Issuer: Spindex Industries Limited
Security: Spindex Industries Limited

Meeting details:
Date: 25 October 2017
Time: 2.30 p.m
Venue: SAFRA Jurong Club, Evergreen Room Level 3, 333 Boon Lay Way, Singapore 649848

Company Description
Spindex Industries Limited, together with its subsidiaries, engages in the manufacture, import, export, and trade of mechanical, electrical, electronic, and precision machine parts, as well as other engineering materials. It provides precision turned parts, such as shafts, mini shafts, sleeves, and other critical components used in a range of applications, including consumer copiers, facsimiles, laser printers, inkjet printers, scanners, multi-function centers, commercial printers, commercial offset printers, etc. The company also offers various components used in automotive sensor assemblies, throttle mechanisms, and gear shafts that are used in brakes, drive systems, and industrial tools. In addition, it provides mini fasteners, transmission shafts, and bearing shafts for use in bicycles, fishing rods, washers, and irons. The company serves MNC customers operating in imaging and printing, domestic appliances, consumer electronics, data storage, machinery, automotive systems, and telecommunications sectors. It has operations in the People's Republic of China, Singapore and other ASEAN countries, the United States, Europe, and internationally. The company was founded in 1981 and is headquartered in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=564)

Q1. The group carried out a $1.5 million restructuring in the previous financial year (FY2016) to improve the group's production efficiency and cost effectiveness by downsizing its Singapore operations and shifting the manufacturing arm to overseas subsidiaries. Following that restructuring exercise, on 9 February 2017, the company announced that it entered into an Implementation Agreement with Hong Wei Holdings Ltd for the proposed privatisation and delisting of the company from the SGX-ST.

As at 12 September 2017, the controlling shareholder (through Hong Wei Holdings Ltd) holds 83.5 million shares (or 72.4%).

A year ago, on 5 September 2016, the controlling shareholder (Mr Tan Choo Pie @ Tan Chang Chai) held 28.2 million shares (or 24.4%) and Mr Tan Heok Ting held a further 1.2 million shares (or 1.1%).

a) **With the significant change in the company's shareholding structure, can the board update shareholders in greater detail on the group's strategic direction? How has the change in the shareholding structure altered the way the group is run?**

b) It was also disclosed that the group will "continue to evaluate new manufacturing sites for investment in order to achieve an optimal distribution of site capacity". **What are the sites being considered?**

c) **Can management elaborate further on the group's proactive marketing efforts (page 3)? What are the new industries/new customers that the group is looking to serve?**

The group has carried out a review of the recoverable amount of its leasehold property in Singapore and an impairment loss of $525,000 was recognised because "the building has been vacated subsequent to the cessation of manufacturing activities". The abovementioned property (6 Neythal Road) is now carried at $nil (down from $639,000 in 2016).

d) **Would the audit committee comment if it would be prudent to have the property valued by an appropriate and suitably qualified valuer before impairing the leasehold property to $nil?**

Q2. On 9 February 2017, the company announced that it has entered into an Implementation Agreement with Hong Wei Holdings Ltd (the "Offeror") for the proposed privatisation and delisting of Spindex from the SGX-ST.

On 3 March, the board informed shareholders that the Offeror had informed the Company that it had applied to the SIC, and that the SIC has consented to the termination of the Scheme by the Offeror and the Company and the implementation of the Acquisition by way of a mandatory general offer instead. In line with the foregoing, the Company and the Offeror have mutually terminated the Implementation Agreement and the Scheme.

a) **Did the independent directors deliberated on and explored the company's options when the Offeror informed them that the Scheme of Arrangement was to be terminated?** After all, the company had already entered into an implementation agreement with the Offeror in good faith and it appeared that the termination was abrupt and one-sided.

On 3 March 2017, the company disclosed that "the Independent Directors had on 23 February 2017 received an unsolicited letter from a third party in connection with, inter alia, a request to conduct due diligence on the Company". The company had also stated that "the Independent Directors had on 1 March 2017 responded to the third party to inform that the Independent Directors were not at that point in the position to consent to the request for access to conduct due diligence on the Company".

b) **Can the independent directors explain why they had replied to the third party only on 1 March 2017 after the receipt of their unsolicited letter on 23 February 2017?**

c) **Can the independent directors also explain how much time and effort during 23 March 2017 and 1 March 2017 was spent on the "Implementation Agreement with Hong Wei" and how much time and effort was spent on dealing with the "unsolicited letter"?**

d) **Can the independent directors help shareholders understand why they had not informed the market about the unsolicited letter in a** more **timely manner, even if they had doubts about the third parties' intent? Would it be appropriate and reasonably expected of the independent directors to inform the market, along with their views on the matter and justifications for their actions as the SGX operates on a disclosure-based regime?**

Q3. The fees to the auditors of the company are shown on page 52, and reproduced below:

	Note	Group 2017 $'000	Group 2016 $'000
Audit fees:			
- Auditors of the Company		70	68
- Other auditors		85	84
Non-audit fees:			
- Auditors of the Company		49	51
- Other auditors		10	6
Total audit and non-audit fees		214	209

(Source: Company annual report)

The audit and non-audit fees paid to the auditors of the company for the past financial years are shown below:

	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000
Audit fees paid to auditors of the company	88	102	55	62	68	70
Non-audit fees paid to the auditors of the company	27	30	21	44	51	49
Non-audit fees as a percentage of audit Fees	31%	29%	38%	71%	75%	70%

(Source: Company annual report)

In the Corporate Governance report (page 23), the audit committee (AC) has disclosed that it has "reviewed the non-audit services provided to the Group by the external auditor and its affiliates, and is of the opinion that the provision of such services does not affect their independence".

a) **Would the company disclose the nature and range of non-audit services provided by the external auditors?**

b) **Given that the non-audit fees as a percentage of audit fees paid to the auditors have been elevated for 3 years now, would the AC elaborate further on how it reviewed the auditors' independence and what are the justification for the AC's opinion that the independence of the auditors is not affected?**

c) Code of Professional Conduct and Ethics for public accountants, under the purview of the Accounting and Corporate Regulatory Authority, sets a 50 per cent threshold for the percentage of non-audit fees to audit fees for public company clients. Under the Code, additional safeguards by the audit firm must be considered and applied as necessary.

d) Given that the percentage of non-audit fees to audit fees exceeds 70% and is beyond the threshold recommended by the Code, can the AC elaborate further on the extra steps taken by the AC/company to safeguard the independence of the auditors?

e) Would the external auditor explain what are the safeguards that they have put in place?

A copy of the questions for the Annual Report for the financial year ended 30 June 2016 could be found here:

https://sias.org.sg/qa-on-annual-reports/?company=Spindex%20Industries%20Ltd

The company's response could be found here: -----

According to the Code of Professional Conduct and Ethics issued by the Council of the Institute of Singapore Chartered Accountants (ISCA) , SG290.219A states that:

Where an audit client is a listed entity or a public company and the amount of annual fees received for non-audit services compared to the total annual audit fees from the audit client is 50% or more, the firm shall disclose to those charged with governance of the audit client the fact that the total of such fees represent 50% or more of total annual audit fees received by the firm and discuss the safeguards it will apply to reduce the threat to an acceptable level. Examples of safeguards that could be considered and applied include:
(a) Independent internal or external quality control reviews of the engagement; and
(b) Consulting a third party, such as a professional regulatory body or other professional accountant, on key audit judgements.