

Issuer: Far East Group Limited

Security: Far East Group Limited

Meeting details:

Date: 28 April 2017

Time: 11:00H

Venue: 112 Lavender Street #02-01 Far East Refrigeration Building Singapore 338728

Company Description

Far East Group Limited manufactures, trades in, and supplies refrigeration and air-conditioning systems and products for the heating, ventilation, air-conditioning, and refrigeration industry. It operates through three segments: Residential and Commercial (Air-Conditioning); Commercial and Light Industrial (Refrigeration); and Oil, Marine, and Gas (Refrigeration and Air-Conditioning). The Air-Conditioning segment sells and distributes air-conditioning materials primarily consisting of copper pipes, copper tubes, closed cell insulation pipes and sheets, fittings, PVC trunkings, electrical wires, and refrigerants. The Refrigeration segment sells refrigeration component parts, including compressors, condensers, condensing units, multiple compressor racks units, electronic controls, energy management solutions, and service equipment and tools, as well as a range of thermal heat exchangers comprising evaporators, condensers, and custom coils. The Refrigeration and Air-Conditioning segment sells and distributes heat exchangers and packaged condensing units installed in onboard ships, vessels, and oil rigs, which are primarily used to preserve food and other perishables, as well as to provide air-conditioning for the living and working spaces of the vessel's crew. The company also manufactures and distributes heat exchangers and condensing units under the Eden brand; and provides consultancy, system design, repair and maintenance, and after-sales support services related to cooling and refrigeration systems. It offers its products to distributors, dealers, and refrigeration and air-conditioning contractors. The company operates in Singapore, Malaysia, Indonesia, Hong Kong, Macau, the People's Republic of China, Vietnam, Myanmar, Cambodia, and other countries. The company was founded in 1953 and is headquartered in Singapore. Far East Group Limited is a subsidiary of Universal Pte. Ltd.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5TJ)

Q1. As mentioned in the CEO’s Message (page 2 of the annual report), the group conducted a significant corporate restructuring exercise to consolidate the production of heat exchangers in Malaysia with the manufacturing operations in China under Eden Refrigeration Manufacturing (Jiangsu) Co., Ltd. (“ERM”). Following the consolidation, which is expected to be completed by second half of 2017, ERM’s 220,000 square feet facility will be the group’s main manufacturing outfit.

In the company’s announcement dated 7 December 2016, it was also disclosed that the group expects to incur a one-off non-recurring expense of S\$800,000 for the financial year ending 31 December 2016.

- a) **Further to the \$800,000 restructuring costs that was incurred in financial year 2016, does management expect the group to incur additional one-off restructuring costs for the new financial year (2017)?**
- b) **Can shareholders get an update on the progress made in the restructuring exercise? Have all activities ceased in the Malaysian manufacturing operations in Seri Kembangan, Selangor? Has the consolidation exercise disrupted the Jiangsu plant? With the consolidation, what is the capacity at the Jiangsu plant?**
- c) **With regard to the group’s long-term strategy to raise its productivity and factory utilisation rates and improve operational efficiencies, what are management’s targets for cost savings/productivity and utilisation rates?**

Q2. The group’s focus is to scale up the value chain to target top-tier markets in China through ERM.

- a) **Do the Southeast Asian markets, such as Singapore and Malaysia, remain as key markets for the group? Are there any opportunities for the group to build on and strengthen its position in Southeast Asia? If so, are sufficient resources and management time being allocated to achieve this?**
- b) **How well-established and how well-regarded is ERM in the Heating, Ventilation, Air-conditioning and Refrigeration (“HVAC&R”) industry in China? How does ERM differentiate itself from the competitors?**
- c) **Can management also elaborate further on how the newly established subsidiary Elite Envirotech Co., Ltd. (“Elite”), together with its partners Yealea Industry Co., Ltd and Beijing Zhufeng Dexin Refrigeration Engineering Co., Ltd., will further complement the group’s operations?**

Q3. The allowance for obsolete inventories is one of the key audit matters in the Independent Auditors’ Report (page 39). As at 31 December 2016, the Group’s inventories amounted to \$8,595,830 (2015: \$12,832,023) and inventories recognised as an expense in cost of sales were \$25.5 million (2015: \$22.0 million). Relative to the last financial year, the group has improved on its working capital management.

	2013 \$	2014 \$	2015 \$	2016 \$
Allowance for obsolete and slow-moving inventories, net	-	-	1,021,114	913,074
Write back of allowance for obsolete and slow-moving inventories	(572,163)	(378,271)	-	-

The group’s inventories of \$12.8 million as at 31 December 2015 was relatively high compared to the group’s turnover and it was the highest level since the group was listed in 2011.

- a) **Is the high level of inventories as at 31 December 2015 a one-off occurrence? Going forward, can management tell shareholders what are the plans to better manages the group’s inventories?**

- b) With regard to the allowance for obsolete and slow-moving inventories, what is the average lifecycle of the group's products?