Issuer: Willas-Array Electronics (Holdings) Limited
Security: Willas-Array Electronics (Holdings) Limited

Meeting details:
Date: 28 July 2017
Time: 9:30 a.m.
Venue: Mandarin Orchard Singapore, Grange Ballroom, Level 5, Main Tower, 333 Orchard Road, Singapore 238867

Company Description

Willas-Array Electronics (Holdings) Limited, an investment holding company, distributes electronic components for industrial, audio and video, telecommunications, home appliances, lighting, electronic manufacturing services, and automotive segments in mainland China, Hong Kong, and Taiwan. The company distributes various product categories, including microprocessor, discrete, analog, digital, memory, optoelectronics, sensor, passive, LED light source, and other products. It is also involved in the provision of engineering solutions; technical solutions, such as wireless module, automotive, motor control, digital audio, smart meter, and smart LED solutions; property holding business; and designing and trading electronic components. In addition, the company provides transportation services; and corporate management and consultancy services. Willas-Array Electronics (Holdings) Limited was founded in 1981 and is headquartered in Kwai Chung, Hong Kong.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=BDR)

Q1. In the Chairman's Statement (pages 8 to 10 of the annual report), it was reported that the strongest growth in FY2017 was achieved by the Automotive segment (32.4% increase in revenue) and Home Appliance segment (15.6% increase). This was the result of the group's success in its strategy to strengthen capabilities and to invest more engineering resources into providing value-added services to customers in order to secure more business and market share.

The current revenue from the Automotive and Home Appliance segments are 13% and 11% of the group's total revenue respectively.

a) **As the group focuses on growing the automotive and home appliance segments, what are the growth and profitability targets management has set for these two segments?**

b) **Can the group elaborate further on their efforts to try to team up with the automotive suppliers to support the long-term growth of the group?**

Q2. As noted in the section titled "Management Discussion and Analysis" (pages 11 to 18), the net gearing ratio as at 31 March 2017 was 94.5%. Net gearing ratio is defined as net debts (representing interest-bearing bank borrowings, trust receipt loans and bills payables minus cash and cash equivalents) divided by shareholders' equity (page 16). The increase in net gearing ratio was attributed to mainly to an increase in trust receipt loans from HK$589.5 million to HK$668.6 million to finance the increased purchasing activities.

As seen in the Financial highlights (page 4), the net gearing has increased from 0.37x in 2013, to 0.61-0.66x in 2014 to 2016 and to 0.95x in 2017.

a) **Would management help shareholders understand if it is sustainable and prudent to fund the group's growth mostly with increased leverage?**

b) **Has management explored other sources of financing that the group can use to finance the long term growth of the group in a sustainable manner?**

As can been seen from the group's financial position (page 7, reproduced below), shareholders' equity increased by about 5% or HK$30 million over the same period yet the group's total assets increased by 31% or HK$454 million.
(Source: Company annual report)

	As at March 31,				
	2013 HK$'000	2014 HK$'000	2015 HK$'000	2016 HK$'000	**2017** **HK$'000**
Current assets	1,265,770	1,276,950	1,406,328	1,610,096	**1,697,984**
Property, plant and equipment	162,278	157,128	272,711	251,867	**232,774**
Available-for-sale investments	2,001	2,001	2,001	2,001	**2,001**
Interests in associates	49,809	59,172	82,498	–	**–**
Other non-current assets	2,561	1,373	2,132	2,663	**3,332**
Total assets	1,482,419	1,496,624	1,765,670	1,866,627	**1,936,091**
Current liabilities	927,947	939,064	1,082,318	1,289,462	**1,334,954**
Non-current liabilities	5,000	2,791	25,774	24,952	**23,265**
Non-controlling interests	1,251	(2,847)	(4,589)	(3,048)	**–**
Shareholders' equity	548,221	557,616	662,167	555,261	**577,872**
Total liabilities and equities	1,482,419	1,496,624	1,765,670	1,866,627	**1,936,091**

c) Would it be prudent for management to consider setting an upper limit to the group's net gearing ratio so that the group would not overstretch its balance sheet?

In addition, as at 31 March 2017, the company has contingent liabilities in the form of HK$863.7 million in banking facilities guaranteed by the company to the banks and HK$327.1 million in subsidiaries' payables guaranteed by the company to certain suppliers.

d) Would the board/management consider reducing/limiting the contingent liabilities of the company?

Q3. "Allowance for inventories obsolescence" and "Recoverability of trade receivables" are the two key audit matters highlighted in the Independent Auditors' Report.

In Note 25 (page 152 – Inventories), the allowance for inventories recognised in profit or loss increased disproportionally to HK$14.8 million from HK$10.3 million, an increase of 43%.

a) As product and technology cycles get shorter and shorter, how is management pro-actively managing the risk of obsolescence of its inventories?

b) Does management expect the allowance for inventories to stay at the elevated level?

In Note 26 (page 152 – Trade and bills receivables), although the allowance for doubtful debts decreased, trade receivables jumped to HK$735 million from HK$577 million and the bills receivables have also doubled to HK$39.3 million from HK$20.0 million. Trade receivables past due over 90 days is also higher by more than 2 times – increasing from HK$47.8 million to HK$106.7 million (page 153).

All these are signs that the group has taken on increased counter-party risks as the group grows its businesses.

c) What are the additional safeguards in the group's credit risk management approach to ensure that the counterparty risks are properly assessed and managed?