

# **An Investor's Guide To Preparing For Annual General Meetings**

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This guide seeks to aid investors to focus on key issues and raise pertinent questions during the Annual General Meeting (AGM).

In the next few pages, we have listed some issues and considerations in four different sections to help investors to better prepare for the AGM:

- Typical resolutions at AGMs - appointment of directors, dividends, new share issuances, etc.
- Company performance on the period just past – assessing and understanding how the company has performed in the last year, relying significantly from the separate An Investor's Guide to Reading Annual Reports (GRAR).
- Company snapshot, status update – getting a snapshot of where things stand at the moment.
- Outlook – requesting clarification of what is likely or expected in the coming period.

## **REMEMBER:**

1. The AGM is held for the benefit of shareholders. Try your best to attend them!
  - For many shareholders, this will be the **ONLY** chance to directly query top management and their board of directors on issues affecting their investment!
  - Exercising your vote on the resolutions is your exclusive right. Attend the AGM and be heard!
2. Time is precious at these meetings. Be prepared by reading the annual report and reviewing the questions in the GRAR.
3. Request for the minutes to previous AGMs as an additional reference. Note that making this available is a guideline in the Code of Corporate Governance Guidelines (2005) Point 15.5.
4. Focus questions on issues, not on personalities.
5. Take your own notes. Nothing beats following up on points raised a year earlier based on your own records.

## Section 1 – Typical resolutions at AGMs

ISSUE	CONSIDERATIONS	NOTES
<b>Adoption of directors' report and audited financial statements</b>	<ol style="list-style-type: none"> <li>1. This is the best time to query the accounts. Review the GRAR for the main issues that should be raised.</li> <li>2. Sections 2 and 3 address some of the more pertinent issues within the annual report.</li> <li>3. Section 4 provides some questions that can be raised to obtain clarity on plans for the future.</li> </ol>	
<b>Appointment, re-appointment of directors</b>	<ol style="list-style-type: none"> <li>4. Are you familiar with those seeking appointment / re-appointment? Review their background, which should be provided in the annual report or AGM circular. If not, request a summary of their background at the AGM.</li> <li>5. Do these directors add value to the firm, e.g. provide industry expertise? Or are they there to provide credibility? If the latter, are their credentials apparent? Have they ever been involved with failed or problematic firms? Are the directors over-extended, e.g. sitting on multiple boards or have full-time executive positions elsewhere?</li> <li>6. Did directors attend all of their appointed meetings? If not, why? Note that attendance records should be in the CG discussion pages.</li> </ol>	
<b>Approval of dividends</b>	<ol style="list-style-type: none"> <li>7. Do the dividends adhere to targeted dividend payout ratios, if any? If there is no stated dividend payout policy, request for a guideline from the board.</li> <li>8. Is the payout ratio going up or down? Why?</li> <li>9. If company has excess cash, why isn't it paying more?</li> </ol>	
<b>Appointment of directors' fees</b>	<ol style="list-style-type: none"> <li>10. Usually kept constant vs. last year. Query if there are significant increases.</li> <li>11. Use the test of reasonableness relative to overall earnings and overall salary expenses of company.</li> </ol>	
<b>Appointment of auditors</b>	<ol style="list-style-type: none"> <li>12. Any request for a change of auditors should be queried. However, do note that some companies are required by law to rotate auditors every few years.</li> </ol>	
<b>Issuance of new shares</b>	<ol style="list-style-type: none"> <li>13. This is a common resolution item. The shares can be issued to:               <ol style="list-style-type: none"> <li>a. existing shareholders on pro-rata basis (equal proportion to existing shareholdings), usually via rights issues or bonus issuance. This is usually fine.</li> <li>b. new shareholders, usually via placements. One must consider the allowable discount to existing share price.</li> <li>c. staff, management, directors, usually as incentive for performance. This should not be excessive.</li> </ol> </li> </ol>	

<p><b>Allowing share buybacks</b></p>	<p>14. Theoretically, share buybacks allow a company another means to deploy excess cash. Share buybacks make sense when alternative uses of cash (e.g. capacity expansion, acquisitions, debt repayment) are less attractive than the company's own shares. As such, in the execution of share buybacks, shareholders should query the:</p> <ul style="list-style-type: none"> <li>a. Logic: under what conditions will share buybacks be conducted;</li> <li>b. Process: how it will be conducted (e.g. only via open market buyback); and</li> <li>c. Authority: who can authorize and approve buybacks.</li> </ul> <p>In addition, if share buybacks were not conducted in the last 12 months, clarify if it was due to the considerations not being met. Conversely, if share buybacks were conducted, do verify that all the abovementioned considerations were met.</p>	
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## Section 2 – Company performance on the period just past

ISSUE	CONSIDERATIONS	NOTES
<p><b>Financial statements</b></p>	<p>15. Review Section 3 of the GRAR. Seek clarification on reasons behind the change in net profits YoY e.g. sales, various expenses, non-recurring items, operating cash flow, working capital controls, gearing.</p> <p>16. If there are changes in the accounting policy, query. Be cautious if the new accounting policy is considered more aggressive, e.g. it results in raising revenue bookings and/or reducing expense bookings in earlier years.</p> <p>17. If you cannot reconcile cash levels (see GRAR Q22 &amp; 23), query the auditors and the Board of Directors at the AGM.</p>	
<p><b>Follow-through on plans stated in previous years</b></p>	<p>18. Review GRAR Q3 &amp; Q4. You are following up to ensure that the company stays focused in its business, and that previously-stated plans remain on track. Examples include capacity expansion plans, acquisitions.</p>	
<p><b>Risk mitigation efforts</b></p>	<p>19. It is rare that all things go according to plan. Ask what has not gone well in the last year and seek clarification on steps that have been taken to mitigate risks of a repeat.</p> <p>20. Review GRAR Q5. Check if risk mitigation efforts have been implemented, and remain effective.</p>	

## Section 3 – Company snapshot, status update

ISSUE	CONSIDERATIONS	NOTES
<b>Changes since financial year end</b>	21. The AGM is usually three to four months after the financial year end. It would be fair to: a. query whether the business outlook has improved or turned for the worse since the fiscal period end; b. query if any new risks have appeared; or c. raise additional risk factors that you perceive and have not been raised and hear the response of the Board of the Directors and top management.	
<b>Current business positioning</b>	22. Get an update of how the company stands within its respective business segments or geography, e.g. market share, price positioning, brand positioning. 23. Get updates of current capacity utilization (which will provide insight into need for capacity expansion).	

 **Notes:**

## Section 4 – Outlook

ISSUE	CONSIDERATIONS	NOTES
<b>Industry and Economic outlook</b>	24. Management and Directors are usually reticent on making forecasts. However, it is fair to ask for the current assumptions they are making on their economic and industry outlook in their current business and strategic plans. Seek clarification if these assumptions differ from your perspective.	
<b>Planned expenditure of resources</b>	25. Are there areas (country/region, product or process) which the Board or top management envision that: <ol style="list-style-type: none"> <li>a. management will have to spend more time in?</li> <li>b. will see additional manpower (headcount) deployed?</li> <li>c. will have more financial resources deployed to it? For example, capacity expansion, acquisitions.</li> <li>d. will see a reduction in resources? For example, capacity reduction, retrenchments, asset divestments.</li> </ol>	
<b>Cash needs</b>	26. Query if there is any plausible reason that the company might need to raise cash in the coming months, e.g. in view of existing expansion plans?  27. Query what is the comfortable gearing level, and counter-check what this means in terms of cash needs based on current gearing level and answer to Q26.	



**Notes:**

# Glossary of common Acronyms and Terms

TERM	EXPLANATION
AR	Annual Report
CAR or Capital Adequacy Ratio	Sophisticated measure used to assess the sufficiency of equity to cover the balance sheet risks of financial institutions. The monetary authorities in all countries generally require this to be disclosed and it is thus best for the amateur investor to use what is given than attempt to replicate calculations. In general, this is the ratio of risk-weighted assets to the adjusted equity of the financial institution.
Cash cycle	<p>Shorter cash cycles mean companies are able to convert the profit from sales into cash in a shorter time, hence requiring less investment from shareholders to keep the business going and growing.</p> <p>The common computation for this is: <math>(\text{Trade receivables} + \text{Inventory} - \text{Trade payables}) / \text{Sales} \times \text{Duration of Sales}</math>. Thus, if you use quarterly sales, Duration would be 90 days, and 365 days for annual sales.</p> <p>Example:</p> <ol style="list-style-type: none"> <li>From the Balance sheet, under Current assets <ul style="list-style-type: none"> <li>Receivables from trade: \$100,000 (FY2005); \$120,000 (FY2006)</li> <li>Inventory: \$50,000 (FY2005); \$80,000 (FY2006)</li> </ul> </li> <li>From the Balance sheet, under Current liabilities <ul style="list-style-type: none"> <li>Payables from trade: \$80,000 (FY2005); \$110,000 (FY2006)</li> </ul> </li> <li>From the Income statement (or Profit &amp; Loss statement): <ul style="list-style-type: none"> <li>Annual sales: \$520,000 (FY2005); \$800,000 (FY2006)</li> <li>4th quarter sales: \$150,000 (4Q2005); \$225,000 (4Q2006)</li> </ul> </li> </ol> <p>Calculations:</p> <ul style="list-style-type: none"> <li>Cash cycle for FY2005 <ul style="list-style-type: none"> <li><math>(\text{Trade receivables} + \text{Inventory} - \text{Trade payables}) / \text{Sales} \times \text{Duration of Sales}</math> [with FY2005 data]</li> <li><math>(\\$100,000 + \\$50,000 - \\$80,000) / \\$520,000 \times 365 \text{ days}</math> [Duration of sales is 365 days for full year]</li> <li>49.1 days</li> </ul> </li> <li>Cash cycle for FY2006 <ul style="list-style-type: none"> <li><math>(\\$120,000 + \\$80,000 - \\$110,000) / \\$800,000 \times 365 \text{ days}</math></li> <li>41.1 days</li> </ul> </li> <li>Cash cycle for 4QFY2005 <ul style="list-style-type: none"> <li><math>(\\$100,000 + \\$50,000 - \\$80,000) / \\$150,000 \times 90 \text{ days}</math> [We use 90 days for quarterly sales duration]</li> <li>42.0 days</li> </ul> </li> <li>Cash cycle for 4QFY2006 <ul style="list-style-type: none"> <li><math>(\\$120,000 + \\$80,000 - \\$110,000) / \\$225,000 \times 90 \text{ days}</math></li> <li>36.0 days</li> </ul> </li> </ul> <p>In this example, the company is seeing improvement in the cash cycle since the time taken to convert each dollar of cash is getting faster, from 49.1 days in FY2005 to 41.1 days in FY2006, and from 42 days in 4Q2005 to 36 days in 4Q2006.</p>
CG = Corporate Governance	A term that has become increasingly important as it describes the overall management (governance) of a company with respect to all its stakeholders. While commonly considered as the responsibility of top management and the board of directors to shareholders, a more comprehensive view would also consider the responsibility of shareholders (e.g. in attending shareholder meetings and raising concerns, voting their views) and responsibilities to the broader society (e.g. environmental considerations).
COGS = Cost of Goods Sold	This item is usually identified clearly in the income statement. It is the sum of all costs directly associated with sales. These typically include commissions, materials costs and direct wages.
Dividend Payout Ratio	The most common definition is $(\text{total dividends for the year}) / (\text{net profit})$ .
Equity	Essentially the amount of money that has been put into the business by the owners of the business, including all accumulated earnings and reserves. Also commonly known as Shareholders funds, which will include paid up capital, all forms of reserves and (usually) minorities' interest.



<b>Gearing / Net Gearing</b>	<p>A term used to compare overall debt to equity. Common computations are: Total Debt/Total Equity or (Total Debt – Cash &amp; Cash Equivalents)/Total Equity. The latter is sometimes more specifically referred to as Net Gearing.</p> <p>Example: Assume balance sheet shows</p> <ul style="list-style-type: none"> <li>• Long term debt of S\$200,000 ;</li> <li>• Short term debt of \$100,000,</li> <li>• Cash and Bank deposits of \$50,000</li> <li>• Total shareholders' funds of \$500,000,</li> </ul> <p>Then</p> <p>Gearing will be Total Debt/Total Equity = <math>(\\$200,000 + \\$100,000)/\\$500,000 = 60\%</math></p> <p>Net Gearing will be (Total Debt – Cash &amp; Cash Equivalents) / Total Equity = <math>(\\$200,000 + \\$100,000 - \\$50,000)/\\$500,000 = 50\%</math></p>
<b>GM = Gross Margin</b>	The ratio of Gross Profit to Total Sales, where Gross Profit is the profit achieved from sales after deducting Cost of Goods Sold (see explanation of COGS above).
<b>Interest Yield</b>	Ratio of Total interest income to Interest generating assets (e.g. Cash & Cash Equivalents like bonds).
<b>Loan loss provisions</b>	In the income statement, this would be an expense item associated with actual or potential losses on loans. In the balance sheet, this would be the cumulative cushion against potential losses on loans extended.
<b>Net Margin</b>	(Net profit after tax and minorities interest) divided by total sales.
<b>Non-Recurring Expenses</b>	Expenses that are considered one-off in nature. These include losses due to divestment of long term investments at below net book value, retrenchment costs, foreign exchange translation losses (unless there are grounds to believe this will continue).
<b>Non-Recurring Income</b>	Income sources that are one-off in nature, e.g. gains from divestment of long term investments, foreign exchange translation gains, adjustments due to acquisition of assets below fair value.
<b>OCF (&amp; Net OCF)</b>	<p>Operating Cash flow. This should be clearly identified in the Cash flow Statement in the Financial Statements section of the annual report. It is the cash generated from all operating activities, after adjusting for the need to fund increases in working capital.</p> <p>Net OCF is simply OCF after subtracting interest expenses and taxes actually paid.</p>
<b>Op Margin or Operating Margin</b>	The ratio of Operating Profit to Total Sales, where Operating Profit is the profit achieved from sales after deducting all costs related to the running of the business. For analytical purposes, we will generally exclude non-recurring income and expenses, interest income and expense, taxes.
<b>ROE = Return on Equity</b>	This is the ratio of (Net Profits after tax and minorities)/(Equity excluding minorities' interest). This is the most commonly used ratio to assess the efficiency of capital in generating earnings. Generally, ROEs can range from sub-10% (commodity type business) to over 20% (usually strong value creators).
<b>Working Capital</b>	<p>Commonly calculated as Inventory + Trade receivables – Trade payables. Generically, one should consider all items that are required to fund the operations. Therefore, a broader definition would be (Current Assets excluding Cash &amp; Cash Equivalents) - (Current Liabilities excluding Debt &amp; Debt Equivalents).</p> <p>Example:</p> <p>Assume balance sheet shows</p> <ul style="list-style-type: none"> <li>• Current assets of \$500,000</li> <li>• Within Current assets, you have cash and bank deposits of \$100,000 and short term investments of \$50,000</li> <li>• Current liabilities of \$350,000</li> <li>• Within Current liabilities, you have debt (or bank borrowings, leases) of \$80,000</li> </ul> <p>Then your working capital would be</p> <ul style="list-style-type: none"> <li>• (Current Assets minus Cash &amp; Cash Equivalents) - (Current Liabilities minus Debt &amp; Debt Equivalents) = <math>(\\$500,000 - \\$100,000 - \\$50,000) - (\\$350,000 - \\$80,000) = \\$80,000</math></li> </ul>
<b>YoY</b>	Year on Year. The increase or decrease from one year to the next year, e.g. 2006 YoY would be the increase or decrease from 2005 to 2006.

Source: Universe Within Pte Ltd (used with permission)



**Notes:**



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