

**Issuer:** PNE Industries Ltd

**Security:** PNE Industries Ltd

**Meeting details:**

Date: 18 January 2018

Time: 9.00 a.m.

Venue: Orchid Country Club, 1 Orchid Club Road, Sapphire 3, Orchid Lodge, Level 2, Singapore 769162

**Company Description**

PNE Industries Ltd, an investment holding company, manufactures and sells electronic and electrical appliances primarily in Europe, Indonesia, Malaysia, Singapore, and the People's Republic of China. It operates in two segments, Contract Manufacturing and Trading. The Contract Manufacturing segment manufactures electronic controllers, and other electrical and electronic products. The Trading segment manufactures and trades in emergency lighting equipment, including conversion kits, emergency luminaire, exit luminaire, and staircase fittings for the construction and building industry. This segment also provides electrical apparatus, light fittings, and related products. PNE Industries Ltd was incorporated in 1999 and is headquartered in Singapore.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=BDA](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=BDA))

**Q1.** In the Chairman’s Statement (page 1 of the annual report), it was disclosed that, due to higher demand from customers, the contract manufacturing segment recorded a growth in revenue of \$17.8m to \$79.4 million in FY17. The group’s gross profit margin decreased to 26.9% in FY17, compared to 30.4% in FY16 due to “differences in product mix”.

In Note 24 (Segment information - page 65), it is shown that the group reported profits of \$7.9 million based on \$61.6 million (or 12.7%) in revenue from the contract manufacturing segment in 2016. In 2017, segment profit of \$8.9 million out of \$79.4 million revenue means that the profit margin has decreased to 11.2%.

- a) **Can management elaborate on its strategy to maintain its gross/net profit margin as the group scales up its contract manufacturing segment?**
- b) **What are the value-added services offered by the group to its customers that would differentiate it from the competitors?**

The group’s exposure to the two major customers has increased to \$51.0 million (or 64% of total contract manufacturing sales), up from 58% in the previous financial year. Trade receivables have increased from \$26.3 million to \$34.7 million as at 30 September 2017, an increase of 32% while trade receivables that are past due but not impaired have increased from \$1.9 million to \$2.8 million (an increase of 50%) as at 30 September 2017. As noted in the key audit matter, the trade receivables that are past due and not impaired mainly relates to amount due from the two major customers (page 20).

- c) **As the group deepens its business relationships with the two major customers, how does management ensure that the group is compensated fairly and in a timely manner?**
- d) **In terms of managing the concentration risks of the group’s big customers, can shareholders understand the group’s efforts at gaining new customers and/or introducing new products?**

**Q2.** In Note 13 (Available-for-sale investments - page 57), the group’s quoted available-for-sale investments worth \$3.1 million is its 13.9% equity interest in PNE PCB Berhad. In 2014, the company obtained a shareholders’ mandate to dispose, in whole or in part, the group’s then 42.8% shareholding in PNE PCB Berhad.

- a) **Can management confirm that the group currently has no influence and no oversight of the operations of PNE PCB Berhad?**
- b) **What is the strategic value of PNE PCB Berhad to the group?**
- c) **Has the board evaluated its options on how it could maximise the value of the 13.9% stake in PNE PCB Berhad for shareholders?**

The group has also made a new investment of \$675,000 in the financial year for a 15% equity interest in DSP Innovation BV, a company incorporated in Netherlands. **Could management elaborate further on how the investment in DSP Innovation would help the group?**

**Q3.** As stated in the Notice of Annual General Meeting (page 72), Mr Tung Chee Weng is retiring pursuant to Regulation No. 93 of the Company’s Constitution and is seeking re-election at the Annual General Meeting on 18 January 2018.

Mr. Tung Chee Weng and Mr. Tan Lee Kiang were both appointed on 4 May 2000 (page 5). As such, the two directors have each served on the board for more than 17 years. Guideline 2.4 of the 2012 Code of Corporate Governance (Code) states that the “independence of any director who has served on the Board beyond nine years from the date of his first appointment should be subject to particularly rigorous review.”

- a) **Can the company help shareholders understand if the independence of Messrs Tung Chee Weng and Tan Lee Khiang has been subject to “particularly rigorous review”?**
- b) **If so, please describe how the “particularly rigorous review” was carried out.**

Notwithstanding that the nominating committee is satisfied that the long-tenured directors have “exercised independent judgement and character in the best interest of the company in discharging their duties and responsibilities”, Guideline 2.4 of the Code also calls for the board to “take into account the need for progressive refreshing of the board”.

- c) **Other than the appointment of Mr. Lim Meng Wee in 2013, can the company let shareholders know its plans to progressively refresh the board?**

A copy of the questions for the Annual Report for the financial year ended 30 September 2017 could be found here:

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

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