

Issuer: Chip Eng Seng Corporation Ltd
Security: Chip Eng Seng Corporation Ltd

Meeting details:

Date: 25 April 2018

Time: 10.00 a.m.

Venue: Emerald Suite, Golf Clubhouse – Level II, Orchid Country Club, No. 1 Orchid Club Road, Singapore 769162

Company Description

Chip Eng Seng Corporation Ltd, an investment holding company, engages in the construction, property development and investment, and hospitality businesses primarily in Singapore, Australia, Malaysia, Vietnam, and Maldives. The company operates through Construction, Property Developments, Property Investments, Hospitality, and Corporate and Others segments. The company constructs public housing projects, modular buildings, condominiums, and executive condominiums, as well as industrial and commercial projects; develops residential, commercial, and industrial properties, as well as manages development projects; and provides real estate management and consultancy services. It also leases investment properties, such as shophouses, and commercial and industrial properties; operates hotels and island resort; engages in treasury functions; and invests in marketable securities. In addition, the company acts as general building contractor; manufactures and trades in precast products; and provides general building engineering services. Chip Eng Seng Corporation Ltd was incorporated in 1998 and is headquartered in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=C29)

Q1. Can the board/management provide better clarity on the group's hospitality and property investments? Specifically:

- a) **The Sebel Mandurah: Can management help shareholders understand the attractiveness of the Mandurah hotel investment?**
- b) **Mercure & Ibis Styles Grosvenor Hotel (Adelaide): Similarly, what is the investment thesis for investing in the hotel in Adelaide?**
- c) **Hospitality:** The segment profit from the Hospitality segment improved from a segment loss of \$(5.8) million in 2015 to \$(2.2) million in 2016 on the back of an improved full year operations of Park Hotel Alexandra in 2016. In 2017, segment revenue increased from \$27.4 million to \$38.6 million, an increase of 40.8%, driven by stronger occupancy rates registered by Park Hotel Alexandra. Despite the higher revenue, segment loss slipped to \$(7.3) million presumably due to the start up costs at Grand Park Kodhipparu. **Can management confirm that Park Hotel Alexandra on its own would have been profitable/broken even?**
- d) **Capital allocation:** The investments into hotels and properties (such as 205 Queen Street in Auckland) could be thought of being financed with debt as the group's net debt-equity ratio increased from 0.89x in 2016 to 1.58x in 2017. **What is management's estimation of the group's cost of capital? What is the group's hurdle rate/investment return target for its hotel and investment projects?**
- e) **Diversification:** **Has the board developed a robust and systematic framework to approach the group's investments? For instance, are there targets or allocation set for the group's investments into specific overseas markets/cities and the sectors (hotel/retail/office)?**

Q2. In the Honorary Chairman's Message (pages 8 & 9), it was said that there has been "a shift away from our traditional construction business amid an increasingly competitive landscape". Based on the Executive Chairman's Message, the group will focus on enhancing its expertise in non-public housing projects and other civil engineering work to broaden its scope of offerings to mitigate the effects of a more competitive environment.

In the past three financial years, the construction segment has reported revenue of \$401 million, \$350 million and \$283 million in FY2015 – FY2017 respectively. Over the same period, the segment profit/(loss) has been \$27.5 million in FY2015, \$19.6 million in FY2016 and \$(1.1) million in FY2017.

In FY2017, the group also recognised an impairment loss on construction contract of \$(9.5) million.

- a) **Would management provide better visibility on the impairment loss of \$(9.5) million relating to a construction contract? With the group's experience in construction, what were the extenuating circumstances that led to such a large loss?**
- b) **Given the increasingly competitive landscape, the dwindling volume and the lower profit/loss, would the board consider it opportune to reassess if the construction segment is strategic to the group? And if so, would management further finetune its strategy and positioning for the construction segment?**

Q3. The remuneration of director is shown in the table on page 47 in the Corporate Governance Report. The portion on the remuneration of executive director is reproduced as follows:

Remuneration of Directors and the Group CEO

A summary of the remuneration of each Director and the Group CEO which is paid or payable by the Company for FY2017 is set out below:

Remuneration band and name of Director	Base salary ¹	Variable payment ²	Other Benefits ³	Fees ⁴	Total
Above \$1,000,000					
Chia Lee Meng Raymond	16%	84%	-	-	100%
\$600,000 to \$799,999					
Lim Tiang Chuan	65%	33%	2%	-	100%
Hoon Tai Meng	72%	25%	3%	-	100%
\$400,000 to \$599,999					
Dawn Lim Sock Kiang	71%	26%	3%	-	100%

(Source: Company annual report)

The company further disclosed that:

The remuneration of each individual Executive Director is not disclosed in dollar terms as the Company considers information pertaining to the remuneration of its Executive Directors commercially sensitive. The Company operates in a highly competitive environment where poaching of employees by competitors is fairly common.

- a) **Would the remuneration committee (RC) help shareholders understand why the remuneration band of the executive chairman shows no upper limit?**

Other than Mr Hoon Tai Meng, the executive directors are related to one another. Mr Lim Tiam Seng is the brother of Mr Lim Tiang Chuan; the father of Ms Dawn Lim Sock Kiang; and father-in-law of Mr Chia Lee Meng Raymond (who is the spouse of Ms Lim Sock Joo).

- b) **Given the close familial relationships among the directors, can the RC explain if the poaching of employees might still be a valid concern?**

In Note 29b (page 123 – Related party transactions: Compensation of key management personnel), the amount paid to directors of the company is shown to be \$6.9 million, as follows:

	Group	
	2017	2016
	\$'000	\$'000
Comprise amounts paid to:		
- Directors of the Company	6,873	7,260
- Other key management personnel	3,973	2,906
	<u>10,846</u>	<u>10,166</u>

(Source: Company annual report)

Given that the non-executive directors received about \$305,000, the balance of \$6.57 million is split among the 4 executive directors. As such, the remuneration of Mr Chia Lee Meng Raymond could be estimated to be between \$4.4 million and \$5.0 million.

- c) **To improve the transparency on remuneration matters, would the RC minimally disclose the remuneration of the directors in meaningful bands of \$200,000 or less?**