THE BUSINESS TIMES
SND AWARD WINNER
THU, NOV 12, 2015

Serious lapses at KLW could taint Catalist's clean record

Special auditor lists string of issues at company; but SIAS chief, corporate lawyer believe sponsor regime remains sound

By **Kenneth Lim** *kenlim@sph.com.sg* *@KennethLimBT*

NOV 12, 2015 5:50 AM

Singapore

THE Singapore Exchange's Catalist board is pristine no more.

The special auditor of Catalist-listed KLW Holdings has found apparent lapses in internal controls and potential breaches of disclosure rules at the door maker. This is believed to be the first major governance-related scandal on the Singapore Exchange's secondary board since the creation of the Catalist regime in 2007.

KLW shares fell 11.1 per cent, or 0.1 Singapore cent, to close at 0.8 Singapore cent on Wednesday as trading resumed after the company's late-Monday release of the report by PricewaterhouseCoopers.

PwC's report highlighted issues surrounding a number of term sheets that then-managing director Lee Boon Teck had undertaken without the knowledge of other board members, as well as payments by the company to Mr Lee and disclosures about how proceeds from capital-raising exercises had been used.

The report also noted the roles played by Mr Lee, group financial controller Jaslin Gaw, and finance and human resource manager Felicia Ngo in some of the potential lapses.

The current board of KLW, which replaced the old independent directors in October after new major shareholder and newly appointed chief executive Quek Chek Lan won minority shareholders' support for their ouster, has said that it would carry out PwC's recommendations.

Those recommendations include commissioning a review of the corporate governance and internal controls of the company; appointing law firm Drew & Napier to review the potential breaches of SGX Catalist rules and the Singapore Companies Act; to secure the company's ownership of a furniture company in Vietnam; to continue trying to determine exactly how much money is owed to or by Mr Lee; and to pursue the recovery of S$7.2 million of commitment fees that the company had paid out for a failed investment.

KLW, through Mr Lee and unknown to the company's other directors, had entered into term sheets on projects in Bali and the Chinese city of Zhangye in 2014, and directed the payment of S$16.2 million in commitment fees for those projects, PwC found. KLW's independent directors learned of those transactions only in May 2015.

PwC said that it was "questionable" why Mr Lee had carried out those actions on the term

sheets when there was no material information on those projects and no independent due diligence carried out.

"As the managing director of the company, Lee Boon Teck had, at all material times, a fiduciary duty to safeguard the assets of the company," PwC wrote.

It was also "inappropriate" for Ms Gaw to have signed the cheques for those projects without knowing the reasons for the payments or seeing any supporting documents.

PwC also found that KLW had advanced S$1.95 million to Mr Lee in 2014, which was held by him for several months. That could have been construed as a loan to a director, and could be a breach of the Companies Act if no shareholders' approval had been obtained.

KLW had also used proceeds from a rights issue in 2013, a 2014 placement and a 2014 rights and warrant issue to repay Mr Lee, who had personally funded the company previously when it needed cash, but did not disclose such use of funds to investors and to the other directors, PwC said.

In KLW's financial statements, the company had also classified the commitment fees as well as the S$1.95 million advanced to Mr Lee as cash and bank balances, even though that money had already been paid out.

The alleged lapses at KLW could become the first case of a serious scandal in a Catalist-listed company since the sponsor regime was first created in 2007.

The incidents that were highlighted in the PwC report mostly took place when RHT Capital was KLW's continuing sponsor. KLW's current sponsor, SAC Capital, which took over in March 2015, has said that it would resign at the end of the year.

David Gerald, president of the Securities Investors Association of Singapore, who had recently called for the Singapore Exchange to extend the sponsor regime to certain companies on the Main board because of the good track record of the Catalist board, said that KLW does not hurt the reputation of Catalist especially since it is the first case in seven years.

"One swallow does not make a summer," he said, adding that there can be no guarantee of a scandal-free market regardless of the regulatory regime. Nevertheless, "a sponsored company is better supervised and there is less likelihood of a breach", he said.

Lawyer Stefanie Yuen Thio of TSMP Law Corp noted that SGX has been very diligent about auditing the work of sponsors, and reckoned that the Catalist model is still sound.

"The sponsor-managed regime on Catalist has generally been robust and successful," she said. "Sponsors are proactive in managing these companies, and it's been beneficial for companies to have professional sponsors to turn to for guidance."

READ MORE:

- KLW needs independent directors on board
- KLW Holdings appoints new CEO
- Two KLW shareholders seek to remove three directors

NEWS STREAM

Crowdynews

The Business Times
@BTBreakingnews

#Japan Sept core machinery orders up 7.5 per cent on month https://t.co/qTK211PgnW

28 m

The Business Times
@BTBreakingnews

#EuYanSang goes into the red for Q1 https://t.co/Q5QUTuPvfr

37 m

The Business Times
@BTBreakingnews

1 h

The Busine
@BTBreaking

#US dollar weaken thinned trade https: /PPI2ETy6kk

1 h

SUBSCRIBE NOW

Call 6388 3838

DOWNLOAD THE BT APPS

IPAD

IPHONE

ANDROID

FOLLOW US

FACEBOOK

TWITTER

LINKEDIN

BT BREAKFAST BRIEF

7-DAY ARCHIVE

MON | TUE | WED | THU | FRI | SAT

READ THE E-PAPER

SPH DIGITAL NEWS