Issuer: Chuan Hup Holdings Limited
Security: Chuan Hup Holdings Limited

Meeting details:
Date: 20 Oct 2016
Time: 02:30 PM
Venue: The Multi-Purpose Room, 2nd Floor, 35 Pioneer Road North, Singapore 628475

Company Description

Chuan Hup Holdings Limited, an investment holding company, invests in marine, manufacturing, property, and other investments sectors. The company's Electronics Manufacturing Services segment is involved in printed circuit board assembly, custom user interface designing and manufacturing, and turnkey electronics manufacturing. Its Property Development segment develops properties. The company's Property Rental and Estate Management segment engages in the rental of premises. Its Vessel Management segment provides ship agency services. The company provides marine transportation services to coal producers; and offshore marine support services to oil and gas operators, and contractors. It also owns and operates a fleet of vessels in South East Asia. In addition, the company provides research and development services; logistics and warehousing services; and information technology services, as well as ship chartering services. It operates primarily in Singapore, the United States, the Philippines, Australia, the People's Republic of China, Singapore, and Indonesia. Chuan Hup Holdings Limited was founded in 1970 and is based in Singapore.
Source: http://sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?page=1&code=C33&lang=en-us

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1. The group has been a substantial shareholder of Finbar Group Limited ("Finbar"), an Australian property development company listed on the Australian Stock Exchange since 1995. The company's direct equity stake of about 18%-19% has been accounted for as an available-for-sale investment in the consolidated financial statements prior to this year. For the financial year ended 30 June 2015, the group recognised a $25.5 million charge to the change in fair value of its "available-for-sale" investments.

From 1 July 2014 to 30 June 2015, Finbar's quoted market price on the Australian Stock Exchange has dropped from A$1.63 (1 July 2014) to A$1.19 (30 June 2015), a drop of 27%. As the Australian dollars had also dropped 18% over the same period, the fair value of Finbar dropped about 40% in the FY2015.

Similarly, had the accounting treatment remained constant, Finbar's fair value as at the financial year ending 30 June 2016 would have dropped by a further 32% in FY2016, leading to further charges in the change in fair value of its "available-for-sale" investments.

However, by changing the accounting treatment to account for Finbar as an associate from 1 January 2016, the group instead recognises the proportion ownership of Finbar's net asset. The impact of this change in accounting treatment is that US$33.2 million is now the carrying amount versus the fair value of investment based on published price quotation of just US$27.5 million (page 61 of the annual report).

As a result, the drop in fair value was avoided. And the group in fact booked US$6.4 million due to the "Reclassification of investment revaluation reserve to profit or loss when an investment became an associate" (page 50 – Other Gains).

6. Other gains, net

The following items were credited/(charged) to profit or loss:

	Group		Company	
	2016	2015	2016	2015
	US$'000	US$'000	US$'000	US$'000
Reclassification of investment revaluation reserve to profit or loss when an investment became an associate	6,372	–	7,974	–

Source: Chuan Hup Holdings Limited Annual Report 2016

Profit before tax for the group was US$14.7 million. Without the US$6.4 million non-cash accounting boost, profit before tax would have been just US$8.3 million.

Could the Audit committee comment on the decision to change the accounting policy? How did management determine that two out of six board seats on Finbar would allow the company to exercise significant influence on Finbar? Would the US$6.4 million be also factored into the remuneration calculations of executive directors and the relevant senior management?

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2. With the repositioning to an investment company, the company now holds a diversified portfolio of investments in the electronics manufacturing services and property sectors, in addition to its equity investments portfolio ("About Us" – Annual report FY2016). Under the section "Our Investments" (page 4 of the annual report), the property related investments include several Joint ventures to develop properties in Australia, a 32.5% stake in Security Land Corporation ("SLC"), office units in GB Building and a USD17 million Convertible loan to PSD Holdings Pte Ltd.

What is the board's guidance to management in terms of the capital allocation and the group's overall investment mandate? Would taking minority, non-controlling stakes in both listed and unlisted property developers be the best strategic option for the group? There could be another non-control, minority stake in a small listed developer if the convertible loan to PSD Holdings is converted.

Also, it is noted that Security Bank Corporation had sold its 51.81% stake in Security Land Corporation for P1.6 billion in November 2015. **Could management provide an update on how the change in the shareholder structure has affected SLC?**

Also, could management provide more detail of its investments in the notes of the financial statements? Specifically:

- **Note 17 (Investment securities): quoted equity investments (held-for-trading) increased from US$8.8 million to US$29.0 million. Can the Audit committee held shareholders understand the reason for the increase? Is the risk profile altered with such a large increase in short-term equity exposure?**
- **Similarly, Unquoted fund investments increased from US$6.1 million in 2015 to US$16.0 million. Can shareholders know the funds invested in?**
- **In the consolidated cash flow statement, Impairment loss on available-for-sale investments for the financial year was US$4.4 million. There is no footnote for this rather large impairment. Can the audit committee shed some light on this impairment lost and improve the disclosure on the investments in the next annual report? Is this an impairment on SLC?**

3. The group has two independent directors who were first appointed to the board in 2001 and 2003. On page 13, it was disclosed that "the Board has subjected their independence to particularly rigorous review and established that despite serving as Directors for more than nine years, Prof. Tan and Mdm Young continue to demonstrate strong independence in character and judgement in the discharge of their responsibilities as Directors of the Company" (page 13).

With the management renewal well in place, shareholders would like to hear from the Nominating Committee on the board renewal plans. Given that the company is now an investment holding company with significant exposure to real estate, it might be good to have directors with direct experience and ground knowledge of foreign real estate markets.

Additionally, it is disclosed in the annual report that Head, Legal and Corporate Secretarial and the Group Company Secretary is the spouse of the Independent Chairman of the board.

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Guidelines 6.3 and 6.4 of the MAS Code of Corporate Governance state that:

> 6.3 Directors should have separate and independent access to the company secretary. The role of the company secretary should be clearly defined and should include responsibility for ensuring that board procedures are followed and that applicable rules and regulations are complied with. Under the direction of the Chairman, the company secretary's responsibilities include ensuring good information flows within the Board and its board committees and between Management and non-executive directors, advising the Board on all governance matters, as well as facilitating orientation and assisting with professional development as required. The company secretary should attend all board meetings.
>
> 6.4 The appointment and the removal of the company secretary should be a matter for the Board as a whole.

Would the Nominating Committee comment on the reporting structure of the Chairman, the board and the Company Secretary? Would it be sub-optimal for the Company Secretary to report to the Chief Executive Officer? As for assessment and remuneration matters, would it put the board in a difficult position to objectively review the performance of the company secretary? Given the current set-up, the Independent Chairman is also the Chairman of the Remuneration Committee that reviews and endorses the remuneration of key management personnel including the CEO.

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