



Securities Investors Association (Singapore)

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Meeting details:

Date: 27 October 2020

Time: 3.00 p.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.

Q1. Would the board/management provide shareholders with greater clarity on the following operational/financial matters? Specifically:

- (i) **Distribution & services solutions (Keysight):** The group lost one of its key principals, Keysight Technologies Singapore (Sales) Pte Ltd, when the manufacturer's representative and service provider agreement ceased with effect from 1 May 2020. The group was appointed as a Strategic Sales and Service partner since 2003 for Keysight's Electronic Manufacturing and Test equipment. **Can management elaborate further on the underlying reason(s) that led a key principal to terminate this long relationship?**
- (ii) **Distribution & services solutions (EXFO Inc and Dynamic Test Solutions Asia Pte Ltd):** How much of the loss in revenue from the Keysight agreement are these two new partnerships expected to make up for?
- (iii) **Kalms Investment Pte Ltd ("KIPL"):** The group recognised an impairment loss in its investment in KIPL and impaired the loans extended to and interest receivable from Kalms (Singapore) Pte Ltd ("KSPL") totalling \$11.3 million. Following the review of the 2018 annual report, SIAS had asked the company about the commercial due diligence carried out prior to the investment into Kalms as the group invested \$10 million in June 2018 for a 50% stake in KIPL without carrying out an independent valuation. **What are the lessons gleaned from the business angle (insights of the vending solutions) and from the board approval process (including due diligence, valuation and deal structure) in the past 2 years? Under the new structure, what are management's key assumptions that would make the vending solutions business profitable?**
- (iv) **Growth strategy:** The company appointed Mr Kelvin Lum Wen-Sum and Ms Chow Ching Sian as CEO and CFO respectively on 8 August 2018. **With more than two years on the job, and given that the COVID-19 pandemic has caused unprecedented disruptions to businesses, would the company provide shareholders with a holistic overview of its growth strategy (including its capital allocation framework)? Has the board evaluated the performance of management?**

Q2. In October 2019, the company announced that its 75%-owned subsidiary acquired a piece of vacant land comprising 54 plots of girik land (alas hak) with the total land area of approximately 580,000 square meters located at Desa Berakit, Kecamatan Teluk Sebung, Kabupaten Bintan, Kepulauan Riau Province, Indonesia, by way of transfers of possession of rights.

Berakit is located at the north eastern part of Bintan Island.

The land was acquired for \$4.8 million (Indonesia Rupiah 48.8 billion) in October 2019 without an independent valuation.

While the board had assessed that there are a variety of potential tourism-related uses for the land, there were no concrete plans on how to develop the land nor any apparent feasibility studies carried out. The company had stated that it will evaluate various possible options and will make announcements of any material developments at the appropriate juncture.

- (i) **Would the board, especially the independent directors, elaborate further on the reasons for approving the transaction when it appears that the purchase was speculative in nature as there were no concrete plans on how to develop the land?**
- (ii) **How did the board assess that the acquisition price was fair given that no independent valuations were carried out?**
- (iii) **Did the board, especially the independent directors, approve the acquisition? If so, what was the hurdle rate in the investment thesis which was approved by the board?**
- (iv) **Can management help shareholders understand their experience in real estate development, especially hospitality/tourism-related properties in Indonesia?**

Within 9 months of its acquisition, the group revalued up the land (recognised as investment property – Note 5) from \$4.8 million to \$17.4 million, an increase of \$11.8 million (with capitalised cost of \$0.9 million). A valuation was performed as at 30 June 2020 by KJPP Wilson dan Rekan in association with Knight Frank.

- (v) **Would management be publishing the valuation report on SGXNet?**

In Note 27 (page 146 – Finance risk management: Measurement of fair values), the company has stated that the investment property is carried at Level 3 of the fair value hierarchy using a valuation technique of “Market Approach with plus minus method”.

- (vi) **Would the audit committee (AC) elaborate further on the valuation technique used? In layman’s term, please explain the “market approach with plus minus method”.**

The company has stated that the unobservable input used is the price of comparable property which ranged from Indonesian Rupiah 300 per sqm – Indonesian Rupiah 375 per sqm.

Fair value hierarchy (Cont'd)

The following table presents the valuation technique and key inputs used to determine the fair value of investment property categorised under Level 3 of the fair value hierarchy.

Description	Fair value at 30 June 2020 \$'000	Valuation technique	Unobservable input	Range of unobservable inputs
Investment property	17,423	Market Approach with plus minus method	Price of comparable properties	Indonesian Rupiah 300 per sqm – Indonesian Rupiah 375 per sqm

(Source: company annual report)

- (vii) **Would the AC confirm that the unobservable inputs ranged from Indonesian Rupiah 300 per sqm to Indonesian Rupiah 375 per sqm? If so, can the AC help to reconcile the fair value of \$17.4 million (which is mainly due to fair value adjustment of \$11.8 million) (page 106)?**
- (viii) Since the purchase, the COVID-19 pandemic has led to closure of borders, which has decimated tourism globally. **How does the AC justify the new valuation which is more than 3 times the original purchase price made 9 months ago before the pandemic struck?**

Q3. The profile of Mr Chng Hee Kok is shown on page 5 of the annual report. Other than the chairmanship of the company, Mr Chng has directorship appointments in 7 other listed companies, as follows:

- Full Apex (Holdings) Limited
- Luxking Group Holdings Limited
- United Food Holdings Limited
- The Place Holdings Limited
- BlackGold Natural Resources Limited
- Metech International Limited
- KTL Global Ltd

In total, Mr Chng has 8 directorships, including sitting on the board of a company which is facing a winding up petition and another that was issued a Notice of compliance by SGX in December 2019.

- (i) **Given that Mr Chng has 8 directorships in total, how does Mr Chng, as chairman of the board, ensure that he affords sufficient time, energy and attention to matters of the group?**

The attendance of the directors at board and board committee meetings is shown on page 32 and reproduced below.

The attendance of each Director at meetings of the Board and of the Board committees, as well as the Annual General Meeting of the Company ("AGM") in FY2020 is set out in the table below.

	Board	Audit and Risk Committee	Nominating Committee	Remuneration Committee	AGM
Number of meetings held	7	4	3	2	1
Director	Number of meetings attended in FY2020				
Mr Chng Hee Kok	6*	4	2*	2	1
Mr Kelvin Lum Wen-Sum	7	NA	3	NA	1
Mr Amos Leong Hong Kiat	6	4	3	2	1
Mr Clement Leow Wee Kia	7	4	3	2	1
Ms Iris Wu Hwee Tan	7	4	NA	NA	1
Mr Adrian Lum Wen-Hong	6	NA	NA	NA	1

* abstained from participating in the meeting

(Source: company annual report)

It is shown that Mr Chng attended 6 out of the 7 board meetings and 2 out of the 3 nominating committee meetings. The company further disclosed that Mr Chng abstained from participating in the two meetings that he was absent from.

Mr Chng is an independent director holding the chairmanship of the board and the company has stated that Mr Chng has no business relationship with the group and is independent from the substantial shareholder or the officers of the company.

- (ii) **As such, can the company/director elaborate further on the reason(s) for Mr Chng to abstain from the meetings?**

^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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