

Issuer: CSE Global Limited

Security: CSE Global Limited

Meeting details:

Date: 19 April 2018

Time: 2.30 p.m.

Venue: The National University of Singapore Society (NUSS), Suntec City Guild House, 3 Temasek Boulevard, #02-401/402, Suntec Tower 5, Singapore 039983

Company Description

CSE Global Limited, an investment holding company, provides integrated industrial automation, information technology, and intelligent transport solutions in the Americas, the Asia Pacific, Europe, the Middle East, and Africa. The company offers automation solutions, including process control, safety shutdown, fire and gas detection, supervisory control and data acquisition (SCADA), wellhead and subsea control, process skid, electrical drive and high/medium voltage, electrical protection and control, real-time information, and intelligent transport systems, as well as I&E construction and safe secure solutions. It also provides environmental solutions comprising multiple hearth furnaces, fluid bed incinerators, carbon and energy recovery systems, and rotary kiln incinerators. In addition, the company offers telecommunication solutions, including construction communications, fiber optic, microwave radio, conventional and trunked radio, and public address and general alarm systems; VSAT satellite communications, telephone, LAN/WAN, Internet protocol based, and SCADA and telemetry networks; and CCTV, access control, and FIDS systems. Further, it provides computer network systems; e-business integration, research and development, and system integration services; turnkey telecommunications solutions; safety system and automation hardware products; infrastructure engineering services; data telecommunications and marine survey certification services; and plant and environmental engineering services. Additionally, the company distributes electrical engineering equipment; and designs and installs high temperature thermal process and incineration systems. It serves customers in the oil and gas, petrochemical, utilities, public infrastructure, environmental, and healthcare industries. The company was founded in 1985 and is headquartered in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=544)

1. In the Message to Shareholders (pages 4 to 9 of the annual report), the Chairman and Group Managing Director gave a comprehensive overview of the group, providing a detailed discussion of the business and the financials, and showing trends and achievements from the past few years.

However, one significant event in the financial year for the group was not discussed in any detail. On page 7, in the table showing the group's Cashflow management, there is a one-time settlement cost of \$16.6 million in FY2017, details of which can only be found as a footnote in Note 20 (page 124 - Other non-operating (expenses)/income). The company stated the following:

In July 2017, the Group entered into a settlement agreement (with no admission of liability) with the US government to settle its potential civil liability for alleged violations of the International Emergency Economic Powers Act and Iranian Transactions and Sanctions Regulations Act, amounting to US\$12.0 million (S\$16.8 million).

- (i) **Would the Chairman and the Group Managing Director consider providing shareholders with a more balanced view, especially addressing issues and setbacks that the group faced in the year with candour and in a open manner?**
- (ii) **Can the board and senior management explain in greater detail why the group had entered into a settlement agreement and agreed to pay the settlement cost of US\$12.0 million?**
- (iii) **How has the group improved its internal controls, systems and processes in the past 3 years?**
- (iv) **What is the level of oversight by the board in the group's operations, especially in critical/sensitive areas?**
- (v) **What assurance can the board and senior management give to shareholders that the group is committed to upholding high standards of integrity and would comply with laws and regulations of the countries in which it operates?**

2. In FY2017, the group had recognised an allowance for doubtful trade receivables of \$11.79 million and a write-down of unbilled receivables of \$2.98 million.

- (i) **Can management provide a breakdown of the \$11.79 million in allowance for impaired receivables to show the number of customers, their profile (including country), the uncollected amounts and how long the debts have been overdue?**
- (ii) **Please also provide shareholders with a brief update on the financial status of these customers with long overdue debt.**
- (iii) **What are the efforts by management in collecting these long outstanding debt?**

In Note 30 (page 133 - Financial risk management objectives and policies), the group has disclosed that it provides credit terms to creditworthy and reputable customers and these receivables are monitored on an ongoing basis to ensure that issues arising from non-collectibility are minimised.

- (iv) **Can the Audit and Risk Committee (ARC) explain if the group has adhered to its credit risk framework and policies?**
- (v) **What improvements have been made to develop a more robust credit risk framework?**
- (vi) **How does the ARC oversee and monitor the group's credit risks?**

In addition, the group had written down unbilled receivables of \$2.98 million in FY2017 and \$1.07 million in FY2016. **Please help shareholders understand the circumstances that led to the group not billing for work done and eventually writing down over \$4 million as unbilled receivables in the past two years. How can management tighten its processes so that the group gets paid its fair compensation for delivering quality work to its customers?**

3. The remuneration for key management was disclosed in the Message to Shareholders (page 8).

6.4 Management Compensation

| S\$'000 | CEO + Top 5 Executives | Operating PAT before exceptional items |
|---------|------------------------|--|
| FY2015 | 7,142* | 31,191 |
| FY2016 | 3,984 | 21,189 |
| FY2017 | 4,045 | 13,329 |

*The disclosure in the FY2015 annual report included a staff that has left CSE at the end of 2015 and the salary of the CEO and the top 5 existing executives for FY2015 was S\$4,992k.

(Source: Company annual report)

It was further disclosed that:

The company currently has a compensation scheme for senior management that comprises basic salary, profit sharing based on annual profits and achievement of the mid to long term business targets of the individual business units and the Group.

- (i) **Can the Compensation committee (CC) help shareholders reconcile how operating PAT had dropped by 37% to \$13.3 million and yet the remuneration to the CEO and the Top 5 executives increased marginally by 2% to hit \$4.05 million?**
- (ii) **Can the CC also clarify if exceptional items were excluded from the profit metric to be used for profit sharing?**

In the Corporate Governance Report on remuneration, it can be seen that 4 out of the 5 top executives received bonuses of 19% to 30%.

The disclosure of details in respect of remuneration of the top 5 key executive officers of the Group who are not Directors of the Company is set out in the following table:

| Name | Total remuneration (\$'000) | Salary (%) | Bonus (%) | Other benefits (%) |
|-------------|-----------------------------|------------|-----------|--------------------|
| Executive A | 743 | 68 | 28 | 4 |
| Executive B | 729 | 67 | 30 | 3 |
| Executive C | 726 | 65 | 29 | 6 |
| Executive D | 543 | 97 | – | 3 |
| Executive E | 535 | 71 | 19 | 10 |

(Source: Company annual report)

- (iii) **Would the CC elaborate on how it had determined the level of performance-related remuneration elements for key management?**