

Issuer: Cordlife Group Limited
Security: Cordlife Group Limited

Meeting details:

Date: 28 Oct 2016

Time: 16:30H

Venue: STI Auditorium, Level 9, 168 Robinson Road, Capital Tower, Singapore 068912

Company Description

Cordlife Group Limited, an investment holding company, provides cord blood and cord lining banking services in Singapore, Hong Kong, India, Malaysia, and internationally. It operates through two segments, Banking and Diagnostics. The company's cord blood banking services involve the processing and storage of stem cells. It also offers newborn screening services for metabolic disorders. The company was formerly known as Cordlife Pte Ltd and changed its name to Cordlife Group Limited in 2011. Cordlife Group Limited was founded in 2001 and is headquartered in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=P8A)

Q1. On 6 October 2016, the company announced that there are material variances between the audited financial statements and the unaudited full year results for the financial year ended 30 June 2016 that was first released on 26 August 2016. There were several changes and reclassifications including:

- a) Reclassification of insurance contract liabilities from trade and other payables;
- b) Reclassification of intangible assets to insurance contract liabilities, other reserves and non-controlling interests;
- c) Presentation of goodwill and intangible assets as a single line;
- d) Alignment of exchange rates; and
- e) Additional directors' fees

As disclosed in the Corporate Governance Report, the functions of the audit committee include, amongst others:

- reviewing the significant financial reporting issues and judgments so as to ensure the integrity of the financial statements and any formal announcements relating to financial performance;
- reviewing the quarterly, half-yearly and annual financial statements and results announcements before submission to the Board for approval, focusing in particular, on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, the going concern statement, compliance with financial reporting standards as well as compliance with the Listing Manual and any other statutory/regulatory requirements

Can the audit committee explain why such reclassifications were needed in the audited financial statements? Is the finance team well-resourced and qualified enough to prepare the financial statements to meet the financial reporting standards? Would the external auditors also comment on the materiality of the reclassifications?

In addition, the transactions with China Cord Blood Corporation ("CCBC") were completed in November 2015. The unaudited financial statements dated 26 August 2016 had not budgeted for additional directors fees. **Could the audit committee help shareholders understand the circumstances leading to the proposal of additional extraordinary fees for two directors?**

Q2. During the year, there were several changes to the senior management team. Ms Tan Poh Lan, who has 30 years of experience in the private and public healthcare sectors, joined the group as Group Chief Operating Officer on 12 April 2016. Following the resignation of Mr Yee Pinh Jeremy as Executive Director and Chief Executive Officer on 21 March 2016, Dr Wong Chiang Yin was appointed as Executive Director and Group Chief Executive Officer of the Company on July 1, 2016.

A stable team of highly capable key management personnel is crucial in leading the group to "deliver the highest level of quality standards in service and product offerings".

- a) **With the benefit of being on the job for the past four months, can the CEO share his assessment of the group and its potential?** In the CEO's message (page 8 of the annual report), the CEO talked about the need to focus on the core competencies. **Please elaborate further and give concrete examples of any new initiatives.**
- b) **Is there going to be a strategic review of the group's growth plans? What strategic value does Stemlife Berhad offer the group? Are there plans to tweak the growth strategies in the various markets?**

From FY2013 to FY2015, revenue increased from \$34 million to \$57 million but segment profit dropped from \$12.9 million in FY2013 to \$6.5 million in FY2014 to \$5.7 million in FY2015. In the segment report (page 117), FY2016 revenue from the core banking segment increased to \$59 million but reported just a profit of \$1.6 million. Based on the consolidated statement of cash flows, it would appear that the core business has not been cash-flow generative for the past two financial years.

- c) **How does the company intend to improve the profitability of its core banking business? What can management do to improve the cash flow?**

Q3. An amount of \$750,000 of extraordinary directors' fees is being proposed for Mr Ho Choon Hou and Mr Ho Sheng to recognise the extra work put in and the accumulation of time spent by the Board Chairman and the Lead Independent Director for the transactions with China Cord Blood Corporation and the management of the Board and the Company in times of the Board and management changes during the year.

The fees appear to be extraordinary high.

It would appear that the board is telling shareholders that only the Board Chairman and the Lead Independent Director had major roles to play in the CCBC transactions and during the board and management personnel transition periods.

- a) **Can the independent directors clarify their contributions during the periods mentioned?**
- b) **As the extraordinary directors' fees are not monetary compensation to the directors for their roles in facilitating the transactions, but solely to compensate the directors for the extra time put in by the directors that went well beyond the normal expectation for non-executive/independent directors, could all the directors help shareholders understand their responsibilities and the extra efforts and the time spent during the said periods? What are the directors' expectations of a normal workload?**
- c) **Please disclose a breakdown of how the fees will be split among the directors. To be fair to all directors, if the resolution 10 is approved, would the board consider splitting the extraordinary fees among all the directors who had put in extra effort and time?**
- d) **Suppose an amount of \$250,000 of extraordinary director fees is given to the Lead Independent Director, that amount would be three times the annual director fees. Would that affect or compromise his independence?**