



Securities Investors Association (Singapore)

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Issuer: Imperium Crown Limited

Stock code: 5HT

Meeting details:

Date: 29 October 2021

Time: 10.00 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. Revenue for the financial year ended 30 June 2021 was boosted by the full year contribution of the Wonder Stone Hotel (WSP Hotel). Total revenue increased from \$1.49 million in FY2020 to \$2.43 million in FY2021.

Along with depreciation and amortisation expenses (\$3.90 million), staff costs (\$1.35 million) and impairment allowance (\$6.3 million), the net loss for FY2021 was \$(10.6) million (FY2020: \$(12.85) million).

- (i) **Can management help shareholders understand the sentiment on the ground in Shandong Province and in Linyi City? How has the city adapted to living with COVID-19? What are the restrictions, if any, on the operations of tourist attractions and hotels?**
- (ii) Revenue from park admissions amounted to just \$101,000 in FY2021 (page 82 – Note 5: Revenue). **What was the number of visitors in FY2021? Is management satisfied with the performance of the Wonder Stone Park?**
- (iii) **How is management promoting and marketing the park to attract more visitors? What feedback has management gathered from visitors to the WSP?**
- (iv) **What was the occupancy rate of the hotel?** Revenue from hotel operations amounted to \$2.33 million in FY2021.
- (v) Net cash flows used in operating activities amounted to \$(2.44) million in FY2021, up from \$(0.89) million a year ago. **How has management finetuned its business model to improve on the cash flow generation from WSP Hotel and WSP?**
- (vi) **Can management elaborate further on the development plans of the Hongyun Lake Project? Please provide shareholders with an overview (including architectural plans, artist's impressions, brochures etc), the development timeline and the capital required? This can be done via a management presentation during the AGM and followed up with a company's announcement on SGXNet. How is the group going to fund this development?**

Q2. On 30 October 2020, the company announced that the long-stop date for the proposed acquisition of Global Entertainment Media Pte. Ltd. ("GEM") has been reached and the company has not obtained the waiver from SGX.

The waiver was sought from SGX as the proposed transaction would be classified as a very substantial acquisition ("VSA"). This was due to the relative figure(s) calculated in accordance with Rule 1006(c) of the Catalist Rules exceeding 100% of the company's market capitalisation.

The company allowed the sale and purchase agreement (SPA) to automatically lapse on 31 October 2020 and it will not be proceeding with the proposed acquisition.

The proposed acquisition was first announced more than 3 years ago on 27 September 2018. Since then, the company's share price has fallen further from approximately 3.2 cents to 1.2 cents, with most of the decline already happening before the COVID-19 pandemic.

Imperium Crown (5HT / IMPE.SI)

Industry

Real Estate Real Estate Development & Operations

This company reports in this currency: SGD

0.012

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(No Change in Price)

As at 18 Oct 2021 05:16 PM

Prices & Chart



(Source: <https://www.sgx.com/securities/equities/5HT>)

- (i) **Can the board help shareholders understand what caused the delay in obtaining the waiver from SGX?**

- (ii) **Why was it necessary for the company to obtain the waiver if the proposed acquisition was in the best interests of the company? In other words, did the board consider proceeding with the proposed acquisition as a VSA if the proposed acquisition was in the best interests of the company?**
- (iii) **What is the impact of the termination of the proposed acquisition, if any, on the group's plan (and pace) to develop WSP?**

Q3. The company acquired a 60% stake in GEM in August 2017, marking over 4 years since the acquisition. With the benefit of hindsight, it would appear that the performance of GEM has been mixed, at best.

Goodwill (\$6.9 million) arising from the acquisition of GEM which holds the operating rights to the Wonder Stone Park has been written off (page 92 – Goodwill).

Operating rights, granted to the group to operate the Wonder Stone Park for 50 years commencing from year 2017 to 2067, amounted to \$116.4 million (at acquisition) has been impaired twice to the tune of \$(7.2) million.

As disclosed in Note 14 (Intangible assets), intangible assets were tested for impairment at the end of the reporting year. An impairment loss is the amount by which the carrying amount of an asset or a cash-generating unit (“CGU”) exceeds its recoverable amount. The recoverable amount of an asset or a CGU is the higher of its fair value less costs to sell or its value-in-use (“VIU”) (page 90).

The assumptions used in the VIU calculations are shown below:

	2021	2020
Estimated discount rates using pre-tax rates that reflect current market assessments at the risks specific to the CGUs	11.5%	13.2%
Budgeted growth rates forecasts by management based on expectations	2.5% – 80%	3% – 70%
Long term growth rate	2.5%	3%
Cash flow projections derived from the most recent financial budgets and plans approved by management	11 years	11 years

(Source: company annual report)

- (i) **How was the discount rate estimated? Given the uncertainties in the tourism/hospitality sectors, did the audit committee (AC) consider it reasonable to have a lower discount rate?**
- (ii) **In addition, can management justify the growth rates forecasts that are as high as 80% (and up from 70% in FY2020)?**

- (iii) **Please also disclose the range of estimated gross profit margin used in the VIU calculations.**

Management has stated that actual outcomes could vary from these estimates and management has identified that a reasonably possible change in following key assumptions could cause the carrying amount of the CGU to exceed its recoverable amount as shown in sensitivity test below (pages 90-91).

Sensitivity test

	Other intangible assets \$'000	Property, plant and equipment \$'000
If 10% less favourable in estimated revenue, would be a need to reduce <i>pro-rata</i> the carrying value of CGU, by	22,413	3,970
If 10% less favourable in estimated gross margin, would be a need to reduce <i>pro-rata</i> the carrying value of CGU, by	27,202	4,818
If estimated pre-tax discount rate increased by 1 percentage point, it would be a need to reduce <i>pro-rata</i> the carrying value of CGU by	12,138	2,150

(Source: company annual report)

- (iv) **Based on the sensitivity analysis, can the AC confirm that there is a high degree of uncertainty to the carrying value of intangible assets? Is there a high risk that the recoverable value of the CGUs is much lower and thus the carrying value of intangible assets may be overstated?**
- (v) **How is management/AC working to reduce the uncertainties in the sensitivity test (i.e. improving the confidence of the carrying value of intangible assets)?** As shown in the table above, the carrying value of the CGU may be reduced by a further \$(27.2) million should the estimated gross margin be 10% less favourable.

[^]On 1 October 2020, the Accounting and Corporate Regulatory Authority ("ACRA"), the Monetary Authority of Singapore ("MAS") and Singapore Exchange Regulation ("SGX RegCo") published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

[^] Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation
 (<https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation>)

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so. On 9 April 2021, it was announced that the alternate arrangements for meetings (“Meetings Order”) would be extend beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such time, issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

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

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on [SIAS website](http://www.sias.org.sg)

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