

Issuer: YHI International Limited

Security: YHI International Limited

Meeting details:

Date: 26 April 2017

Time: 09:30H

Venue: 2 Pandan Road, Singapore 609254

Company Description

YHI International Limited, an investment holding company, distributes automotive and industrial products in Singapore, Malaysia, China, Hong Kong, Taiwan, Australia, New Zealand, and internationally. It operates through Manufacturing and Distribution segments. The company distributes automotive products, including tires and alloy wheels; industrial power products comprising automotive and rechargeable batteries for commercial and industrial use, as well as golf and utility buggies; and other industrial power products, such as solar panels, chargers, and UPS products. It also designs, develops, manufactures, markets, and distributes alloy wheels. YHI International Limited distributes tires under the name of Yokohama, Nitto, Nankang, Nexen, Pirelli, Archilles, and Neuton Tyres brands; alloy wheels under the Enkei, OZ, Konig, Breyton, and Advanti Racing brands; industrial products under the name of Hitachi, Trojan, CSB, Benning, Crown, Vision, FIAMM, and Jinko Solar brands; and industrial power products under the Neuton Power brand name. The company was founded in 1948 and is headquartered in Singapore. YHI International Limited is a subsidiary of YHI Holdings Pte Ltd.

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

Q1. In the Chairman’s Message (pages 10 to 13 of the annual report), the Chairman had described in detail the group’s 3R policy (Reduce inventory, Reduce account receivables and Reduce operating cost) and provided shareholders with visibility into the group’s restructuring plan to consolidate the operations in Shanghai to Suzhou.

The last stage of the restructuring involves the shifting of the production capacity of the Shanghai factory to the Suzhou and Malaysia plants, with the moving of machinery expected to be completed by the first half of 2017.

- a) Can shareholders understand if the shift would cause any impact or disruption to the ongoing operations?
- b) Other than the \$3.14 million that has been recognised as staff termination costs arising from restructuring, are there any other restructuring costs that can be expected?
- c) Going forward, with remaining manufacturing plants in Suzhou, Taoyuan and Malacca, what is the production capacity of the group per annum?
- d) What is management’s projection of cost savings after the restructuring?

Q2. With headwinds in the operating environment over the past years, the group managed to remain profitable but performance has been on a downward trend as indicated by key performance metrics such as sales, gross profit, net profit margin, net profit attributable to equity holders and EBITDA. The five-year summary (page 9) is shown below.

FIVE-YEAR FINANCIAL SUMMARY

RESULTS OF OPERATIONS

FINANCIAL YEAR ENDED 31 DECEMBER	FY2016 S\$ '000	FY2015 S\$ '000	FY2014 S\$ '000	FY2013 S\$ '000	FY2012 S\$ '000
Sales	465,569	499,174	511,229	508,923	541,122
Gross Profit %	21.6	21.4	22.2	22.0	23.3
Profit before income tax	8,355	14,469	14,873	16,417	31,885
Net profit attributable to equity holders of the Company	3,694	8,250	7,027	8,823	18,326
Net Profit %	1.0	1.8	1.6	2.0	3.9
EBITDA	26,046	34,519	36,365	39,188	52,620

(Source: YHI International Limited Annual Report 2016)

The balance sheet strength has showed some improvement with higher cash and bank balances of \$51 million (2012: \$42 million) and lower net debt to equity ratio of 18.3% (2012: 34.5%) although some key financial indicators have also weakened over the same period: return on shareholders equity was 1.5% (2012: 7.4%), earnings per share was 1.26 cents (2012: 6.26 cents), dividend per share was 0.64 cents (2012: 2.51 cents).

- a) While management focuses on the 3R to operate more efficiently, can shareholders understand what are management’s plans to overcome the external forces of intense price competition and persistent oversupply conditions? Has the board or management evaluated the long term prospects of the manufacturing business?
- b) How much longer can the group operate under such unfavourable macro-conditions?

- c) **Should the anti-dumping measures be imposed on wheels imported into the United States, what would be the impact on the group's operations?**
- d) **How can the group leverage on its existing strengths to go into synergistic business opportunities? What is the potential of the power distribution business in Malaysia? Would the group be able to expand the power distribution business to other countries?**

Q3. In the Corporate Governance Report (page 40), the company has disclosed that there has been no appointment of new Directors since the Company was listed on the Mainboard of the SGX-ST in 2003.

Should Mr Phua Tin How and Mr Yuen Sou Wai be re-nominated at the Annual General Meeting, all four independent directors (namely Mr Hee Theng Fong, Mr Henry Tan Song Kok, Mr Phua Tin How and Mr Yuen Sou Wai) will enter into their fifteenth year of tenure on the board from the date of their first appointments (22 May 2003).

The board, with the assistance of the Nominating Committee, has subjected the independence of these Directors to rigorous review annually and is satisfied that each of Mr Hee Theng Fong, Mr Henry Tan Song Kok, Mr Phua Tin How and Mr Yuen Sou Wai is independent.

Under Guideline 2.4 of the Code of Corporate Governance 2012 (Code) issued by the Monetary Authority of Singapore, the Code calls for the board to "also take into account the need for progressive refreshing of the Board", to which the board has disclosed that it had done so (page 42).

- a) **Can the board disclose the deliberations it had over the progressing refreshing of the board?**
- b) **What are the near-term plans to achieve the progressing refreshing of the board, as required by Guideline 2.4 of the Code?**
- c) **What is the search and nomination process for new board directors, especially independent directors?**