

Issuer: Sunright Limited
Security: Sunright Limited

Meeting details:

Date: 18 November 2016

Time: 09:30AM

Venue: Meeting Room 311, Level 3, Suntec International Convention & Exhibition Centre, 1 Raffles Boulevard, Suntec City, Singapore 039593

Company Description

Sunright Limited, an investment holding company, provides burn-in, testing, and electronic manufacturing services to semiconductor and electronics manufacturers. It provides burn-in services for a range of integrated circuits, which include memories, micro-controllers, microprocessors, digital signal processors, etc., as well as turnkey services comprising wafer sort, test, burn-in, mark, scan, and drop ship; assembles electronic and electrical components; and offers research and development services for burn-in and test related activities. The company also offers testing services; manufactures parallel test/burn-in boards, test interface board assemblies, and probe cards; and designs, develops, and delivers hardware and software products for burn-in parallel tests, such as parallel test burn-in systems and handling and storage products. In addition, it provides design, engineering, and manufacturing services for electronic products to aerospace, automotive, computing, consumers' electronics, industrial, medical, and mobile OEM customers. Further, the company trades in and distributes high-technology equipment, including semiconductor and surface mount technology manufacturing systems, machine visions, lasers, diamond scribings/breakers, ultrasonics, plasma systems, precision process ovens, and handling systems; and electrical and electronic components and materials, such as cables and wires, connectors, fiber optics, IT networking cabling systems, and chemicals and adhesives. Sunright Limited sells its products in Singapore, Malaysia, China, the Philippines, Hong Kong, Korea, Thailand, Japan, Indonesia, Taiwan, Vietnam, the United States, and other countries. The company was founded in 1978 and is headquartered in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=S71)

Q1. Following the adoption of FRS110 Consolidated Financial Statements and FRS 27 Separate Financial Statements since the financial year ended 31 July 2015, the audited consolidated financial statements of Sunright Limited have included KESMI and its subsidiaries as subsidiaries of the Group.

The “burn-in and test” services are primarily carried out by the KESM Group while the capital equipment business resides primarily in Sunright (less KESM).

- (a) The group reported “Burn-in, testing and electronic manufacturing services” (page 82 of the annual report) as one business segment. Since the equipment and services segments are distinct in nature and logically should exist as different business units in Sunright and KESM respectively, **would the board consider splitting the segment to (i) “Burn-in and testing” and (ii) “Electronic manufacturing”?** Note 5(c) of the FRS 108 Operating Segments state clearly that “an operating segment is a component of an entity for which discrete financial information is available”.
- (b) In the Chairman’s statement (page 4), it was noted that the “capital equipment market was slow caused by an anaemic semiconductor industry”. **Can management provide further detail on the prospects of the capital equipment business and how the company is going to turn it around? What can shareholders expect from this segment in the next few years?** Based on information extracted from the annual reports, it would appear that capital equipment segment has lagged behind and has not been profitable in the past five years. The calculations are shown in the table below.

	FRS110		Pre FRS 110			
	2016 \$'000	2015 \$'000	2014 \$'000	2013 \$'000	2012 \$'000	2011 \$'000
Profit attributable to:						
Owners of the Company	1,389	3,145	135	(1,678)	615	4,663
Non-controlling interests (52%)	5,409	3,448	-	-	-	-
KESM’s contribution to Sunright (48%)	4,993	3,183	-	-	-	-
Share of results of associates	-	-	4,388	3,085	2,267	4,384
Sunright’s core profit (excluding KESM)	(3,604)	(38)	(4,253)	(4,763)	(1,652)	279

- (c) **Specifically, can the company provide better visibility to shareholders on how the products are doing?** In the Chairman statement (page 4), it was disclosed that the g32 has not met its sales expectations. The KX5 is already a second iteration from the original GEN5 and GEN^{POWER} systems and sales of KX5 do not appear to be very encouraging. **What are the sales targets of each product range? How does the company ensure that the returns for the equipment segment are sufficiently attractive?**
- (d) **Can the board help shareholders understand how it provides oversight and guide the corporate strategy and direction of the group? How does it evaluate the performance of the business segments?**

Q2. Can shareholders get some clarity of the following transaction at the group’s Thai subsidiary? As shown on page 55, it was disclosed that there was an increase in registered capital of a subsidiary and subsequent impairment of investment in subsidiaries. *On 26 August 2015, the Company subscribed for 1.8 million additional new ordinary shares of Kestronics (Thailand) Co. Ltd (“KTTH”) of Baht 18 million. On 16 October 2015, KTTH was dissolved and was subsequently liquidated on 29 July 2016.*

This was part of the Group's review of its distribution group structure. Accordingly, the additional investment in KTTH of \$704,000 was written off during the financial year.

Please provide further elaboration and the consideration behind the subscription of new shares and the liquidation of the Thai subsidiary within two months.

Q3. The two independent directors have served the board since 1994. In the Corporate Governance Statement (page 13), the directors "are closely identified with the Group's business and success individually and collectively". **As the independent directors have served on the board for more than 22 years, what are the board's renewal plans? Also, has the board started the succession and renewal planning for the key executive team?**