Securities Investors Association (Singapore)
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Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Pavillon Holdings Ltd.

Stock code: 596

Meeting details:
Date: 28 May 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. In the chairman and managing director's message to shareholders, management stated that the group attained a revenue of $13.0 million, a slight decrease from $14.4 million in the financial year ended 31 December 2019 (page 2 of the annual report). This was attributed mainly to decreased revenue from Singapore restaurant operations as well as a decrease in revenue from operations in China due to a decline in financial leasing business during the year.

The slight decrease mention above was actually a 9.7% drop in revenue while the "decline in financial leasing business" was a drop in leasing revenue from $1.5 million to just $0.1 million in FY2019.

Management had also added that the group received unquoted shares valued at $3.9 million and that the group is satisfied with the valuation of unquoted shares which was deemed sufficient to "substantially cover the amount due from the debtor" (page 3). As a result, the group reversed an $3.86 million in impairment loss on the finance lease receivables out of the total amount of $4.83 million recognised in FY2018. However, as noted in the key audit matter which was highlighted by the independent auditor, in FY2019, the group recognised additional loss allowance of $5.92 million due from a major debtor (page 18). This was not mentioned in the message the shareholders.

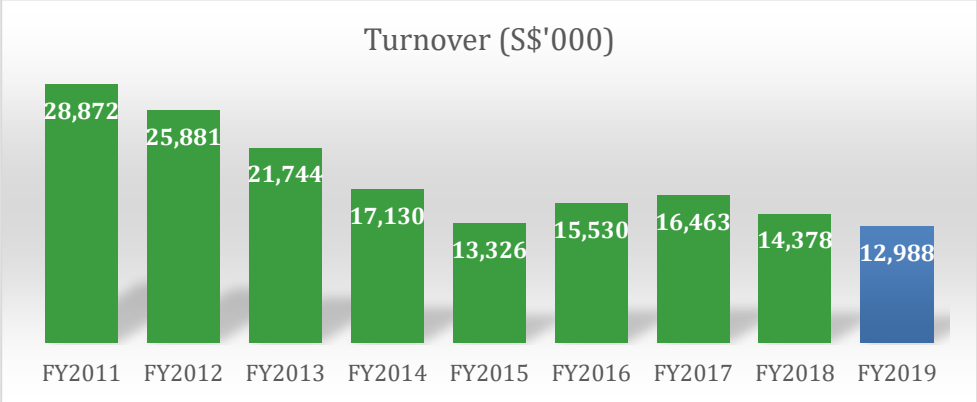
(i) **Would the independent directors help shareholders understand their level of involvement in preparing the annual report?**

(ii) **What guidance would the board (especially the independent directors) give to management to ensure that the annual report, including the message to shareholders, gives shareholders a true, fair and holistic view of the group's performance in the year, including the achievements and the challenges faced by the group?**

Q2. Can management provide shareholders with better clarity on the following operational and strategic matters? Specifically:

(i) **Strategic direction:** The group's revenue has dropped from $28.87 million in FY2011 to $12.99 million in FY2019. The group has made substantial losses in the last decade (see Q3 for the losses), especially in China. The group experienced year-on-year revenue decreases in 6 of the last 8 years (see chart below). **Would the independent directors be driving a strategic review to safeguard the interests of all shareholders, especially minority shareholders?**

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(Source: data from company annual reports; graphics by SIAS)

(ii) **Fengchi IOT Co., Ltd: With the company's stake in Fengchi IOT Co., Ltd being diluted to 49%, what is management's level of influence and oversight of the development of the bonded warehouse in the DongJiang Economic Zone, Tianjin? What is the experience and track record of management in developing and operating logistic facilities in a Free-Trade Zone in China?**

(iii) **Unquoted shares:** The group received unquoted equity shares of RMB20 million as part of the partial settlement from the former executive director. **What was the valuation method used by the board/management? How easy would it be for the board to monetise the unquoted equity shares if needed?**

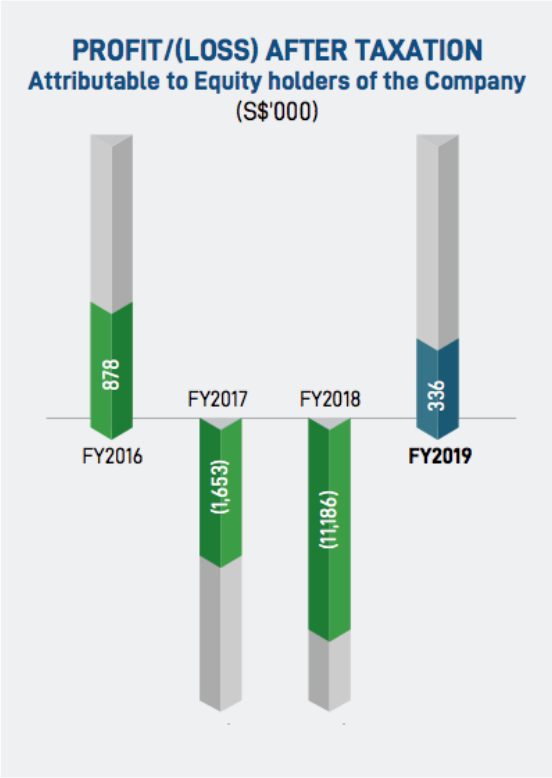
(iv) **Other receivables:** The group impaired $7.0 million in other receivables in FY2018. **Please disclose the nature of the "Other receivables" and the profile/identity of the debtor. How is management going to recover this long-outstanding debt?**

(v) **Leasing: Given the track record of the group in the leasing business, what are management's plans for the leasing segment?**

Q3. As seen on page 9 (Financial highlights; reproduced below), the group reported a profit attributable to equity holders of the company of $336,000 in FY2019.

Since FY2014, the cumulative losses of the group attributable to shareholders amount to $(14.97) million. The losses in FY2014 and FY2015 were $(1.12) million and $(2.23) million respectively.

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(Source: company annual report)

The remuneration of the executive directors is shown on page 118 and reproduced below:

Directors

	Salary	Fee	Bonus	Other benefits	Total
	%	%	%	%	%
Directors					
Between S$500,000 and S$749,000					
Chen Seow Phun, John	72.3	-	10.8	16.9	100
Between S$250,000 and S$449,000					
Lee Tong Soon	83.8	-	13	3.3	100
Kok Nyong Patt	78.6	-	12	9.3	100
Zheng Fengwen [1]	85.8	-	6	8.2	100

(Source: company annual report)

All the directors received bonuses that were between 6-13% of their annual remuneration packages. In FY2018 when the company reported a loss of $(11.2) million, the executive directors received 5-6% in bonus.

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The remuneration of directors since FY2014 is shown in the table below:

	Total director remuneration (salaries, bonus and other benefit)	Bonus	Profit/(loss) attributable to shareholders
FY2014	$3,085,000	4-6%	$(1,115,000)
FY2015	$2,802,000	4-6%	$(2,225,000)
FY2016	$2,504,000	5-6%	$878,000
FY2017	$2,256,000	5-6%	$(1,653,000)
FY2018	$1,778,000	5-6%	$(11,186,000)
FY2019	$1,840,000	6-13%	$336,000
Total	**$14,265,000**	**-**	**$(14,965,000)**

(Source: company annual report)

Based on the fees approved by shareholders at the annual general meeting, it would appear that the company stopped the practice of paying the executive directors director's fees. Directors' fees dropped from $378,000 in FY2018 to $198,000 in FY2019. Prior to that, it is estimated that the four executive directors received fees of approximately $180,000 while the independent directors received fees of $198,000.

Nevertheless, from FY2014-FY2019, the directors received $14.3 million in the 6 years while the total losses attributable to shareholders amounted to $(14.97) million.

While executive remuneration has come down in FY18-FY19, the directors still received remuneration of approximately $1.8 million a year when the company lost over $10 million during that period. In FY2019, bonuses for directors increased probably due to the profit of $336,000 achieved in the year.

The remuneration committee ("RC") comprises three members, namely Mr Foo Der Rong (chairman), Mr Hoon Tai Meng and Mr Ko Chuan Aun. The RC has stated that it has a remuneration policy to provide compensation packages at market rates which reward successful performance and attract, retain and motivate directors and key management personnel.

Provision 7.1 of the Code of Corporate Governance further states that a significant and appropriate proportion of executive directors' and key management personnel's remuneration is structured so as to link rewards to corporate and individual performance.

(i) **Has the RC evaluated the performance of management in the past 5-8 years?**

(ii) **Looking at the table above, has the RC evaluated the level and structure of executive remuneration and if the current remuneration practices achieve the goal of pay-for-performance?** Over a 6-year period, directors received $14.3 million while shareholders suffered losses of $(14.97) million.

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The company has stated that the executive chairman oversees the business direction, long term strategic planning and the overall management and operations of the group (page 102). However, as disclosed in the director's profile on pages 106 and 107, the executive chairman has directorships in multiple boards of other listed companies, such as:

- OKP Holdings Limited
- Hiap Seng Engineering Ltd
- Hanwell Holdings Ltd
- Matex International Limited
- Tat Seng Packaging Group Ltd
- Hong Lai Huat Group Limited
- Fu Yu Corporation Limited

Dr Chen is also the deputy chairman or lead independent director on some of these boards.

(iii) **Would the nominating committee evaluate how the group might benefit from the leadership of an executive chairman who is primarily focused on matters of the group and chooses to fully devote his time and energy to turn around the group?**

^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)