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

Issuer: Challenger Technologies Limited

Stock code: 573

Meeting details:
Date: 11 June 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 the chief executive's message, revenue increased by 3% to $329.6 million for the financial year ended 31 December 2019 although profit for the year slipped by 10% to $17.7 million. Stronger performance from corporate and tradeshow sales cushioned the weaker retail sales.

The group also made changes to its retails concept, including:

- PIT.Money: the pre-owned IT and affordable range business expanded to four stores
- Challenger Mobile concept stores: five more Mobile concept stores were converted from existing Challenger Mini stores, focusing on mobile phones, tablets, smaller notebooks and personal computers, as well as related accessories

In view of the COVID-19 outbreak, management has stated that it will prioritise the enhancement of its product offerings, as well as optimising operational efficiencies and productivity. Under the circuit breaker measure, the group's retail stores were deemed non-essential services and therefore were not allowed to operate.

(i) **What was the increase in the volume of sales in the group's online store, Hachi.tech? Did management estimate how much of the lost retail sales was captured by Hachi.tech?**

(ii) **How does Hachi.tech compete with other online retailers of IT and lifestyle products?**

(iii) **With the shift to working from home, what changes did management make in its operations to offer greater convenience to its customers and to capture more sales?**

(iv) **Going forward, would the board be reviewing the group's business model, especially its retail concepts to further optimise its network in a post-COVID environment?**

(v) **Can management also help shareholders understand the business case of new retail concept, PIT.Money? Would this be a key revenue and profit driver for the group?**

In addition, in March 2019, the controlling shareholder and his associates made an offer to delist the company citing the following reasons:

- Unlikely to access the capital market;
- Low trading liquidity;
- Greater operational flexibility to manage the business, optimise the use of its management and capital resources, and facilitate the implementation of any operational changes; and
- Challenges due to weak retail sentiment and industry disruption… changes to the business may need to be implemented and dividends could be affected during such time.

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At the EGM held on 27 June 2019, the delisting resolution was not passed by shareholders and, accordingly, the exit offer lapsed.

(vi) **Since then, how has management finetuned the way the group is managed, to give it the operational flexibility and to further optimise the use of its management and capital resources?**

(vii) **Can management also help shareholders understand its efforts at addressing the weak retail sentiments and how it has taken the fight to the disruptors/competitors?**

Q2. The group was listed on 14 January 2004. For the financial year ended 31 December 2004, revenue was $75.5 million while profit was $2.8 million. In the past 15 years of being listed, management has successfully scaled up the business – revenue has increased at a compounded annual growth rate of 10.3% while profit has increased slightly faster at rate of 13.1% per annum (CAGR).

Since 2004, and even during the 2008-2009 financial crisis, the company has paid an interim dividend around August/September and a final dividend around May every year.

In August 2019, when the company announced its half-year financial results, the company stopped the interim dividend, citing the following:

> *There is no dividend declared for this quarter. The Company does not have a formal dividend policy and in view of the uncertainty in the market outlook and business environment, the Board deems it prudent to defer any decision on dividends till the end of the financial year.*

Cash and cash equivalents as at 30 June 2019 were $66.1 million and net cash flows from operating activities were healthy at $10.3 million for the 6 months ended 30 June 2019.

(i) **Can the board elaborate further on the reasons for not declaring an interim dividend?** This was in August 2019 and there were no concerns over a pandemic. In fact, even during 2008 and 2009, when the world economy was badly affected by the financial crisis, the company maintained its interim dividends of 1.2 cents per share.

At the end of the financial year, the group's cash and cash equivalents have increased to $77.9 million and the group holds an additional $5.9 million in bonds. The 2019 profit was healthy at $17.7 million. The net tangible assets per share is at a high of 29.8 cents.

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(ii) **What are the large capital expenditure projects, if any, for the next 18-24 months?**

(iii) **Has the board evaluated the amount of working capital required to run the business efficiently?**

When the full year financial statements were announced on 13 February 2020, the company stated that "… *in view of the uncertainty in the market outlook and business environment, the board deems it prudent to propose a final dividend of 1.5 cents for the financial year ended 31 December 2019*".

In FY2017, the total dividends were 3.3 cents based on 4.70 cents in earnings per share.
In FY2018, the total dividends were 3.1 cents based on 5.64 cents in earnings per share.
In FY2019, the total dividends were 1.5 cents based on 5.11 cents in earnings per share.

In addition, the company has maintained the remuneration of directors of the company at approximately $1.9 million (and an additional $0.3 million to directors of the subsidiaries). The annual aggregate remuneration paid to the top five key management personnel of the company (who are not directors or the CEO) for FY2019 is S$1,331,000, up from the S$1,157,000 paid out in FY2018.

(iv) **Has the board determined the payout ratio?** The group has set itself a target to maintain its dividend payout in its Sustainability report (page 23).

For reference, for the financial year ended 2008, the company paid an interim dividend of 1.2 cents per share in September 2008 and a final dividend of 1.2 cents per share in May 2009. Similarly, for the financial year ended 2009, the interim dividend was 1.2 cents per share in September 2009 and the final dividend was increased to 1.3 cents per share in May 2010. (Numbers have not been adjusted for the 1-for-2 bonus shares carried out in 2011.)

(v) **What were the other considerations by the board to cut the annual dividends by more than half?** During the financial crisis in 2008-2009, the company in fact increased dividends when there was great uncertainty in the market outlook and business environment then.

(vi) **Would the independent directors help shareholders understand the deliberations around dividends and their input to the board?**

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Q3. As disclosed in the Corporate Governance report, Mr Max Ng Chee Weng was first appointed to the board in 2006. The board has subjected his independence to particularly rigorous review.

(i) **As Mr Max Ng Chee Weng is also the chairman of the nominating committee ("NC"), can the NC help shareholders understand how the particularly rigorous review was carried out?**

It was also disclosed that Mr Max Ng Chee Weng is also the managing director of Gateway Law Corporation, which provides legal and professional services to the group from time to time. The NC is also of the view that the business relationship with Gateway Law Corporation will not interfere with the exercise of independent judgment by Mr Max Ng Chee Weng in his role as an ID and he has continued to demonstrate integrity and objectivity in the discharge of his duties. After due consideration and careful assessment, the NC considers that Mr Max Ng Chee Weng continues to be considered independent notwithstanding the services rendered and payment made to Gateway Law Corporation in FY2019 (page 32).

(ii) **Can the NC clarify if Mr Max Ng Chee Weng recused himself from the NC's deliberation and assessment?**

(iii) **Can the NC/board help shareholders understand if, as managing director, Mr Max Ng Chee Weng would have P&L responsibilities of the law firm and that would interfere, or perceived to interfere, with the exercise of independent judgment?**

(iv) **How effective was the NC in discharging its duties if the NC has to review the independence of and the business relationship with the NC chairman annually?**

(v) **Can the company disclose the fees paid to Gateway Law Corporation in the past 5 years?**

^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.

^ 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)

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