



Securities Investors Association (Singapore)

7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111

Tel: (65) 6227 2683 Fax: (65) 6220 6614

Email: admin@sias.org.sg www.sias.org.sg

UEN No: S99SS0111B

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Issuer: Choo Chiang Holdings Ltd.

Security: Choo Chiang Holdings Ltd.

Meeting details:

Date: 24 April 2019

Time: 11.00 a.m.

Venue: Octagon, Orchid Country Club, 1 Orchid Club Road, Singapore 769162

Company Description

Choo Chiang Holdings Ltd. is a Singapore-based company, which is a retailer and distributor of electrical products and accessories. The Company's segments include Distribution business and Property investment business. The Company offers a range of electrical products and accessories for residential and industrial use at its approximately 10 retail branches in Singapore. The Company offers a range of categories of products, such as Electrical Cables & Cable Accessories; Light Switches, Circuit Breakers & Accessories; Lightning Accessories; Trunking & Pipes; Light Fixtures & Accessories; Power Drills & Handheld Tools; Ventilating, Wall-mounted & Ceiling Fans, and Air-conditioner Accessories. The Company's products include POWER CABLE, NEOPRENE CABLE, ARMOURED CABLE and COMMUNICATION CABLE. The Company's subsidiaries include Neiken Switchgear (S) Pte. Ltd., Choo Chiang Marketing Pte. Ltd., Neiken Switchgear Pte. Ltd. and Choo Chiang Project Solutions Pte. Ltd.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=42E)

1. As noted in the chairman's statement, the group's revenue, derived from sales and retail of electrical products and accessories in Singapore, increased by \$1.94 million or 3.1%, to \$64.06 million. The reason for the increase was mainly due to higher sales volume of certain electrical products and accessories and the upward adjustment of selling prices in FY2018.

The group carries eight major product categories, namely electrical cables and cable accessories; light switches, circuit breakers and accessories; lightning accessories; trunking and pipes; air-conditioner accessories; light fixtures and accessories; ventilating, wall-mounted and ceiling fans; and power drills and handheld tools.

In addition, the group is building up its own proprietary brands, "CCM" and "CRM", which include various types of electrical cables and cable accessories; light switch accessories such as PVC boxes; lightning accessories; trunking and pipes; and certain types of light fixtures and accessories.

- (i) Would management help shareholders understand the approximate revenue derived from each segment?**
- (ii) What brands/product categories contribute the most to the group's revenue and profits? In addition, what is the split of the group's business between retail and distribution?**
- (iii) With over 30 third party brands, how does the group manage the relationships it has with the manufacturers/distributors?**
- (iv) Is the group the exclusive distributor for any brands? Would acquiring exclusive distributorship be a strategy that the group is interested in?**
- (v) Following the surge of collective sales in 2017-2018, what is the group's strategy to capture the opportunities as the developers start their redevelopment?**

2. The group owns 12 investment properties which are rented out for rental income (page 3). In FY2017, the group had 4 assets that had some months of vacancies following the expiry of leases. In FY2018, the number of properties that had some months of vacancies jumped to 7.

In addition, the group experienced negative rental reversion at 4 of its properties which commenced in the year.

As shown in the statement of financial position, the carrying value of investment properties is \$14.35 million. Rental income from the investment properties was \$474,000, down \$512,000 from a year ago. In FY2016, the rental income was \$611,000.

Segment result was \$16,000 in FY2018 (FY2017: \$46,000). After taking into account administrative and selling expenses, other operating expenses and financing costs, the loss before tax for the segment was \$(65,000) (FY2017: \$(39,000)).

- (i) **Can management help shareholders understand its approach to managing the investment properties? Does it have the expertise and the business network to manage and lease out the properties?**
- (ii) **What is the weighted average lease expiry?**
- (iii) **Given the group's cost of capital and the returns achieved, how does management ensure that the investments into properties generate fair returns over the entire market cycle?**
- (iv) In addition, the group has 4 properties that are used in the business and recognised as "property, plant and equipment". The carrying amount as at 31 December 2018 was \$5.38 million. In the IPO prospectus, the four properties have a net book value of approximately S\$5.78 million as at 31 December 2014 and a market value of approximately S\$15.37 million as at 30 April 2015.

What is the market value of the four properties that are being used in the group's retail operations?

3. The attendance of directors at board and board committee meetings is shown in the table below:

The number of Board and Board Committee meetings during FY2018 and the attendance of each Director are set out below:

	Board		Audit Committee		Nominating Committee		Remuneration Committee	
	No. of Meetings Held ⁽¹⁾	No. of Meetings Attended	No. of Meetings Held ⁽¹⁾	No. of Meetings Attended	No. of Meetings Held ⁽¹⁾	No. of Meetings Attended	No. of Meetings Held ⁽¹⁾	No. of Meetings Attended
Mr Lim Teck Chuan ("Thomas Lim")	2	2	2	2 ⁽²⁾	1	1	1	1 ⁽²⁾
Mr Lim Teck Seng ("Rocky Lim")	2	2	2	2 ⁽²⁾	1	1 ⁽²⁾	1	1 ⁽²⁾
Mr Chin Chee Choon ⁽³⁾	2	2	2	2	1	1	1	1
Ms Lee Weilin ⁽⁴⁾	2	2	2	2	1	1	1	1
Ms Pebble Sia Huei-Chieh ("Pebble Sia") ⁽⁴⁾	2	2	2	2	1	1	1	1

(Source: Company annual report)

As seen from the table above, the executive chairman and CEO and the executive director were invited to all board committee meetings.

The executive directors are siblings and have interests of over 70% of the shares in the company.

- (i) **Can the board help shareholders understand if it is the usual practice for non-board committee members (i.e. the executive directors) to attend board committee meetings?**
- (ii) **Were there specific agenda items or reasons to invite the executive directors to all the board committee meetings?**
- (iii) **What is the dynamics of the board committee meetings when the board committee members may be reviewing and discussing matters that are related to or affect the executive directors?** Such board committee meetings would have included agenda items on performance assessment and remuneration of the executive directors and on the audit/financial reporting of the group.
- (iv) **Do the invited directors also actively participate in the discussions during the board committee meetings? If so, how are board committee meetings different from the board meeting?**

In the Corporate governance report, the company has stated that the non-executive directors communicated among themselves without the presence of the management as and when the occasions warrant. The company also co-ordinates informal sessions for non-executive directors to meet on a need-basis without the presence of the management.

- (v) **How many times did the non-executive directors meet without the presence of management? Would the board committee meetings be the more appropriate setting for such discussion?** This would ensure that board deliberations and decisions are minuted formally.