Corporate governance: more teeth and substance needed

Chip Eng Seng lacks transparency regarding remuneration of EDs and key management personnel. Also, its interested person transactions and board composition raise some queries.

By MAI TIN TEEN AND CHEW YI HONG

On April 24, 2019, Chip Eng Seng Corporation (CGS-Courier, Trading Symbol CEG) filed its unaudited first quarter financial statements for the quarter ended March 31, 2019 with the relevant prescribed disclosures regarding remuneration in its FY2019 annual report. As required by Rule 2C(1)(i) of the Listing Manual, the company’s remuneration (as repositioned under section 10 of the Companies Act) is disclosed in paragraph 9.2 of the Code or otherwise explains the reason for the deviation from the following Code recommendations. The company reported that it did not disclose remuneration to the nearest thousand dollars as it is commercially sensitive. The top board for directors was in excess of $15,000,000 million or an upper limit. Please provide an upper limit to the board.

The company’s response said: “The Country Head of Malaysia, Mr. Lee, spearheaded the network (M’Year I) in the executive director (ED) and group chief executive officer (CEO). He has since been appointed as a key management offeree of the company and in this capacity he would be required to disclose the upper limit to the board of Mr. Chia’s remuneration in the view of the sensitive financial data and confidentiality status of such data. The board believes such disclosure would pose as a disadvantage to the group as it operates in a highly competitive environment and therefore, it has decided not to disclose in the FY2019 annual report to protect the interests of the group.”

LACK OF TRANSPARENCY REGARDING REMUNERATION

The response is problematic for several reasons. First, CGS-Courier does not provide any upper limit to the board for the directors. Second, in the case of the top board for directors, which is in excess of $15,000,000 million or an upper limit, the company did not disclose the upper limit to the board of Mr. Chia’s remuneration in the view of the sensitive financial data and confidentiality status of such data. Third, the board believes such disclosure would pose as a disadvantage to the group as it operates in a highly competitive environment and therefore, it has decided not to disclose in the FY2019 annual report to protect the interests of the group.

REMUNERATION OF EXECUTIVE DIRECTORS AND FAMILY MEMBERS

Since CGS-Courier has abstained from disclosing the individual remuneration of its EDs, especially for the three who were paid “above $15,000,000 million”, we estimated how much these three EDs were paid. The other two ED remuneration was disclosed as “above $40,000,000 million” and “above $60,000,000 million” and “above $90,000,000 million.”

Based on CGS-Courier’s financial statements relating to related party transactions that shows the compensation of directors for FY2019 was $28,627,280. The notice of AGM shows that the total directors’ fees paid to executive directors (EDs) is the same as $28,627,280 approved the previous year, and the total EDs’ fees increased from $28,627,280 to $33,285,605.

The company disclosed the remuneration of five EDs in the FY2019 annual report as “above $15,000,000 million”. We estimated that the five EDs were paid “above $15,000,000 million” in FY2019, which is not disclosed in the annual report.

THE POTENTIAL IMPACT OF THE 2018 CODE

Starting from annual reports for financial years beginning on Jan 1, 2018, interested person obligations under listed rules require the disclosures of policies, plans and level of remuneration, the process for setting remuneration, and the relationship between remuneration, performance and value creation. Prior to the 2018 Code, companies were able to keep their policies and level of remuneration, the process for setting remuneration, and the relationship between remuneration, performance and value creation confidential. Prior to 2018, companies were able to keep their policies and level of remuneration, the process for setting remuneration, and the relationship between remuneration, performance and value creation confidential. Prior to 2018, companies were able to keep their policies and level of remuneration, the process for setting remuneration, and the relationship between remuneration, performance and value creation confidential.

Although companies are allowed to keep the following from the public at all times, the company’s secretiveness is likely to harm investors, customers, and the economy in general. One of the potential impacts is that the company’s secretiveness is likely to harm investors, customers, and the economy in general. One of the potential impacts is that the company’s secretiveness is likely to harm investors, customers, and the economy in general. One of the potential impacts is that the company’s secretiveness is likely to harm investors, customers, and the economy in general. One of the potential impacts is that the company’s secretiveness is likely to harm investors, customers, and the economy in general.

INTERESTED PERSON TRANSACTIONS

CGS-Courier also disclosed IPs in several of its annual reports, often related to sales of residential units from properties developed by the company. In total, there were sales of two residential units at High Park Residences and the sales were $1,500,000 and $2,000,000 to Mr. Tan in the year ended March 31, 2018. The transactions were approved by the independent directors of the company.

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