**Securities Investors Association (Singapore)**
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UEN No: S99SS0111B
GST Reg No: M90367530Y

**Issuer:** CSC Holdings Limited

**Stock code:** C06

**Meeting details:**
Date: 27 August 2020
Time: 10.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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**Q1**. As noted in his statement, the chairman highlighted the group's discipline in pursuing only contracts that offer higher returns, rather than sacrificing operating margins in order to sustain the level of volume of business.

Also, in the CEO's statement, it was disclosed that the group has been disciplined in maintaining a lean but nimble workforce that yielded cost and productivity improvements. With its experience with large-scale projects and by leveraging the group's track record and capabilities, the group had built up a healthy order book.

The group returned to profitability in FY2020, the first time in the past six financial years. Revenue increased by 6.1% to $342.8 million and net profit after tax amounted to $7.3 million.

In the past decade, the group's performance has been mixed.

| FY | Revenue ($'M) | Net profit/(loss) after tax ($'M) |
|---|---|---|
| 2011 | 327.7 | 6.7 |
| 2012 | 438.5 | 10.0 |
| 2013 | 533.1 | (0.7) |
| 2014 | 487.1 | 6.2 |
| 2015 | 427.9 | (13.6) |
| 2016 | 382.3 | (5.5) |
| 2017 | 252.4 | (24.7) |
| 2018 | 338.8 | (13.5) |
| 2019 | 323.1 | (18.0) |
| 2020 | 342.8 | 7.3 |
| Cumulative profit/(loss) since FY2011 | | (45.8) |

(Source: company annual reports)

While revenue trended up in the early 2010s, revenue averaged $335 million in the past three years. More importantly, the group reported losses in the 5 of the last 6 financial years and had 4 profitable years in the past decade. The cumulative net loss for the group is $(45.8) million. In fact, in FY2019, the group was not able to meet the conditions for its loans and had to obtain a waiver of the covenant from the bank.

(i) **Has the board reviewed the long-term performance of the group? If so, is the board satisfied with the group's long-term performance? Can the board help shareholders understand the strategic direction and long-term goals it has set for management?**

(ii) **In particular, has the group maintained its level of competitiveness and raised its productivity, considering the changes in the industry and the market forces?**

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(iii) **For the benefit of new and long-standing shareholders, can management elaborate further on the reasons for the large losses in the past several years despite the group having a long track record and strong capabilities? What changes has the group made to improve its margins?**

(iv) **Would the board provide shareholders with better clarity on the long-term growth prospects and viability of the group's current business model?**

**Q2.** In May 2020, the group announced the redevelopment of the headquarters at Tanjong Penjuru Crescent into a 46,000 square-metre modern six-storey ramp-up logistics facility, along with office space, cafeteria and rooftop parking. The redevelopment will also include a built-to-suit high-specification workshop for the group's ground engineering equipment fleet.

This redevelopment, carried out in partnership with the LOGOS group, is estimated to cost $108 million. The group will hold 51% of the enlarged ordinary shareholding of the joint venture company (2TPC Investments Pte Ltd) and 20% of the enlarged preference shareholding of the joint venture.

On page 160, it was stated that the group has lost control of 2TPCI as a result of the dilution in shareholding and the terms in the shareholders' agreement.

(i) **Can management elaborate further on the role it will play in the redevelopment of 2 Tanjong Penjuru Cresent? In addition, what is the role of LOGOS, other than contributing capital via the subscription of 80% of the preference shares?**

(ii) **Would management help shareholders understand the reason(s) for the deal structure? What was the hurdle rate used by management/board in the approval of the redevelopment and deal structure?**

(iii) In Note 32 (page 160), it was stated that the group's effective equity interest in 2TPCI would be diluted from 100% to 51%. However, on page 111, it was disclosed that the effective interest in 2TPCI had been diluted from 100% to 55%. **Would management clarify on the effective equity interest in 2TPCI?**

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**Q3.** The "Impairment of trade receivables and contract assets" is a key audit matter (KAM) highlighted by the independent auditors (pages 60-64). Key audit matters are those matters that, in the professional judgement of the Independent Auditors, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM, as at 31 March 2020, trade receivables and contract assets amounted to $57 million and $78 million respectively. Gross carrying amount of the total loss allowance was $(21.12) million. Impairment loss for trade and other receivables and contract assets recognised in FY2020 was $(4.22) million, an increase from the $(2.99) million recognised for FY2019 (page 143).

(i) **Can management help shareholders understand the reason(s) for the impairment loss of $(1.377) million recognised on contract assets (page 134)?**

(ii) As shown in Note 28 (page 140 – Financial instruments: Credit risk), impairment losses of $(732,000) and $(1,112,000) were recognised on trade receivables arising from rental income in FY2020 and in FY2019 respectively. **How does the board monitor the group's adherence to its credit risk framework? Has the board considered the need to review the group's credit risk policies, especially as the pandemic might have affected some counterparties in the leasing business badly?**

(iii) The impairment loss recognised in FY2020 was $(4.22) million, significant when compared to the profit for the year of $7.31 million. Since April 2020, the governments in Singapore and Malaysia have suspended construction activities to stop the spread of COVID-19. **Are there signs of material deterioration in the credit quality of the group's customers? What changes has the group made to better manage its credit risks and to improve on the collection of receivables?**

*[The following question was sent to the company following the review of the 2018 annual report. The question has been updated and re-submitted to the company for its response.]*

**Q4.** In the Corporate Governance Report, the annual remuneration band of the Group CEO (also an executive director of the company) is disclosed on page 45 (shown below).

| Remuneration Band | Name of Directors | Directors' Fees (%)** | Service Fees (%) | Salaries[1] (%) | Bonus[2] (%) | Total (%) |
|---|---|---|---|---|---|---|
| $750,000.01 – $ 1,000,000 | See Yen Tarn* | – | – | 61.27 | 38.73 | 100 |

(Source: company annual report)

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In previous financial years, even when the company recognised losses attributable to owners of the company as large as $(25.3) million, the Group CEO received a remuneration package of between $500,000 and $750,000, which included a bonus of 23.7%.

The level and breakdown of remuneration of Mr See Yen Tarn since FY13 is shown in the table below.

| | 2013 $'000 | 2014 $'000 | 2015 $'000 | 2016 $'000 | 2017 $'000 | 2018 $'000 | 2019 $'000 | 2020 $'000 |
|---|---|---|---|---|---|---|---|---|
| Revenue | 533,095 | 487,125 | 427,925 | 382,341 | 252,360 | 340,439 | 323,129 | 342,789 |
| (Loss)/profit attributable to Owners of the Company | (3,381) | 2,980 | (16,699) | (6,871) | (25,282) | (14,314) | (19,335) | 5,550 |
| Remuneration band of See Yen Tarn (Group CEO) | $500,000 to $750,000 | $500,000 to $750,000 | $500,000 to $750,000 | $500,000 to $750,000 | $500,000 to $750,000 | $500,000 to $750,000 | $500,000 to $750,000 | $750,000 to $1,000,000 |
| Bonus component of See Yen Tarn (Group CEO) | 29% | 27% | 27% | 26% | 23.7% | 23.33% | 23.43% | 38.73% |

(Source: Company annual reports)

The cumulative losses attributable to shareholders since FY13 amount to $(77.4) million.

Over the same period, the total remuneration of Mr See, as Group CEO, was between $4.25 million to $6.25 million over the 8 years.

In FY2020, the Group CEO received a pay increase of at least $250,000 and up to $500,000 when profit attributable to shareholders was $5.55 million although the group lost $(77) million in the past 6 years.

The remuneration committee (RC) comprises four non-executive directors, namely Mr Tan Hup Foi @ Tan Hup Hoi (chairman), Dr Leong Horn Kee, Mr Ong Tiew Siam and Mr Teo Beng Teck.

Principle 7 of the 2018 Code of Corporate Governance requires the level and structure of remuneration of the board and key management personnel to be appropriate and proportionate to the sustained performance and value creation of the company, taking into account the strategic objectives of the company.

(i) **Would the RC help shareholders better understand how the remuneration practices (including the remuneration of the Group CEO) have complied with Principle 7?**

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(ii) **What performance indicators and measures were used to justify the bonuses for the Group CEO as the group has accumulated large losses over the years?**

(iii) **Would the RC review how it could finetune the compensation structure of the group to ensure better alignment with minority shareholders?**

^Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer's website, through "live" webcast and on SGXNet.

**Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.**

**Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website**

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^ Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings)