



Securities Investors Association (Singapore)

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GST Reg No: M90367530Y

Issuer: Second Chance Properties Ltd

Stock code: 528

Meeting details:

Date: 30 December 2020

Time: 11.00 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.

Q1. The group is involved in four core businesses, namely property investment, apparel retail, gold jewellery retail and investment/trading in financial instruments (mainly equities).

- (i) **Apparel:** Revenue from the apparel segment decreased by 65% to \$1.76 million in FY2020. Segment loss increased from \$(0.14) million to \$(0.74) million. This segment loss was exacerbated by the Movement Control Order in Malaysia and the Circuit Breaker in Singapore. Nevertheless, management acknowledged that it is faced with a reduction in selling price of apparels, change in consumer preferences and the increasing trend of online shopping in the retail segment. **What are the operational milestones needed to return the segment to profitability? Has the group adapted its business model to take into account the changes in the apparel retail segment? Has the board evaluated the sustainability of the segment?**
- (ii) **Property investment:** The group has committed \$157 million (FY2019: \$159 million) in the property investment segment. Details of the group's property portfolio can be seen on pages 22-23 of the annual report and in Note 19 (pages 98 to 101 – Investment properties). The group's major assets include 22 units in City Plaza valued at \$37.9 million (with 1 unit being sold after the financial year), 5 units in Peninsula Plaza valued at \$22.0 million and 11 units in Sim Lim Square valued at \$20.8 million. **Would management update shareholders on the progress of its collective sales efforts at City Plaza and Sim Lim Square? Would the board be reviewing its strategy of investing significant amounts of capital in strata units within a mall that does not lead to having a controlling stake?**

Q2. The group reported a profit of \$4.45 million even though the retail businesses were badly affected by the measures put in place by governments to stop the spread of COVID-19.

As shown in Note 5 (page 86 – Other losses) and in Note 11 (page 90 – Financial assets, at FVPL), the group recognised fair value loss through profit or loss amounting to \$(4.19) million. This was the fair value loss attributed to the group's holdings of financial assets, at FVPL. The carrying amount was \$24.0 million at the beginning of the financial year and \$17.6 million at the end of the financial year.

In the independent auditor's report (page 61), the auditor highlighted the involvement of management's judgements for the classification of the financial assets at FVPL and FVOCI. As at 31 August 2020, financial assets, at FVPL were valued at \$17.57 million and financial assets, at FVOCI were valued at \$61.87 million representing 6.20% and 21.83% of the total assets respectively.

In Note 2.10(a)(ii) (page 79 – Financial assets: Classification and measurement: Equity instruments), the company has disclosed that it has elected to recognise changes in fair value of equity securities not held for trading in other comprehensive income (i.e., financial assets, at FVOCI) as these are strategic investments and the group considers this to be more relevant.

- (i) **Can management elaborate further on how it determined which investments are to be recognised as financial assets at FVPL or financial assets at FVOCI?**
- (ii) **What are the investment objectives (such as return and/or risk targets, time horizon, sizing, sector) of the FVPL and FVOCI portfolios?**
- (iii) **What are the average holding periods for securities that are “held for trading” and those that are “not held for trading”?**
- (iv) **Would management elaborate on what it regards as “strategic investments”? Would it be accurate to say that the group is a passive/minority financial investor in all of its securities investment? If so, what would constitute a “strategic investment”?**

It is noted that the carrying value of financial assets at FVOCI is significantly larger (\$61.87 million vs \$17.57 million). In Note 16 (page 92 – Financial assets, at FVOCI), it can be seen that the fair value loss on financial assets, at FVOCI amounted to \$(13.23) million.

While the group reported an after tax profit of \$4.45 million, other comprehensive loss for the year was \$(14.2) million, resulting in a total comprehensive loss of \$(9.8) million for FY2020. Total equity attributable to shareholders decreased from \$262.1 million to \$248.9 million as at 31 August 2020.

- (v) **Given that the classification between FVPL and FVOCI would affect the accounting profit reported by the group, can the board clarify if it would affect the remuneration of executives/directors, especially the bonus components of executives/directors in charge of the securities portfolio?**

Based on the latest announcement by the company dated 11 December 2020, the group has increased its quoted securities investments to \$147.0 million (by market value; aggregate cost of \$162.8 million). This is 65.4% of the group’s net tangible asset on an aggregate cost basis.

As at 31 August 2019 (at the end of the last financial year), the group only had \$80.6 million in financial assets (\$24.04 million recognised as financial assets, at FVPL and \$56.53 million as financial assets, at FVOCI).

- (vi) **Can the board confirm that it has reviewed and increased the internal limit which previously stood at 35% of the group's net tangible asset?**
- (vii) **What is the new limit?**
- (viii) **Would the large investments into quoted securities alter the risk profile of the group?**

The group has “paper losses” amounting to \$(15.8) million based on the company's announcement dated 11 December 2020. A summary of the performance of the securities trading is shown in the table below:

	2020	2019	2018
Fair value loss on financial assets, at FVPL	-4,192,549	-2,646,153	-2,350,722
Fair value (loss)/gain on financial assets, at FVOCI/AFS	-13,229,575	565,892	-4,963,000
Gain/(loss) on redemption of financial assets, at FVPL	-21,935	11,719	9,100
Gain on disposal of financial assets, at FVPL	23,060	-	-
Gain on disposal of financial assets, at FVOCI/AFS	-	-	6,876

(Source: company annual report)

- (ix) **Given that over the past 3 years, the group had to recognise significant fair value losses in its securities portfolio, can management elaborate further on its advantage in trading and investing in securities?**
- (x) **Would the company disclose the total returns (after financing costs) achieved from securities trading and investing over the past 3-year/5-year/10-year period?**

Q3. As noted in the Founder and CEO statement, Mr Mohamed Salleh Marican has stepped down as chairman on 31 August 2020 and Dr. Ahmad Magad was appointed as independent non-executive chairman on the same day.

This was said “to further maintain [the group's] high standards of corporate governance” as the separation of the chairman and CEO roles increases the board's independence from management which will lead to better monitoring and oversight including controlling risk.

At the annual general meeting scheduled to be held on 30 December 2020, Dr. Ahmad Bin Mohamed Magad is retiring by rotation pursuant to Regulation 107 of the company's Constitution and would be seeking his re-election.

The biography of Dr. Ahmad Magad can be found on page 5 of the annual report. Additional information on directors seeking re-election can be found on pages 52-55. Dr. Ahmad Magad was first appointed as a director of the company on 20 December 1996. Dr. Ahmad Magad has served on the board for more than 24 years.

The board has rigorously reviewed the independence of Dr. Ahmad Magad and continues to consider the director as independent (page 32).

In the corporate governance report, the company has stated that it is committed to regularly improving its corporate governance practices and to define, follow and practice the highest level of corporate governance in the company and its subsidiary.

- (i) **Has the board considered the early adoption of the two-tier vote on the continued appointment of Dr. Ahmad Magad as an independent director?**
- (ii) **Similarly, would the board also consider the early adoption of the two-tier vote for the continued appointment of Mr Tan Lye Heng Paul as an independent director?** Mr Tan Lye Heng Paul was first appointed as a director on 29 November 2002 and has served for more than 18 years on the board.

Other than Dr. Ahmad Magad and Mr Tan Lye Heng Paul, the other independent director is Ms. Geetha Padmanabhan who is also the chairman of the audit committee. As noted in the director's profile, Ms. Geetha Padmanabhan has been with the group since April 2003 where she worked as the Finance Manager from April 2003 to 30 June 2006 and then from April 2007 to Jan 2012 before joining the board on 1 March 2012.

- (iii) **Would the board, especially the nominating committee (NC), help shareholders understand the pace of the progressive renewal of the board?**
- (iv) **Can the NC elaborate further on how its search and nomination process for directors (especially independent directors) can further improve the board's diversity and independence?**

[^]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](http://www.sias.org.sg)

[^] 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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