Issuer: Tye Soon Limited
Security: Tye Soon Limited

Meeting details:
Date: 26 April 2017
Time: 10:00H
Venue: The Chevrons, 48 Boon Lay Way, Singapore 609961

Company Description
Tye Soon Limited engages in the import and export, and distribution of automotive parts. It offers electrical and aircon parts, transmission products, chassis and body parts, engine parts, and brake parts, as well as genuine parts. The company engages in the property investment activities. It operates in Singapore, Malaysia, Thailand, Indonesia, Hong Kong/China, South Korea, and Australia. The company was founded in 1933 and is based in Singapore. Tye Soon Limited is a subsidiary of OBG & Sons Pte Ltd.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=BFU)

Q1. In the Business Review (page 8 of the annual report), the company had reported that profit from operations increased from $3.3 million to $10.0 million. The increase was largely due to the gain from the sale of the group's properties at Waterloo Centre which amounted to $7.9 million.

If the one-off gains from the sale of properties are excluded, the profit attributable to owners of the company would have been negative for 2016.

The 5-year financial summary from the company's annual report is shown below.

5-YEAR FINANCIAL SUMMARY

Results $'000	2012	2013	2014	2015	2016
Revenue	171,000	193,637	201,052	201,414	210,904
Profit before tax	16,922	7,581	4,011	1,102	7,373
Tax expense	(609)	(1,432)	(1,345)	(571)	(594)
Profit for the year	16,313	6,149	2,666	531	6,779
Non-controlling interests	(22)	(43)	(45)	(73)	(57)
Attributable profit	16,291	6,106	2,621	458	6,722
Earnings per share (cents)*	18.67	7.00	3.00	0.53	7.70

(Source: Tye Soon Limited Annual Report)

The group has also recognised the need to balance its profitability objectives against continuing development (page 7). As shown in the summary above, profit attributable to owners (without exceptional items) has been on a downward trend.

a) **Following the recent expansion and re-organisation of the operations in Australia, what would be management's target of the group's profitability?**

b) **How much more growth can the network of group-operated warehouse facilities support?**

c) **Have the operational issues (such as the enterprise resource planning (ERP) systems) been fully resolved? How soon does management expect to optimise its current operations?**

d) **In the near term, are there key cities or countries that the group would consider entering?**

Q2. The valuation of inventories has been highlighted as one of two key audit matters by the independent auditors that were of most significance in the audit of the financial statements of the current period. The auditors had noted that:

Inventories represent 68% of the Group's total assets as at 31 December 2016. Cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling price have declined.

a) **Can shareholders understand from the auditors or the audit committee the overview of the audit procedures related to the valuation of inventories, including the design and size of the audit sample?**

b) **When would the inventory be considered "aged stock"?**

The group's turnover and inventories over the past 6 years are shown in the table below.

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Turnover	160,901	171,000	193,637	201,052	201,414	210,904
Inventories	66,707	78,129	92,123	94,030	108,052	110,210
Inventories as a percentage of turnover	41%	46%	48%	47%	54%	52%

(Source: Tye Soon Limited Annual Reports)

Turnover has increased at a rate of 5.6% while inventories have increased at a rate of over 10%.

c) **Would management consider disclosing the inventory turnover (in days or in inventory/stock turns) in future reporting?** This would help shareholders understand the operational performance of the group better.

d) **With regard to the increased inventory (as a percentage of turnover), has there been a shift in the business model or has the dynamics of the market changed? With upgrades to the ERP systems and the application of modern supply chain management, would it be fair to expect the group to operate leaner (i.e. higher turnover of inventory)?**

Q3. The current board consists of four executive directors, five non-executive non-independent directors and four independent directors.

On page 81 (Supplementary information), the board has provided its consideration on the current board size:

> *Given the nature and scope of the Company's operations, the Board is of the view that its current size is sufficient and appropriate. The Board comprises suitably-qualified directors who provide the Company with a good balance of accounting, finance, legal and management's expertise and experience, complemented by sound industry knowledge.*

The group is principally engaged in one segment which relates to the distribution of automotive parts. The group's main markets in Asia Pacific are currently served by operations in Singapore, Malaysia, Thailand, Indonesia, Hong Kong/China, South Korea and Australia.

a) **Can the nominating committee (NC) and the board elaborate further on why it is of the view that the current size is appropriate?**

b) **Does the current board size and composition facilitate effective decision making?**

c) **Has the company benchmarked its board size against similar companies listed on the Singapore Exchange?**

d) Under Guideline 2.5 of the Code of Corporate Governance 2012 issued by the Monetary Authority of Singapore, the board size should not be so large as to be unwieldy. **Can the board and nominating committee confirm that the current board has not been unwieldy, due to its relatively large size?**

On the board's performance, the NC has also disclosed that:

> *The NC conducted a formal assessment on the performance of the Board as a whole in the form of a questionnaire with input from all Board members. The NC is of the view that assessment on the performance of the Board as a whole is adequate.*

e) **Can the NC confirm that the company only has a formal assessment process to evaluate the effectiveness of the board as a whole, but not on the board committees and the contributions by each director to the effectiveness of the board?**

f) **Can the NC elaborate on why it had determined that "assessment on the performance of the Board as a whole is adequate"?**

g) **Would the board and the NC reconsider the company's deviation from the Code?**