

Issuer: Santak Holdings Limited

Security: Santak Holdings Limited

Meeting details:

Date: 27 October 2017

Time: 2.30 p.m.

Venue: 31 Senoko South Road, Woodlands East Industrial Estate, Singapore 758084

Company Description

Santak Holdings Limited, an investment holding company, manufactures and trades in precision engineering and assembly products. It operates through three segments: Precision Engineering and Assembly, Trading and Distribution, and Investment and Management Services. The company's Precision Engineering and Assembly segment manufactures precision machined components, die-casting, and sub-assembly products, as well as provides mould/fixture design and fabrication services for multi-national companies and other contract manufacturers. Its products are primarily used in consumer electronic devices, telecommunication devices, fibre-optics connectors, hard-disk drives, mobile phones, optical instrument devices, medical equipment, connectors/contacts, and computer peripherals. Its Trading and Distribution segment engages in sourcing and supplying custom-made electronic, electrical, and mechanical components/products. This segment offers die-cast and machined parts, metal enclosures and stamped parts, heatsinks, solenoids, coils, contactless smartcards, and OEM assembly of card readers. It also supplies customized electro-mechanical and mechanical assemblies, metal enclosures and sheet metal parts, aluminum and copper heat sinks, card readers, wire harnessing, solenoids and coils, thermoplastic/BMC/insert molding products, and power supplies, as well as special material PCBs, such as rogers, Teflon, and metal PCBs. The company operates in Singapore and other Asean countries, North Asia, the United States, Europe, and internationally. Santak Holdings Limited was founded in 1978 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=580)

Q1. With the completion of the sale of Santak Metal Manufacturing (Wuxi) Co., Ltd, the group’s continuing operations are the Precision Engineering Division and Trading & Distribution Division in Singapore.

With the Chinese operations now sold, shareholders’ equity stands at just \$22.0 million. The group has a net cash position of just \$5.5 million as at 30 June 2017.

In the Chairman’s Statement (page 2 of the annual report), it was said that “the Group may explore, inter alia, new viable business, investment, acquisition and realisation opportunities (as and when they may arise)... The Group will also continue its effort for cost rationalization and optimisation and streamlining of the Continuing Operations.”

- a) **Can the board provide shareholders with better visibility on the strategic direction and the new growth plans of the group? What are the new business areas/investments being considered?**
- b) **Can management share the key lessons learnt from the past few years? Going forward, has the group’s risk management framework been updated?**
- c) **How can the board provide better entrepreneurial leadership to assist management to meet their operational and financial objectives?**
- d) The company has cautioned that “demand for the Group’s precision machined components is expected to be uncertain and challenging in FY2018”. **Can management elaborate further on how it intends to overcome the challenges and improve the profitability of the remaining PE business?**

Q2. Specifically for the continuing business, shareholders would like to gain a better understanding of the operational and financial performance.

INCOME STATEMENT

For the financial year ended 30 June 2017

	Note	2017 \$	2016 \$
Continuing operations			
Revenue	3	26,929,824	48,695,455
Cost of sales		<u>(25,556,273)</u>	<u>(45,435,200)</u>
Gross profit		1,373,551	3,260,255
Other operating income	4	111,651	424,224
Distribution and selling expenses		(1,467,329)	(1,833,005)
Administrative expenses		(2,078,678)	(2,145,126)
Other operating expenses	4	(30,718)	-
Finance costs	5	(1,091,174)	(1,445,971)
Finance income	5	<u>38,364</u>	<u>24,783</u>
Loss before tax from continuing operations	6	(3,144,333)	(1,714,840)
Taxation	7	<u>506,969</u>	<u>204,229</u>
Loss from continuing operations, net of taxation		<u>(2,637,364)</u>	<u>(1,510,611)</u>

(Source: Company annual report)

- a) **What are the profile(s) of the group’s remaining customers?**

- b) **How can the group provide more value-add to the customers? Can the group explain its competitive positioning in the sector?**
- c) **The group has trade receivables of denominated in USD of \$2.68 million and Cash and cash equivalents denominated in USD of \$9.2 million. There are also \$1.2 million in trade payables denominated in USD. Can management elaborate further on how it manages its foreign currency risks? How much of its sales are denominated in USD? How much of its costs are denominated in SGD and how much in USD?**

Q3. Mr Lee Keen Whye and Mr Ch'ng Jit Koon were each first appointed to the board on 12 March 2001. Both Mr Lee and Mr Ch'ng have been on the board for more than 16 years.

The Nominating Committee ("NC") comprises Mr Ch'ng Jit Koon (as chairman), Mr Lee Keen Whye and Mr Tan Chee Hawaii (who is the Group Managing Director/Executive Director).

As disclosed in the "Report on Corporate Governance", the NC "has conducted a rigorous review of the independence of the Independent Directors, Mr Lee Keen Whye and Mr Ch'ng Jit Koon and determined that they have maintained their independence after considering the recommendations set out in the Code".

- a) **As both long tenured directors are also NC members, can the directors confirm that no NC member was involved in the deliberation in respect of his own independence?**

Notwithstanding that the board, after taking into account the views of the NC, deems both long-tenured directors as independent, Guideline 2.4 of the Code of Corporate Governance 2012 issued by the Monetary Authority of Singapore requires the board to "also take into account the need for progressive refreshing of the Board".

- b) **What are the company's plans for the progressive 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?**

In addition, the company has entered into a contract with Strategic Alliance Capital Pte Ltd ("SAC"), a company of which a director (Mr Lee Keen Whye, Non-Executive Chairman/ Independent Director) is a member and has a substantial financial interest, for the provision of advisory and consultancy services.

- d) **Can the company disclose the nature and range of advisory and consultancy services provided by Mr Lee's firm, Strategic Alliance Capital Pte Ltd?**
- e) **For how long has the provision of advisory and consultancy services been ongoing?** The advisory and consultancy fees to SAC were \$194,000 in 2012, \$199,240 in 2013, \$96,000 in 2014, \$96,000 in 2015, \$96,000 in 2016 and \$96,000 in 2017.
- f) **As Mr Lee is the "Independent director and Chairman" of the company, would Mr Lee be put in a position where he is frequently asked to review the work of SAC? As "Independent director and Chairman", how does Mr Lee mitigate the risks of potential conflict of interest, self-review or advocacy threats?**
- g) **In Guideline 2.3 of the Code, it was specified that the board should state its reasons why it may regard a director as independent notwithstanding a director being a partner/10% shareholder of an entity that provided material services (which include consulting services) to the company. Would the board and the nominating committee explain to shareholder what deliberations it has gone through?**
- h) **For better transparency, can the company disclose the fees Mr Lee receives as a director?**