APR 2016

THE PROFESSIONAL

PUBLICATION OF PAUL WAN & CO

Table of Contents

2 Celebrating 30 Years

4 Special Desks

5 Singapore - Challenging Times Ahead

7 Singapore - Highlights of The Budget 2016

8 China - Taming The Dragon

12 Cross-Border IPOs

15 Cross-Border IPOs - Success Story

16 Morison International and KS International merge to create a US$1 billion association

17 Meeting with Members

18 Managing Your Cash and Riding Out of The Recession

20 The Case for a Weak Currency - Will it help Companies?

21 Rigel New Headquarters and Innovation Centre - Official Opening

An independent member of
Morison KSi

Celebrating 30 Years

Mr. Paul Wan
Managing Partner

18 JUNE 1986 - from a humble beginning of 2 persons, I started Paul Wan & Co after spending a considerable time with one of the Big 8 then (now one of the Big 4). I wanted to build a practice dedicated to serve clients to give them value which many of the larger firms do not provide - a firm that clients can relate too and feel proud to be associated with.

The challenges were immense as I was handling banks, insurance companies, listed companies and MNCs - I told myself that I will start low and build up the practice.

30 years ago, I would never imagine the position we are in today - though admittedly through the years, I Dare to Dream!

Patiently, we build our clients base, portfolio, select, recruit and reward team members and strategies our growth - it was not smooth sailing all the way - we do make mistakes along the way, learn from them, pick ourselves up quickly and re-position ourselves.

Today we are one of the top 15 CPA firms out of almost 700 CPA firms in Singapore serving listed companies and almost 120 MNCs/subsidiaries of foreign listed companies - many of these are household names.

I have always tried to keep a low profile and am not particular about advertising and getting involved in social activities to get to know more people and I am humble that the market and our fellow professionals knew us - just by our firm's name "Paul Wan & Co"- PWCO.

Many of our clients came from referrals from existing clients, business partners like law firms, issue managers, underwriters, bankers, Morison KSi member firms, trade associations and of course friends.

Our success story to date largely comes from our continuous clients support, our team members through the years and of course the present team members. We strived to deliver the utmost capabilities and highest quality service to our clients - service with quick and efficient response, direct answer and to the point have always been our trademark - we advise clients what is the position and what we think and not trying to please them or what they want to hear. All our clients are appreciative with our style of management and it is reflected that their continuity with our firm as their professional service providers. We have one group who has been with our firm for almost 27 years and now the second generation have taken over the business from their parents and we are engaging with the second generation owners.

Moving on - the firm faces continuing challenges on maintaining growth, quality, retaining and rewarding talented professionals, and keeping up to regulators of the profession and meeting client's expectations.

Over the last 2 years we have expanded our specialized desks to serve niche markets and our clientele. Now we have China Desk, French Desk, German Desk and in January this year added the Japan Desk - another achievement and milestone.

Last but not least, to all our clients, business associates and member firms of Morison KSi, a very **BIG THANK YOU** for all your past and present support. We look forward to many more years of working together.

Paul Wan & Co

Special Desks

We are proud to announce the launch of our Japan Desk.

The desk is headed by Mr. Kubota who is a senior manager seconded to PWCO by A & A Partners - Morison KSi member firm in Tokyo.

The Japan Desk will be in addition to the present China, French and German Desks.

The specialized desks will not only focus to serve our clients from the China, France, Germany and Japan respectively in Singapore but also cross-border needs of our clients who want to do business in their home country.

Ms. Wee Yeak Ing
China Desk

Mr. Florian Quinquis
French Desk

Mr. Maxence Trubert
German Desk

Mr. Hiroshi Kubota
Japan Desk

Singapore - Challenging Times Ahead

As we enter the second quarter of 2016 - trade and economic data to date is not promising - exports are down and GDP is also down.

Against a drop in the GDP to 2.1% in 2015 from 2.9% in 2004 and a revised official GDP of 1.9% for 2016 - the question is how deep will the recession be and how long?

The key to the above is the sustainability of the world economy which Singapore is very vulnerable to. China now one of the major trade partners, economy is expected to further shrink for the next two years as it re-engineer a new economy model for the next era. US and the Euroland economy is still very weak without much growth and US in particular can slip into a recession anytime. Regional partners like Malaysia and Indonesia are also having tough times domestically in their economies and these will add further stress on Singapore's economy.

In March Singapore continue to be the most expensive city in the world - and this has a major impact not only on businesses but also on households and individuals.

With a small domestic market and a downtrend challenging export market we can expect the economy to go into steeper decline in the second half year as the world's economy is likely to further weaken.

The key concern here in my view is that Singapore need to evolve a new economic model. Manufacturing will continue in our view, shrink with continued falling demand and as the rising cost of doing business will force many companies to re-locate.

The financial services sector will find more competition in the region notably Shanghai to be a key financial centre of Asia. We expect banks and financial institutions to gradually move out of Singapore to re-locate to China in particular Shanghai which will be a vast market once China completed it's financial sector and market reform.

Private construction is also expected to slow gradually as the supply will exceed demand for office and industrial building as more companies may re-locate elsewhere or shutdown.

Notwithstanding the Singapore government had come out with various initiatives in the recent Budget proposals - productivity and innovation incentives, automation support package - the challenge here is - whether companies have the financial capability to invest to qualify for these schemes during the recession period. Perhaps the larger and financially stronger companies will have the ability to do so and there will not be many. Whilst many expected some sort of economic stimulus package, we were not surprised that there was nothing of that sort except the special and temporary employment credits and revisions in foreign workers levy which many analysts felt that it fell short of business costs reduction scheme.

It appears as in the past, the Singapore government has to take the lead to invest into technology and innovation district (park) and the future - the key question here is - will the government be a key employer in the new economy?

We expect the economy to go into steep decline in the second half year as we foresee more contraction in the world's major economies in particular China, Europe, USA and Japan.

Our estimate for Singapore's 2016 GDP will be around 0.9 - 1.1%. The above is based on the best scenario as dark clouds are hanging over and will not blow away so fast.

Singapore - Highlights of The Budget 2016

Singapore Budget 2016 was unveiled in Parliament on 24 March 2016 by the Singapore Minister for Finance, Mr. Heng Swee Keat. It aims to transform Singapore economy, equip workers with the right skills and foster a sense of community through a more caring and cared-for Singaporean. In addition, there were measures to help the less fortunate and give a head-start to young families so that all Singaporeans will have a hand in shaping their future together.

The key measures mainly targeted at SMEs, lower income groups and seniors on the immediate and medium-term needs in this year's budget were : -

1. Relief for companies such as tax rebate, special employment credit, levy and financing;
2. Investing heavily in skills upgrading;
3. Internationalisation and transformation of enterprises and industries;
4. Help for lower income families with children;
5. "Industrial park of the future" in Jurong;
6. Building a Outward Bound Singapore (OBS) campus on Coney Island; and
7. Silver support payouts for seniors;
8. More cash assistance for needy households;
9. No change to property cooling measures.

It is expected that 2016 budget will have an overall surplus of SGD3.4 billion (0.8% of GDP). In addition, Singapore's GDP growth is predicted to be between 1% to 3% (Year 2015 was 2%).

Overall, a prudent budget aimed at balancing the short-term economic concerns with long-term challenges.

For greater details and information, please refer to our firm's 2016 Budget synopsis available for downloading at our website: http://www.pwco.com.sg

China - Taming The Dragon

China enter into the third year of economic re-engineering and reconstruction.

2015 GDP came in at 6.8%. For developed economies, this will be a very good economic performance and the question was why at 6.8, everybody was saying China economy was bad. My estimate for 2015 was much lower at about 5.5%.

In my opinion looking at gross data, exports, imports, productivity index is totally the right method to measure economic growth.

At the end of the day, one have to look at the profitability of the companies and business entities.

Most Chinese companies for the last 20 years have been relying heavily on bank borrowings, government subsidies, grants and government projects. Without all the above many Chinese companies cannot survive or will not be profitable.

All these are not forthcoming as the Chinese government has been reigning in extended borrowings and government assistance resulting in many companies unable to sustain and went out of business. Some raised finance through underground finance - shadow banking paying hefty interest rate ranging from 18% to 25% - giving more pressure to the bottom line.

The present Chinese leaders knew that China economic future cannot carry on with the way it had been over the last 25 years - it is not sustainable. It is not about whether the government wanting to stimulate the economy - it is about putting on a new stable economic structure and the focus for the next 5 years is to rely less on external economy i.e. exports most of the times. Chinese companies are squeezed in their margins to get the fulfilling orders against competitors, the foreign companies benefitting from the low cost.

- Structural reform
- Supply side reform
- Increase domestic demand for growth

- Emphasis public innovation and mass entrepreneurship, coordination in particular policies and cultivate a new competitive edge
- Openness and serving the whole society well being
- Green awareness and policies

The above is in line with the overall master plan for China for the next 20 years.

At the recent CCP meeting in March 2016, China leaders vowed to continue the economic reform and stared that there will be no economic stimulus packages and that the hot economy of the past will not happen again as it brought lots of problem for China on the whole.

China up to 3 years ago had been growing at too fast a phase resulting in driving up prices in particular the real estate and creating a big gap between the rich and poor.

Corruption and ill behaviour of high ranking officials were at all time high and destroying the communist policies and reputation.

The clamping down on extravagant spending by government departments, officials and napping errant corrupted officials to date about 100,000 plus also has a material impact on the economy due to reduced government expenditure across the board and less government contracts handed out.

The above is not smooth sailing for China - as we moved into 2016 we already see China facing very delicate challenges below.

Pressure on the RMB
The US dollar is expected to continue to strengthen in 2016 as the Federal Reserve is expected to continue to increase the interest rate putting pressure on many currencies including the RMB which is peg through a band against the USD.

A currency war in my opinion will be erupted. The RMB will have to adjust downwards and is likely to continue to depreciate against the greenback.

As at end of March, the RMB was 6.515 against the USD and I expect the RMB to fall 6.85 by end 2016 - about 5% down to retain it's competitiveness and export market.

Capital Ouflow
Capital outflows topped USD1 trillion in 2015. By early March 2016 - another USD200 billion outflow.
This is the largest outflow ever recorded stemming on concern on China's ailing economy, the rise in the US interest rate and of course the eventual depreciation of the RMB. I believe the capital outflow will continue in 2016 adding more pressure on the liquidity

which will have impact not only on the capital markets but more critical capex - capital investment by companies.

Rising US Interest Rate
The continued rise in US interest rate will have a huge impact on Chinese companies that has USD debt - in particular USD bonds. Not only these companies profit will be hit with higher interest charges but many will find their debt repayment higher and I expect more USD bond and USD denominated loan / instruments will default in 2016.

Non-Performing Loans (NPLS)
As at end of 2015, China's NPLS stood at RMB1.95 trillion (USD296.8 billion) up 35% over the previous year. With the aftermath of the stock market meltdown in June/July, the figure was not surprising though my estimate is about RMB2.2 trillion.
The above figures exclude about RMB4.2 trillion (USD645 billion) special mention loans' those which have signs of future repayment risks--this represent about 5.5% of total loans.

Overall debt level now stand at 247 percent of GDP!

Many analysts are warning the above is equivalent to the US sub-prime mortgage crisis.

This lead to Moody in early March 2016 lowered China's credit rating to negative from stable.

With continued capital outflows, high debts doubled, increasing non-performing loans and shrinking foreign reserves - the negative outlook remained a concern not only for investors but for the Chinese government.

In early March 2016, the Chinese government had 2 weeks meeting to address the challenges on how to tackle the economic challenges and their targets - China Premier Li defended China's positive credit rating and rebuked foreign analysts and intervention.

Stock Market
The stock market meltdown in June/July 2015 was overdone with the market loosing almost 40% in 2 months. USD3 trillion was wiped out.

Since January 2016, the market continued to slip from 3,539 to about 2,750 and have been trading at very broad range - at end of March close to 3,000 level as the regulators lifted the suspension of IPOs the market, the restriction on major shareholders to sell their shares and more controversial the automatic suspension of the market trading when the market fell more than 10%. In March the Chinese government also sacked the CSRC (China Securites) Head.

Whilst the new Head mull on reform, China cannot afford to have another stock market collapse in the near future as it will have severe long term damage not only on the capital market but also on the banking sector.

My view - any reform have to be very big as the capital market has deep rooted problems from false financial statements, false and over-inflated valuation and pricing of stocks, market cornering, market rigging and insider trading. Investors education in my mind should be another initiative - the investors should be educated not to use the stock market as a casino - gambling platform - gambling on stocks.

Banking and Financial Sector Reform
With the challenges on lending, non-performing loans and continued capital outflows mentioned above the Chinese government must not delay on it's banking and financial sector reform.

Summary
China is walking on a very tight rope as it moved into the second quarter of 2016 - the 2^{nd} largest economy and the world's engine of growth will continue it's restructure and re-engineer - a steep slope to climb as there could be slippery steps along the way.

I expect China’s GDP to hover in the range of 5.2% - 5.0% - official government target is 6.5%.

Cross-Border IPOs

Raising capital
Raising capital through listing on the stock market has been the norm for most companies that expand their businesses and for the promoters to cash-in a bit through the IPO with their vendor shares. Additionally when a company is listed, it allows the company to market itself and have a good image to expand abroad. For some companies with listing, it allows them to phase in gradual succession planning in their management team.

Singapore Market
The Singapore stock market had over the last five years been in a doldrums - lack of liquidity and volume on both the Main Board and the Catalist market. This greatly hampered the appetite of new IPOs both from any incumbent companies to investors.

In year 2015, the SGX was the second worst market in terms of performance - second to Greece for which many would expect. Lack of institutional investors and local investors in Singapore both contributed to the lackluster market.

My view is that with approximately 5 million population, the SGX market has reached saturation point unless there is a huge influx of institutional investors - volume will continue to be low and hence valuation.

Main Board listing for year 2015 was only 1 (year 2014 was 12) and 12 (year 2014 was 18) IPOs were on the Catalist.

OPTIONS
PWCO's Corporate Finance has been actively assisting clients who wish to get listed by bringing them to list on the overseas markets.

VHQ Ltd, a post-production house successfully listed on the Taiwan Stock Exchange on the Emerging Market Board on 20th December 2015 . The PE ratio was 35! This compared to PE ratio of 5 to 8 for Singapore IPOs on the mainboard.

In terms of valuation South Korea – KOSDAQ, Taiwan - TWSE and Taipei Exchange (formerly GTSM) offer reasonably high valuations in double digits ranging from 10 to about 65 depending on the industry.

In terms of liquidity, South Korea markets - KOSPI and KOSDAQ combined have an average of USD8 billion to USD11 billion trading value - third highest in the world after NYSE and NASDAQ; and the highest in Asia - well ahead second place Shanghai/ Shenzhen market combined.

Hong Kong, once a darling IPO hub still attract new IPOs namely from mainland China but valuations were also low with PE ratio ranging from 5 to 8.

For companies that wanted to venture further to NYSE/NASDAQ are traditional markets which offer not only high valuations but volume - the highest in the world with daily trading value. However listing and annual compliance costs are very high for both the markets in the US.

PWCO's Corporate Finance, over the last few years has fostered a joint venture team of professionals - namely issue managers, underwriters and lawyers in both South Korea and Taiwan to ensure all cross-border IPO assignments are properly managed and co-ordinated efficiently and effectively.

For more information and assistance on cross-border IPO matters, please contact : -

Head, Corporate Finance : Mr. Paul Wan
Email: pw168@pwco.com.sg
Tel.: +65 6220 3280
Mobile no.: +65 9668 0198

Listing in South Korea Market
Mr. Paul Wan in March met up with Dashin Securities' top officers, one of the top 3 securities firm in South Korea and Mr. Henry Shin of Echon, CPAs Seoul - Morison KSi member in South Korea.

Our Corporate Finance arm of PWCO is presently working on 2 more engagements who are seeking to list on the KOSDAQ in South Korea.

Meeting with Top Officers of Taiwan Stock Exchange

Mr Paul Wan PWCO’s managing partner accompanied by Mr David Yang (third right) met with Taiwan Stock Exchange (TWSE) officials recently in March.

Mr David Yang is the Senior Partner of JM Concord - MORISON KSi member firm in Taiwan.

Cross-Border IPOs – Success Story

VHQ LImited - PWCO's client successfully listed on Taiwan Exchange recently

Disruption – it is perhaps the most overused word to describe the consumer media landscape. For whatever uncertainty it brings to the playing field, disruption is here to stay and it is a change everyone needs to quickly adapt to. The phrase "You snooze, you lose" perhaps best describes any brave companies willing to make a change. Including VHQ Media's CEO, Low Kok Wah's bold and successful move to IPO, the company in this time and field of unchartered territories.

The public tranche of VHQ Media's IPO shares, priced at NTD86 (SGD3.69) was oversubscribed at an overwhelming 350 times. On the first day of trading, its share price ended 91% higher, giving it a market capitalization of NTD5.3 Billion (SGD229 Million), making VHQ Media Holdings Limited one of the largest valued content and visual effects production companies in the world. The successful IPO lends credibility and financial strength to the company for its expansion outside of Asia and its ventures into other opportunities within the content creation industry, including long-form projects such as China's feature film industry and branded, digital and interactive content.

Devoted to the art of storytelling, VHQ Media is designed to fill a gap in the content marketing industry and exist to create meaningful stories to bridge the gap between the world's best loved brands with their audiences using compelling films, animation, commercials, and other forms of content.

As a multi-disciplined creative house, the company is growing and are currently operating out of Singapore, Kuala Lumpur, Jakarta and Beijing. Moving forward, the Singapore based creative content house will be appointing more new senior staff members to manage its expanding service offerings; including greater market penetration into China's film industry and working with well-loved global brands to create original content.

Written By: VHQ Media, 31 March 2016

Morison International and KS International merge to create a US$1 billion association

CONGRATULATIONS! - On 8th February 2016, Morison International has officially announced KS International merged with Morison International. The new brand name of the enlarged Group will be Morison KSi.

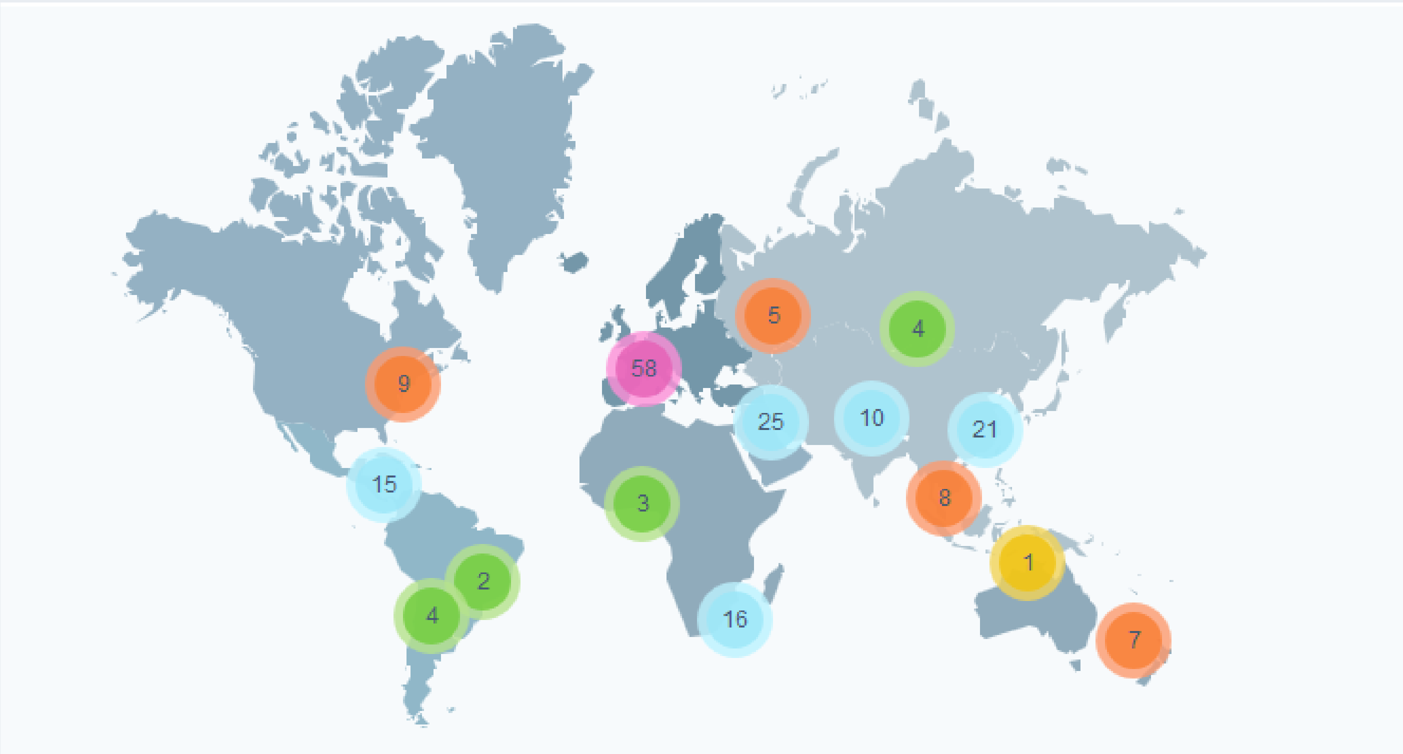
The historic merger of the Group now has a fee income of over US$1 billion, 375 offices in 88 countries, 1,201 partners and over 9,000 professional staffs.

The worldwide secretariat will remain in London. Morison KSi provide us with access to an even stronger offering of international services, skills and service line experiences – allowing us to exceed our clients' expectations at greater heights.

Morison International

KS International

Morison KSi Global Firms in Various Locations



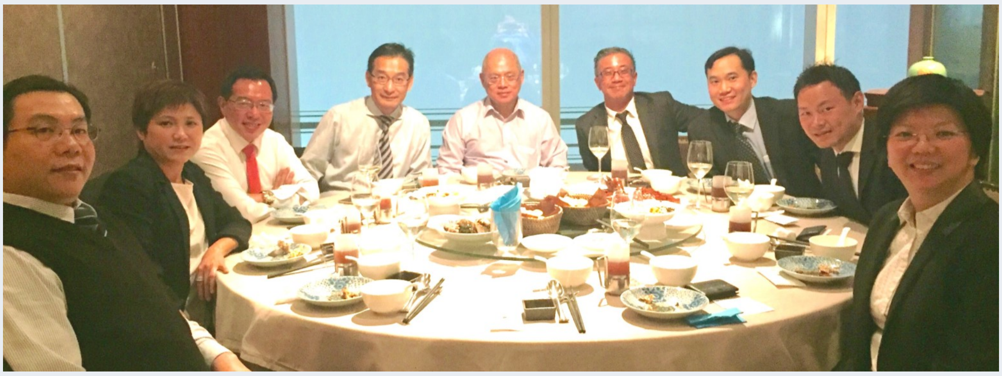
Meeting with Members

Meeting with Partners of Kingston Smith's office, UK member firm

On March 2016 - Mr Paul Wan met up with partners of Kingston Smith - Kingston Smith is Morison KSi independent member firm in the United Kingdom.

Kingston Smith has a total staff strength of 500 and is one of the top 20 audit and accountancy firm in the United Kingdom.

Morison International Directors' Mr Paul Wan and Mr Stephen Chang with Morison KSi independent member firms' partners from Morison HENG and CWCC on April 2016.



Mr Paul Wan, PWCO Managing Partner who is also the current serving Chairman of Morison KSi with Mr Zheng Zhong, Managing Partner of Jonten CPAs, Hangzhou China on April 2016.

Jonten CPAs is Morison KSi independent member firm in China and has 15 branches across principal cities in China.

Mr Paul Wan with Mr Chen De, Managing Partner of Shanghai Gongxin and Mr Richard Chen, Senior Partner of Shanghai Gongxin in Shanghai on April 2016. Shanghai GONGXIN is Morison KSi independent member firm in Shanghai.

Managing Your Cash and Riding Out of The Recession

The recession is here – early 2008 we warned companies of an imminent recession and to take steps to manage a crisis.

One of the most critical issues facing most businesses is surviving the cash crisis and this article looks at the main areas you need to address to avoid a cash crisis.

It is common to find in most businesses during this crisis period showing symptoms of a cash crisis such as pressure from creditors, overdrafts up to its limits, customers being wound-up, etc.

Below is a quick guide/check on the areas that can expose you to a cash crisis especially during a slowdown in the economy or an economic crisis.

STEP ONE
Financial Control
- Lack of a proper budget and detailed business plan
- Lack or absence of current financial information
- Lack or absence of a proper costing system
- High fixed overheads – hence resulting in a high breakeven point
- Low margins
- High working capital requirements

Management Team
- Dominating managing director or Chairman
- Weak management team
- Lack of appreciation and knowledge of financial information and related areas

Business Tread
- Declining industry
- Inability or slow to adapt to changes
- Inability to create new product lines

It is critical to evaluate the above areas in an unbiased manner, focusing on corrective actions required. Alternatively, seek professional advice.

STEP TWO
Review of Your Working Capital
- Who are the debtors of your Company and when are they due?
- Who are the creditors of your Company and when are they due?
- What bank facilities and cash you have?
- What are your other business assets?

STEP THREE
Prepare Your Cash Flow Forecast
- List the assumptions underlying the cash flow forecast
- Be conservative

STEP FOUR
Review Your Operations/Business
- Review your segmental results by geographical and product segments
- Review your products in respect of
    1. Contribution margin
    2. Working Capital required
- Review your cost of operations focusing on the largest expense items. Can you trim it down without severely affecting the business or operation?
- Analyse the strength and weakness of :-
    - Your products
    - Your markets
    - Your customers
    - Your management & staff abilities
    - Financial system / control / information
    - Working capital requirements for each division and for your company as a whole.

Managing Your Cash Crisis
At the end of the above phrases, draw up the corrective action and options. The action could be:-

1. To close the business
   This option though is painful but may be necessary if the business do not have a future or it continuously running at a loss
2. To carry on the business
   If the business is viable, then carry on the business but downsizing the business in terms of products, market and customers. Focus on those that require least working capital – reduce your overheads.
3. Raising cash/finance
   The raising of cash/finance could be from:-
    - Existing or new shareholders or
    - Banking or financial institutions
4. Sales/Merging
   The selling or merging with another company could be another option as the synergy effects will lower the cost of operations and hence the cash flow requirements of the combined entity.

Conclusion
This slowdown could last 12 or even 18 months. It is good to go through the brief plan above to ensure you are aware of the issues involved and the options available.

The Case for a Weak Currency - Will it help Companies?

We have seen it all - Central Bank and Government intervening in the currency strength and hence the exchange rate.

Whilst the US and Europe have been critical of certain countries, notably in Asia - China and Japan are setting a bench mark for their currencies - to be fair, there were more countries doing so.

On Friday 15th April 2016, the Monetary Authority of Singapore de-facto central bank decided to leave the S$ flat with no appreciation - this created a knee jerk reaction with the S$ falling across against most of the currencies. This may not seem to be intervening in the market but the reaction by the market is natural and the result was a forgone conclusion.

Whilst understandably, the move is to make a stronger S$ to help and stimulate export. However I am of the view that the fall in exports will not improve with a weaker S$ - fundamentally the world's economy and consumption are on a contraction as buyers are not buying simply because they have no funds available or they have to conserve their funds/resources to ride through the global economic contraction. So a weaker S$ will not help exports. Where are the customers? It is not because Singapore exports are expensive but it is the world's economy is in a major consolidation, in particular our major markets.

One big issue - Singapore is not the only importer for raw materials and commodities so a weak S$ will mean that Singapore companies have to pay more for the imports, hence a hit on margins!

There is no point of increasing exports as companies are hit with not only lower margins but also the risk of exchange losses when S$ suddenly weaken again and their exports are denominated in foreign currencies.

Well, I leave the readers to form their own conclusion on this.

Rigel New Headquarters and Innovation Centre - Official Opening

Congratulations to Rigel!

PWCO's client, Rigel Technology (S) Pte Ltd has officially opened their S$35m six-storey new headquarters and Innovation Centre at Singapore's Changi Business Park Central 2 on 8th April 2016 by our Finance Minister, Mr Heng Swee Kiat.

Mr Christopher Ng, CEO of Rigel Group with Mr Heng Swee Kiat

For more information, please contact:

Mr. Paul Wan, 10 Anson Road #35-07/08, International Plaza, Singapore 079903
Tel: (65)6220 3280 Fax: (65) 6224 5473 Email: pw888@pwco.com.sg Website: www.pwco.com.sg