

Issuer: CPH Ltd.

Security: CPH Ltd.

Meeting details:

Date: 27 July 2017

Time: 9.30 a.m.

Venue: 8 First Lok Yang Road, Singapore 629731

Company Description

CPH Ltd., an investment holding company, manufactures and sells printed circuit boards (PCBs). It offers single-sided, double-sided, and multi-layered PCBs, as well as advanced interconnect substrates. The company serves customers in various industries, such as telecommunications, automotive, industrial equipment and instruments, consumer electronics, PCs and PC peripherals, and healthcare, as well as government and defense industries. It has operations in Germany, Switzerland, Malaysia, Japan, Singapore, and internationally. The company was formerly known as Circuits Plus Holdings Ltd and changed its name to CPH Ltd. in August 2008. CPH Ltd. was founded in 1981 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=539)

Q1. Upon reading the company’s 2017 annual report, a new shareholder or a potential investor would probably find it challenging to understand the business of the group.

The first 33 pages of the annual report (which included sections such as Chairman’s Statement, Financial Review, Corporate Information, Corporate Governance Report, Directors’ Statement) used generic business terms like “businesses of our customers”, “higher imported raw material costs”, “cheaper product alternatives”, “under-utilisation of our production capacity”, “re-strategised our product mix and pricing policies”, “minimise the impact of margin erosion”, “new products and parts instead of products that were less lucrative”. These words offered no information nor insights into to the group’s business.

The first hint of the group’s business only appeared in the directors’ profile. For example, “Mr Chong has more than 25 years of working experience in printed circuit boards (“PCB”) manufacturing and was the general manager of Circuits Plus (M) Sdn. Bhd. before his appointment to the Board. Currently, Mr Chong oversees the sales and operations of the PCB business in Malaysia”. Even then, it offered a glimpse of what the group does.

The first insights into the company only appear in the Key Audit Matters in the Independent Auditor’s Report (on pages 34-36).

- a) **Would management consider providing the basic information and a holistic overview of the group’s business and activities in the annual report?** This will help shareholders better understand the company and improve the market’s understanding of the company.
- b) **Can management also consider providing shareholders with a presentation of the overview at the start of the annual general meeting?** The slides of the presentation can be posted on SGX as well.
- c) **For future annual reports, can the Chairman in the Chairman’s Statement and the management in the Financial Review provide more candour and better transparency to help shareholders understand the company better?**

Q2. In Note 27 (page 87 – Segment information), it is disclosed that the group has two reportable segments namely, Printed circuit boards and Food and beverage. The printed circuit boards (PCB) business segment relates to the manufacture and sale of printed circuit boards and advance interconnect substrates. The performance of the PCB segment since FY2012 is shown in the table below.

	FY2012 \$	FY2013 \$	FY2014 \$	FY2015 \$	FY2016 \$	FY2017 \$
External revenue	7,422,579	7,392,740	7,241,975	6,989,360	6,319,940	5,482,693
Segment results	(1,193,462)	1,448,423	(512,610)	73,229	(341,501)	(1,000,933)
Profit/(Loss) after income tax	(1,559,306)	1,437,214	(530,820)	131,766	(274,781)	(979,471)

(Source: Company annual reports)

- a) **Can management elaborate further on the group’s products, the customers they serve and the sectors that the products are used for?**
- b) **What are the key drivers of the group’s PCB segment?**
- c) **As seen in the table above, the segment results have been mixed. Can management explain why the segment has struggled to be profitable? What are management’s plans to improve the PCB segment?**

d) What is the utilisation rate of the group's manufacturing facilities?

Q3. In Note 7 (page 73 – Investment property), it is stated that the group's factory building at 8 First Lok Yang Road is carried at a fair value of \$8.5 million as at the end of the financial year. The investment property constituted 53% of the group's total assets and represented the single largest category of assets in the consolidated statement of financial position. The valuation of the investment property was also highlighted as a key audit matter in the Independent Auditor's report (page 34).

- a) Can the company make the valuation report by GB Global Pte Ltd (the independent professional valuation firm used) available to shareholders?**
- b) As the independent auditor noted that a key audit matter is of most significance in its audit of the financial statements of the current period, would it elaborate further on the valuation of the investment property?**

Based on the rental income of \$401,408 and the direct operating expenses (including repairs and maintenance) arising from rental-generating investment property of \$215,050, the group's estimated cash flow from the property is about \$186,358. The tenure of the factory is 60 years lease from 1977, thus the lease balance is 20 years.

- c) What was the average occupancy rate of the factory for the financial year? Is it a single-tenant or a multi-tenant factory?**
- d) With a cash yield of about 2.2% ($\$186,358/\$8,500,000$), can management explain what are their efforts to improve the rental returns from the asset?**
- e) Given the company's cost of capital and the short remaining tenure of the asset, has the board evaluated the options available for the factory?**