

Issuer: Second Chance Properties Ltd
Security: Second Chance Properties Ltd

Meeting details:

Date: 29 December 2016

Time: 10:00AM

Venue: The Orange Ballroom, 845 Geylang Road #03-16 Tanjong Katong Complex Singapore 400845

Company Description

Second Chance Properties Ltd, an investment holding company, engages in the retail of ready-made garments in Singapore and Malaysia. It is also involved in the retail of gold and jewelry; investing in equities; trading of bonds and equity securities; and leasing of retail spaces and office buildings. The company was founded in 1975 and is headquartered in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=528)

Q1. Shareholders would like to ask the company for more details on the operational performance of the business segments.

Apparel

- a) The Malaysia apparel segment reported segmental results of (\$1.28) million, (\$0.83) million and \$0.50 million in 2016, 2015 and 2014 respectively. Revenue has dropped from \$16.1 million in 2014 to \$8.4 million in 2016. **How has the decision to reduce the number of stores in Malaysia from 34 to 20 affected the operations and the profitability of the segment?**
- b) Mega First Lady, the group's flagship store at Jalan Tuanku Abdul Rahman in Kuala Lumpur, has been operational for the full financial year 2016. **Is Mega First Lady profitable at the store-level? Has the store performed up to expectations?**
- c) **Can the business of retailing and wholesaling of modern Islamic apparel be severely disrupted by e-commerce/online shopping?**
- d) **Why has the profitability of the apparel segment dropped from \$0.92 million in 2015 to a loss of \$0.76 million in 2016? How much of the loss can be attributed to the unrealised foreign exchange loss? Is the segment expected to return to profitability?**

Property rental

- e) Revenue from properties dropped 7% from \$8.9 million in 2015 to \$8.3 million in 2016. The segment profit (page 13 of the annual report) dropped from \$9.97 million in 2015 to \$5.9 million in 2016, a drop of more than 41%. Adjusting for revaluation losses/gains in 2016 and 2015 respectively, adjusted profit would have dropped from \$8.75 million to \$7.4 million. **Can the board explain to shareholders the impact on rental revenue from the four investment properties that were sold during the year? What is the impact on revenue and on profit from lower rental renewals?**
- f) **With 30 leases up for renewal in 2017, would the segment face even greater margin pressure?**
- g) **Can management provide better visibility into key metrics such as the weighted average lease expiry (WALE) (as a percentage of total net lettable area and gross rental income), tenant retention rate and rental reversion?**

Q2. The directors have "decided to be prudent" (page 30) and the dividend policy has now been changed to one where not more than 30% of net profit after tax can be distributed to shareholders as dividend (page 51). The company had maintained a dividend payout ratio of 234% in 2016 and 143% in 2015.

- a) **Can the board help shareholders understand how the limit of 30% was arrived ?**
- b) **Is this overly prudent?** The current gearing ratio is at 18% (page 105) and the group still generates very healthy cash flow from its operating activities. With a limit of 30%, the earnings per share will have to be at 12c for the company to pay a dividend of 3.6c (to match the FY 2015 dividend).
- c) **Can the board elaborate further on the group's capital management policy and highlight the foreseeable big-ticket capital investment needs?**

Q3. Ms. Geetha Padmanabhan is an Independent Non-executive director of the company and also the Chair of the audit committee. In the director's profile (page 6), it was disclosed that Ms Geetha "has been with the Group since April 2003. She worked with the Group as Finance Manager from April 2003 to 30 June 2006 and then from April 2007 to Jan 2012". Ms Geetha was first appointed to the board as a Non-executive director on 1 March 2012 and then redesignated as an Independent Non-executive director on 30 November 2013.

Guideline 2.3(a) of the Code of Corporate Governance issued by the Monetary Authority of Singapore in 2012 states that, inter alia:

The Board should state its reasons if it determines that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, including the following:

(a) a director being employed by the company or any of its related corporations for the current or any of the past three financial years;

- a) **Can the nominating committee justify in greater detail its decision to redesignate Ms Geetha as an Independent non-executive director within the three financial years as stipulated in the Code of Corporate Governance?**
- b) As Ms Geetha has been with the group as Finance Manager for almost 8 years and as recently as 2012, Ms Geetha would have put in place systems and processes that are probably still being used by the group's finance team. **As the Chairman of the Audit committee, would Ms Geetha be put in a position where she has to review her own work?**
- c) **Could the nominating committee comment on the appropriateness of Ms Geetha as the audit committee chairman?**