Issuer: Sunright Limited
Security: Sunright Limited

Meeting details:
Date: 17 November 2017
Time: 10:00 a.m.
Venue: Meeting Room 330, Level 3, Suntec Singapore International Convention & Exhibition Centre, 1 Raffles Boulevard, Suntec City, Singapore 039593

Company Description
Sunright Limited, an investment holding company, provides burn-in, testing, and electronic manufacturing services to semiconductor and electronics manufacturers. It provides burn-in services for a range of integrated circuits, which include memories, micro-controllers, microprocessors, digital signal processors, etc., as well as turnkey services comprising wafer sort, test, burn-in, mark, scan, and drop ship; assembles electronic and electrical components; and offers research and development services for burn-in and test related activities. The company also offers testing services; manufactures parallel test/burn-in boards, test interface board assemblies, and probe cards; and designs, develops, and delivers hardware and software products for burn-in parallel tests, such as parallel test burn-in systems and handling and storage products. In addition, it provides design, engineering, and manufacturing services for electronic products to aerospace, automotive, computing, consumers' electronics, industrial, medical, and mobile OEM customers. Further, the company trades in and distributes high-technology equipment, including semiconductor and surface mount technology manufacturing systems, machine visions, lasers, diamond scribings/breakers, ultrasonics, plasma systems, precision process ovens, and handling systems; and electrical and electronic components and materials, such as cables and wires, connectors, fiber optics, IT networking cabling systems, and chemicals and adhesives. Sunright Limited sells its products in Singapore, Malaysia, China, the Philippines, Hong Kong, Korea, Thailand, Taiwan, Vietnam, the United States, and other countries. The company was founded in 1978 and is headquartered in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=S71)

Q1. In the Chairman's Statement (page 3 of the annual report), it was mentioned that:

> "*We are serving top global chipmakers, who are forerunners in the industry for many of the leading products in their respective markets… Demand for our test and burn-in equipment including our automatic handling systems has increased. We are becoming a leading supplier of automatic loaders and unloaders for logic devices with our Fastrack™ gravity feed tube handlers as well as our pick and place tray handlers…. We have started fiscal 2018 with higher expectations and greater optimism*."

a) Can management provide better visibility to shareholders on the strength of the relationships with the "top global chipmakers"? How much of the group's equipment sales is attributed to the top 3, top 5 and top 10 global chipmakers?

The core principle of FRS 108 Operating Segments states that:

> "An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates".

The FRS further defines what each reportable segment is, and has explicit criteria on the aggregation of segments, including the quantitative thresholds for the reporting of each operating segments.

On page 4 of the annual report, the Business Review shows three segments (namely Equipment, Services and Distribution) but in Note 27 (page 78 – Segment information), the group showed a reportable business segment of "burn-in, testing and electronic manufacturing services".

b) Can the audit committee (AC) confirm that the aggregating of the "equipment" and "services" segments is in compliance with the requirements of FRS108 Operating Segments?

c) Can the AC further explain and justify why it had agreed with management that "burn-in and test related activities and assembly activities" exhibit similar economic characteristics?

Based on the disclosure in Note 4 (page 50 – Revenue) and Note 11 (page 57 – Investment in subsidiaries), the estimated revenue from equipment is about $38.9 million in 2017.

	2016 $'000	2017 $'000
Group revenue	129,422	147,965
KESM	95,578	109,069
Non-KESM revenue	33,844	38,896
Others (including distribution segment)	1,166	19
Estimated revenue from equipment sales	32,678	38,877

(Source: Company annual report)

d) Can management let shareholders know if the segment is profitable? If not, what is the level of sales that would allow the manufacturing segment to be profitable?

e) Can management provide a breakdown of the sales by product lines?

f) When will the KX5 be completed?

Q2. On page 9, in the Corporate Governance Statement, the directors have stated that the board of director is "*committed to ensure that good corporate governance practice is observed throughout the Group as a fundamental part of discharging its responsibilities to protect and enhance shareholders' value and the financial performance of the Group."*

Despite its commitment, the company has deviated from the following guidelines of the Code of Corporate Governance 2012 (2012 CG Code) and has given the following reasons:

Guideline	Requirements	Reason
Guideline 2.2	Independent directors to make up at least half of the Board where the Chairman and the Chief Executive Officer ("CEO") is the same person;	*Whilst the Chairman and CEO is the same person, the Board opines that as there is already a strong independence element and considering the Group's current size and operations, it is not necessary to introduce more independent directors solely to make up at least half of the Board.*
Guideline 3.1	The Chairman and CEO should in principle be separate persons;	*Although the roles are combined, the Board is of the view that there are sufficient Independent Directors on the Board to ensure fair and objective deliberations at Board meetings and who are capable of exercising independent judgements.*
Guideline 3.3	Appoint lead independent director were the Chairman and the CEO is the same person;	*The Board is not making such an appointment as it is of the opinion that based on past experiences, it is remote and highly unlikely that shareholders will be unable to relate or resolve their concerns through the normal channel of the Chairman/CEO or Executive Director of the Company, or to communicate with the Independent Directors if they wished to do so.*
Guidelines 4.1 and 7.1	Establish Nominating Committee and Remuneration Committee;	*The Company did not establish a Nominating Committee ("NC") as recommended by the Code as the Board itself can fulfill the role of NC. The size of the Board does not warrant having a sub-committee for the stated purposes.* *The Board itself fulfills the role of an RC, in respect of the review of the remuneration of Directors, from time to time; and has delegated the review of senior managers of the Group, to the Executive Directors. Also, the size of the Board does not warrant having a sub-committee for the stated purposes.*

Guideline 9.2	Fully disclose the remuneration of each individual director and the CEO; and	*The Company refrains from disclosing the details of the remuneration of its Directors and top five (5) key executives as it believes that doing so is not in its best interests due to the sensitive and confidential nature of such information. The Company has only two (2) key management staff, being its Executive Directors.*
Guideline 9.3	Disclose the name and remuneration of at least the top five key management personnel.	

(Source: Company annual report)

Principle 2 of the 2012 CG Code specifically states that:

> *"There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management and 10% shareholders".*

While the board of directors has declared that it is "*committed to ensure that good corporate governance practice is observed throughout the Group*", the various deviations from the 2012 CG Code (as shown in the table above) have weakened the independent element on the board.

a) **Specifically, would the board elaborate further why it has opined that the current board composition of two executive directors, a non-executive non-independent director and two long tenured independent directors (both appointed on 18 January 1994) is considered as having "a strong independent element"?**

b) **Would the board reconsider its deviation from the Guideline 2.2 which requires independent directors to make up at least half of the board where the Chairman and the Chief Executive Officer ("CEO") is the same person?**

c) The 2012 CG Code also recommends the establishment of the remuneration committee (RC) and the nominating committee (NC) and for them to have a majority of independent directors, including the RC chairman and the NC chairman. **Would the board reconsider its deviation of not establishing a RC and a NC that meets the requirements of the code?**

d) Guideline 2.4 of the CG Code calls for the board to "also take into account the need for progressive refreshing of the Board". **As the two independent directors have each served on the board since 18 January 1994, can the board let shareholders know its near-term plans for the progressive refreshing of the board?**

Q3. As shown in the disclosure on remuneration in the Corporate Governance Statement on page 15, the company has only two key management staff who are the executive directors. The remuneration of the two directors are as follows:

	Fee	Salary	Other Benefits	Total
Executive Directors/Key Management Staff				
S$1,250,000 to S$1,499,000				
Samuel Lim Syn Soo	-	98	2	100
S$750,000 to S$999,999				
Kenneth Tan Teoh Khoon	-	98	2	100

(Source: Company annual report)

Based on the disclosure, Mr Samuel Lim Syn Soo's remuneration is between $1.25 million to $1.5 million while Mr Kenneth Tan Teoh Khoon's remuneration is between $0.75 million to $1 million.

23. RELATED PARTY DISCLOSURES

Compensation of key management personnel

	Group	
	2017 $'000	2016 $'000
Salaries and bonuses	3,012	2,358
CPF and other defined contributions	22	19
Total compensation paid to key management personnel	3,034	2,377

The executive directors of the Group are the key management personnel of the Group. The remuneration of key management personnel are determined by the Board of Directors having regard to the performance of individuals and market trends.

(Source: Company annual report)

As stated in Note 32 (page 70 – Related party disclosures), the total compensation paid to key management personnel (being the two directors) was $3.03 million in 2017.

a) **Can the company help shareholders understand why the total compensation paid to key management personnel is $3.03 million when the remuneration of Mr Lim is in the $1.25 million to $1.5 million band and the remuneration of Mr Tan is in the $0.75 million to $1 million band?**

A copy of the questions for the Annual Report for the financial year ended 31 July 2016 could be found here:

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

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