Issuer: Chasen Holdings Limited
Security: Chasen Holdings Limited

Meeting details:
Date: 28 July 2017
Time: 10.30 a.m.
Venue: Fu Lin Men Upper Hall (aka Par 3, level 2) @ Raffles Country Club, 450 Jalan Ahmad Ibrahim, Singapore 639932

Company Description

Chasen Holdings Limited, an investment holding company, provides relocation, logistics, and technical and engineering services. The company's Specialist Relocation Services segment offers machinery and equipment moving services through projects or maintenance contracts. Its Third Party Logistics Services segment provides packing services and supplies packaging and crating materials; and provides warehousing of customers' new or replaced machinery and equipment, and land transportation services. The company's Technical & Engineering Services segment offers turnkey facilities and engineering solutions, and repair and maintenance services to customers in the high tech electronic industries; construction projects of customers in the marine, property development, and oil and gas industries; and contract manufacturing services in the electronics, telecommunications, and other high technology industries. Chasen Holdings Limited also provides freight forwarding and shipping, general contractor, artifact packaging, construction and engineering, and management consultancy services; services on cryogenic pumps; and scaffolding services to marine and construction industries. In addition, the company engages in the general activities related to high value machinery and equipment; general building engineering; process engineering and construction; engineering and structural steel fabrication supplier and installer; precision manufacturing of machine tool accessories; and projects and general trading businesses. Further, it is involved in the design, engineering, and installation of machinery and equipment, as well as operates purified and waste water treatment plants. The company was founded in 1995 and is based in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5NV)

Q1. The Impairment assessment on goodwill on consolidation is one of the key audit matters highlighted in the Independent Auditors' Report that were of most significance in the audit of the financial statements of the current financial period (page 48).

As at 31 March 2017, the Group has recognised goodwill on consolidation with carrying values amounting to S$10,559,000. No impairment of goodwill was recognised in this financial year. Of the $10.6 million in goodwill, $4.3 million was allocated to the Specialist Relocation Solutions segment while the balance of $6.2 million was allocated to the Technical & Engineering segment.

The Technical & Engineering segment reported external sales of $34.8 million and a gross profit of $3.5 million in 2017 (page 118 – Segment information). In 2016, revenue was $33.5 million while gross profit was $3.9 million. The average gross profit margin for 2016-2017 is 10.8%.

Key assumptions on which management has based its cash flow projections for the respective periods of the significant CGU are as follows:

	GTS Group		GKH Group		LLS		HLE	
	2017	2016	2017	2016	2017	2016	2017	2016
Gross margin (i)	26% - 56%	25% - 54%	19%	23%	21%	21%	23%	4% - 9%
Growth rates (ii)	20%	20%	2%	2%	5%	8%	3%	5%
Discount rate (iii)	11.1% - 12.5%	6.3%	10.6%	6.3%	10.5%	6.3%	13.7%	6.3% - 7%
Terminal value growth rate (iv)	1%	1%	1%	1%	1%	1%	1%	1%

Key assumptions used in the value-in-use calculations

(Source: Company annual report)

As shown in the table above (Note 15 – Goodwill on consolidation), the average gross margin used in the calculation of the value-in-use ranges from 19%-56%. GTS Group, GKH Group and HLE together form the Technical & Engineering segment.

a) **Can the auditor elaborate further on how it had evaluated the reasonableness of management's estimates, especially the gross margin?**

b) **Can management justify why it had estimated gross margins of between 19-56% when the recent historical gross margin is about 11%? Specifically, why has the gross margin assumption of HLE increased from 4-9% to 23%?**

c) **Can the audit committee explain its role in the impairment assessment on goodwill?**

Q2. The Nominating Committee (NC) currently comprises Chew Mun Yew (as chairman), Ng Jwee Phuan @ Frederick (Eric), Tan Sin Huat, Dennis and Low Weng Fatt.

Guideline 5.1 and 5.3 of the Singapore Code of Corporate Governance 2012 issued by the Monetary Authority of Singapore state that:

> *5.1: Every Board should implement a process to be carried out by the NC for assessing the effectiveness of the Board as a whole and its board committees and for assessing the contribution by the Chairman and each individual director to the effectiveness of the Board....*
>
> *5.3: Individual evaluation should aim to assess whether each director continues to contribute effectively and demonstrate commitment to the role (including commitment of time for meetings of the Board and board committees, and any other duties)....*

In the company's disclosure under Principle 5 of the Corporate Governance Statement (page 31 – Board performance), the NC has stated that it had "decided unanimously, for the time being, that there would be no separate assessment of the Board Committees and individual Directors".

a) **Since the company has not complied with Guidelines 5.1 and 5.3, could the NC explain the reasons for its deviation from the code? Please elaborate in detail on the considerations that led to its decision not to have separate assessments of the board committees and of the individual directors.**

b) **Would the NC reconsider its decision not to have separate assessment of the board committees and individual directors?** Done professionally, the assessment of the board committees and individual directors can improve the effectiveness of the Board as a whole and its board committees and the contribution by each director to the effectiveness of the Board.

Q3. In the Corporate Governance Statement (pages 25 to 41), in the section titled "Dealings in securities" (page 40), the company stated that is has complied with Rule 1207(19) of the Listing Manual of the SGX-ST in relation to the best practices on dealings in the securities:-

(a) The Company had devised and adopted its own internal compliance code to provide guidance to its officers with regards to dealings by the Company and its officers in its securities;
(b) Officers of the Company did not deal in the Company's securities on short-term considerations; and
(c) The Company and its officers did not deal in the Company's shares (i) during the periods commencing two weeks before the announcement of the Company's financial results for each of the first three quarters of its financial year and one month before the announcement of the Company's full year financial statements, ending on the date of the announcement of the relevant results, and (ii) if they are in possession of unpublished price-sensitive information of the Group.

On 23 March 2017, the company announced a share buy-back at 7.36 p.m., stating that it had bought back 200,000 of its shares at a price of $0.049 on 23 March 2017. The company followed up with another announcement 3 minutes later (at 7.39 p.m. on the same day of 23 March 2017) that projects secured by its relocation business segment had a value of RMB245 million (approximately S$50 million). In the same announcement, the company disclosed that "it is expected that the projects will have a positive contribution to the financial result of the Group for the financial years ending 31 March in 2017 and 2018".

Following the events of 23 March 2017, the share price of the company jumped over the next two weeks and hit a high of $0.139 within 8 market days.

a) **Given that the market capitalisation of the company on the day of the buy-back was about $18 million, would the board agree that the contract win of $50 million is material and significant?**

b) **Given that the company had said that the new project secured will "have a positive contribution to the financial result of the Group for the financial years ending 31 March in 2017 and 2018", would the board consider that to be price-sensitive information?**

c) **Can the company and the board help shareholders understand what was the trigger for the share buy-back on 23 March 2017?**

d) The company has stated in its disclosure that it had complied with Rule 1207(19) in its Corporate Governance Statement (page 40 of the annual report). **Can the company/board explain how it had complied with Rule 1207(19) based on its share buy-back on 23 March 2017 and the subsequent announcement of securing new projects worth S$50 million?**