing, and hinted at plans to expand to Asean and conquer the world.

In a Bloomberg interview in October 2018, the CEO said the sale of new and existing shares could raise between US$10 million and US$12 million. In the end, the company raised only US$5.81 million from a placement, with US$5.6 million used to redeem redeemable convertible preference shares and the remaining for listing expenses. The company announced that none of the IPO proceeds will go towards expansion and working capital but nevertheless expressed confidence that "this would not have a material adverse impact on its operations and business plans". Really?

To start with, even if it was successful in raising between US$10 million and US$12 million, how realistic are its touted plans of expanding to China, Asean and the rest of the world, taking into account the kind of theme parks it was operating? Is anyone involved in all these IPOs even asking the most basic questions about viability and why a company is listing on SGX?

Not surprisingly, it has turned out that while customers of SLG's theme parks have nothing to fear – given their lack of roller coasters – this is not the case for investors, as its share price plunged by 23 per cent on its first day of trading.

Sponsors and the SGX must do a more robust job in scrutinising the business models and people behind the companies that are listing. Companies with questionable business models are not only more likely to fail, they are also likely to be more susceptible to fraud because the difficulty in delivering results increases the pressure to use fraudulent means to generate the numbers. Further, business models that are opaque or difficult to understand provide greater opportunities for fraud. By admitting companies without careful scrutiny of their business models, SGX may be setting itself up for more fraud in its listed companies in the future.

The lack of quality listings on SGX is related to poor valuations and liquidity, which is in turn related to weak investor protection, including lack of enforcement. Investors, including institutional investors, ought to question the SGX board and senior management in their one-to-one meetings and at this year's AGM about what steps it is taking to address the situation which, in my view, has spiralled out of control.

MAK YUEN TEEN

The writer is an associate professor of accounting at the NUS Business School, where he specialises in corporate governance.

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