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

Issuer: Excelpoint Technology Ltd.

Stock code: BDF

Meeting details:
Date: 1 June 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.

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Q1. As shown in the financial highlights (page 6 of the annual report), the group reported a 22% decline in revenue to US$977.0 million and a 80% decline in profit after tax attributable to equity holders to US$1.6 million. With a net debt to equity ratio of 1.22x, the group achieved a return on equity ("ROE") of 2.08%. The revenue and profitability measures are all at 5-year lows. From FY2016-FY2018, the group achieved an average ROE of 10.57%.

FINANCIAL
HIGHLIGHTS

Results of Operations (US$'000)	FY2019	FY2018	FY2017	FY2016	FY2015
Total revenue	976,976	1,255,975	1,146,394	988,240	828,283
Profit before tax	1,935	8,396	10,223	8,505	5,499
Profit after tax attributable to equity holders	1,599	8,103	8,098	7,053	4,355
Earnings per share (US cent)	1.34	6.83	6.87	6.65	4.26
Return on equity (%)	2.08	10.41	10.97	10.33	7.62

(Source: company annual report)

In the Letter to shareholders, it was disclosed that management took a deliberate path to vigilantly manage costs with a view to improve efficiencies, strengthen credit and inventory control and improve cash flow.

An analysis of the group's consolidated income statement is shown below:

	Note	2019 US$'000		2018 US$'000	
Revenue	4	976,976	COS: 94.5% of revenue	1,255,975	COS: 94.6% of revenue
Cost of sales		(922,790)	GP margin of 5.5%	(1,188,142)	GP margin of 5.4%
Gross profit		54,186		67,833	
Other income	5	1,592	S&D: 3.3% of revenue	942	S&D: 2.8% of revenue
Sales and distribution costs		(31,857)	G&A: 1.5% of revenue	(34,655)	G&A: 1.5% of revenue
General and administrative expenses		(14,691)		(18,559)	
Finance costs	6	(5,561)	0.18% of revenue	(6,756)	0.03% of revenue
Impairment losses on financial assets	7	(1,734)		(409)	
Profit before tax	7	1,935		8,396	
Income tax expense	8	(336)	Net profit margin of 0.16%	(293)	Net profit margin of 0.65%
Profit for the year attributable to equity holders of the Company		1,599		8,103	

(Source: adapted from company annual report; analysis by SIAS)

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Despite lower revenue, the group's gross profit margin held steady at 5.4-5.5% but net profit margin was just 0.16% in 2019 and 0.65% in 2018.

(i) **Has the board deliberated on the gross profit margin achieved/achievable by the group over a business cycle?**

(ii) **Given that the business model of high volume-low margin benefits from operating leverage, how will the group adjust if/when the volume of business decreases?**

(iii) **Would management help shareholders understand the reasons for the increase (as a percentage of revenue) in the sales and distribution costs?** Management said that it took a deliberate path to vigilantly manage costs and yet sales and distribution costs went up from 2.8% of revenue to 3.3%.

(iv) **Would the company provide a breakdown of the major cost items in the consolidated income statement?** As seen in the income statement above, the group does not provide notes in the financial statement to "Sales and distribution costs" and "General and administrative expenses". These were approximately US$31.9 million and US$14.7 million respectively. Stocks recognised as an expense in cost of sales amounting to US$921.9 million was given as a lump sum in Note 16 (page 96).

Q2. The "impairment of trade debtors" is a key audit matter (KAM) highlighted by the Independent Auditor's in their Report on the Audit of the Financial Statements (page 60). Key audit matters are those matters that, in the professional judgement of the Independent Auditor's, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM:

> *As at 31 December 2019, the Group has gross trade debtors of US$151.7 million with allowance for expected credit loss of US$0.9 million. The Group uses a provision matrix to calculate expected credit losses for trade debtors, which is determined based on the Group's historical observed default rates, customers' ability to pay and adjusted with forward-looking information. The assessment of correlation between historical observed default rates, forecast economic conditions and expected credit losses require management to exercise significant judgement. As such, we determined that this is a key audit matter.*

In fact, the group recognised impairment losses on trade debtors amounting to US$1.97 million in FY2019, up from US$550,000 in FY2018. The net impairment losses on trade debtors were US$1.73 million and management wrote-off US$1.41 million in bad debt.

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(i) **Can management help shareholders understand the profile of the major debtors with long-outstanding receivables?**

(ii) **What improvements have the group made to its credit control?**

(iii) **Is there a sign that credit quality has deteriorated significantly due to the pandemic?**

Q3. As disclosed in Note 24 (page 100 – Related party transactions), the directors received US$3.8 million in compensation for FY2019. This was a drop of 5.4% from FY2018. As noted above, revenue dropped by 22% and net profit declined by 80% in 2019.

Compensation of key management personnel

	Group	
	2019 US$'000	**2018 US$'000**
Short-term employee benefits	5,261	5,611
Contributions to defined contribution plans	93	93
Share-based payments under EPSS	104	136
	5,458	5,840
Comprise amounts paid/payable to:–		
– Directors of the Company	3,831	4,049
– Other key management personnel	1,627	1,791
	5,458	5,840

(Source: company annual report; emphasis added)

In fact, in the Corporate governance report, the company has deviated from Provision 8.1of the Code of Corporate Governance 2018 and disclosed the remuneration of the executive directors as "S$500,000 and above". The company's disclosure remuneration is the subject of a SGX Regco query which the company announced on 8 May 2020.

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Directors' and Group CEO's Remuneration

Remuneration Bands	Name of Director	Directors' Fees %	Salary %	Bonus %	Allowance and Benefits %	Share-based %	Total %
S$500,000 and above	Albert Phuay Yong Hen*	–	57%	39%	4%	–	100%
S$500,000 and above	Alan Kwan Wai Loen*	–	60%	36%	4%	–	100%
S$500,000 and above	Herbert Kwok Fei Lung	–	58%	42%	–	–	100%
S$500,000 and above	Tonny Phuay Yong Choon	–	57%	40%	3%	–	100%
Below S$250,000	Kwah Thiam Hock	85%	–	–	–	15%	100%
Below S$250,000	Professor Low Teck Seng	85%	–	–	–	15%	100%
Below S$250,000	Sunny Wong Fook Choy	85%	–	–	–	15%	100%
Below S$250,000	Joanne Khoo Su Nee	81%	–	–	–	19%	100%

*They are employees who are substantial shareholders of the Company whose remuneration exceeds S$100,000 for FY2019.

(Source: company annual report)

(i) **Would the remuneration committee ("RC") help shareholders understand the financial and non-financial key performance indicators used in the assessment of the executive directors?**

In FY2018, the executive directors received 34%-39% in bonus and the total remuneration paid to directors was US$4.05 million. In FY2019, when the group's revenue and net profit declined by 22% and 80% respectively, the directors collectively received just 5.4% less in remuneration while the bonus component improved to 36%-42%.

(ii) **How did the RC evaluate and assess the directors?**

(iii) **Can the RC elaborate further on how the groups' remuneration practices are aligned with shareholders' interests?**

The company has stated that "[f]or competitive reasons" it will not fully disclose details of directors' remuneration **within bands of S$250,000** [emphasis added].

(iv) **Would the RC confirm that they are cognisant that the Code of Corporate Governance 2018 requires the amounts and breakdown of each individual director, and not in bands of S$250,000?**

(v) **What are the competitive reasons for the non-disclosure?** The top two executive directors own approximately 42.2% and 5.2% of the shares respectively. It does not appear that the two directors can be poached.

In fact, since directors' fees are S$248,000, the four executive directors would have received more than S$5 million (US$3.8 million minus S$248,000). Therefore, it is highly

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likely that at least one director received "S$1,000,000 and above". The average remuneration is approximately S$1.25 million each for the four directors.

(vi) **Would the RC consider how it can better comply with the intent of Principle 8 with regard to disclosure of directors' remuneration?**

Similarly, the company has deviated from the Code by not disclosing the remuneration of employees who are immediate family members of the directors, CEO or substantial shareholders and whose remuneration exceeds $100,000.

There are four employees who are immediate family members of our CEO, Directors, or substantial shareholders and whose remuneration exceeds S$100,000 for FY2019. By the same token, their remunerations in incremental bands of S$100,000 will not be disclosed.

Name of Employee	Relationship with CEO, Directors or substantial shareholders
Below S$1,000,000	
Tonny Phuay Yong Choon	Brother to Mr. Albert Phuay Yong Hen (Chairman and Group CEO)
Below S$500,000	
Phuay Yong Hua	Brother to Mr. Albert Phuay Yong Hen (Chairman and Group CEO) and Brother to Mr. Tonny Phuay Yong Choon (Executive Director)
Ivy Chan Yuk Wah	Spouse of Mr. Herbert Kwok Fei Lung (Executive Director)
Below S$250,000	
Phuay Li Ying	Daughter of Mr. Albert Phuay Yong Hen (Chairman and Group CEO)

(Source: company annual report)

(vii) **Would the RC be re-evaluating this practice to comply with the intent of the principle?**

Please state the roles and responsibilities of each of the employees who are related to the directors, CEO or substantial 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.

^ 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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