

Issuer: Valuetronics Holdings Limited

Security: Valuetronics Holdings Limited

Meeting details:

Date: 24 July 2017

Time: 9:30AM

Venue: Level 3, Venus Room I & II, Furama RiverFront, Singapore, 405 Havelock Road, Singapore 169633

Company Description

Valuetronics Holdings Limited, an investment holding company, provides integrated electronics manufacturing services. It operates through two segments, Consumer Electronics, and Industrial and Commercial Electronics segments. The company's design and development engineering services include mechanical design; plastic tool design; electronics, RF, and software designs; regulatory compliance engineering and testing; and product test development. Its manufacturing services comprise plastic tool fabrication and injection molding; metal stamping and machining; printed circuit board assemblies, including complex multi-layer boards; sub-assemblies and full product assemblies; reliability engineering and testing; quality systems; materials procurement; and on-site program management. The company's supply chain support services include shipment of products to final destinations; product customization and drop shipment; warranty and non-warranty repairs; spare parts inventory and shipment; and direct fulfillment programs. It also specializes in original equipment manufacturing services, including PCBA assembly and box-build assembly, as well as original design manufacturing services. In addition, the company is involved in property holding and trading businesses, as well as provides business services. It serves multinational and mid-size companies in the telecommunications, industrial, commercial, and consumer fields in North America, Europe, and the Asia Pacific regions. Valuetronics Holdings Limited was founded in 1992 and is headquartered in Shatin, Hong Kong.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=BN2)

Q1. As noted in the Chairman’s Statement (page 2 of the annual report), the group’s Consumer Electronic (“CE”) segment “once again regained its growth momentum”. The CE segment recorded a 19.7% increase in revenue to HK\$987.1 million in FY2017 from HK\$824.6 million in FY2016. Following the exit of mass market LED light bulb in FY2016, the group’s new revenue stream from smart lighting products (such as smart LED lighting products with Internet-of-Things (“IoT”) features) drove the growth in the CE segment.

- a) It was noted that smart LED lighting products are “still in the initial stage of the product life cycle”. **What are management’s estimates of the potential of the smart LED lighting product segment? Would the market size/market potential allow the group to replace the revenue from the discontinued business of mass market LED light bulbs?**
- b) **What are management’s plans to actively pursue more growth in this area?**
- c) **Other than smart lighting products, are there other IoT products or innovative CE products that are in the group’s pipeline?**

Q2. In the Industrial and Commercial Electronics (“ICE”) segment, revenue increased by 14.1% in revenue to HK\$1,287.8 million in FY2017 from HK\$1,128.3 million in FY2016 driven by connectivity modules used in automotive industry.

- a) **Similarly, what are management’s plans to actively grow the automotive business? Can management elaborate further on the other opportunities to expand the customer base and to expand its product portfolio?**
- b) **How significant is the receipt of the “2016 Above & Beyond – Pinnacle Award for Supplier Excellence” from Delphi as the group tries to grow its automotive business? What are the immediate plans to leverage on the recognition by Delphi to grow the segment?**

Q3. In the Notice of Special General Meeting (dated 30 June 2017), the company is seeking shareholders’ approval of:

- **Ordinary Resolution 1:** *The proposed adoption of the employee share option scheme to be named “The Valuetronics Employee Share Option Scheme 2017” (the “Valuetronics ESOS 2017”); and*
- **Ordinary Resolution 3:** *The proposed adoption of the performance share plan to be named “The Valuetronics Performance Share Plan 2017” (the “Valuetronics PSP 2017”)*

It was disclosed in the circular titled “Letter to Shareholders” (dated 30 June 2017) that the company last granted an award under the Valuetronics PSP 2008 on 15 August 2013 while the company granted options every year since the inception of the Valuetronics ESOS 2007.

- a) **Can the Remuneration Committee (which administers the ESOS and the PSP) help shareholders understand why it has favoured the ESOS over the PSP?**

It was also disclosed that:

- **ESOS 2007:** *“since the commencement of the Valuetronics ESOS 2007, an aggregate of 29,225,000 Shares, representing approximately 7.0% of the total number of issued Shares (excluding Treasury Shares) as at the Latest Practicable Date, were allotted and issued pursuant to the exercise of the options granted under the Valuetronics ESOS 2007.” As at the Latest Practicable Date, 2,375,000 share options have lapsed.*
- **PSP 2008:** *“Since the commencement of the Valuetronics PSP 2008, an aggregate of 5,810,250 Shares, representing approximately 1.4% of the total number of issued Shares (excluding Treasury Shares) as at the Latest Practicable Date, were allotted and issued pursuant to the vesting of the awards granted under the Valuetronics PSP 2008”.*

The details of the options granted by the company under the ESOS 2007 is shown in the table below.

Date of Grant	Number of Participants⁽¹⁾	Aggregate number of Shares pursuant to which options were granted under the Valuetronics ESOS 2007⁽²⁾	Aggregate number of Shares allotted and issued upon the exercise of the options granted under the Valuetronics ESOS 2007
8 Aug 2007	4	1,000,000	800,000
8 July 2008	10	1,900,000	1,700,000
27 Aug 2008	3	2,400,000	2,400,000
12 Aug 2009	6	2,750,000	2,750,000
18 Aug 2010	6	3,000,000	3,000,000
4 Oct 2010	11	1,150,000	1,150,000
16 Aug 2011	18	4,900,000	4,700,000
19 July 2012	20	5,400,000	4,800,000
15 Aug 2013	27	5,500,000	4,950,000
19 Aug 2014	27	6,000,000	2,975,000
24 Aug 2015	31	6,500,000	–
18 Aug 2016	29	5,800,000	–
Total	192	46,300,000	29,225,000

(Source: Company's Letter to Shareholder dated 30 June 2017)

- b) Given that the company has granted options of more than 5 million each year since 2012 (and 4.9 million in 2011), how can the Remuneration Committee (which administers the ESOS) assure shareholders that potential dilutive effect of the ESOS are properly evaluated and that the award of options has been fair and has not been excessive?
- c) Has the ESOS achieved its objectives of motivating and rewarding the ESOS participants? Can the remuneration committee help shareholders understand how it had evaluated, measured and benchmarked the effectiveness of the ESOS?