

Issuer: CEI Limited

Security: CEI Limited

Meeting details:

Date: 20 April 2018

Time: 10.15 a.m.

Venue: The Grassroots' Club, 190 Ang Mo Kio Avenue 8, Singapore 568046

Company Description

CEI Limited provides contract manufacturing services to the industrial equipment market in the United States, Europe, and the Asia Pacific. The company provides printed circuit board and box-build assembly services, as well as equipment design, cable harness assembly, and manufacturing services; and value-added services, such as materials management, circuit layout, prototype and development engineering, metal stamping, cable harnessing, and precision machined components. It also designs and manufactures own branded proprietary equipment for the semiconductor industry. CEI Limited offers its services for electroluminescence displays used in industrial, transportation, and medical applications; medical and health care equipment; office equipment, such as digital photocopiers; analytical instruments comprising gas and liquid chromatographs, and measurement instruments; industrial safety controllers and environmental sensors; semiconductor equipment; and SMT equipment. The company was formerly known as CEI Contract Manufacturing Limited and changed its name to CEI Limited in April 2016. CEI Limited was founded in 1980 and is headquartered in Singapore.

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

1. As noted in the Chairman’s Message (page 2 of the annual report), the group’s achieved record revenue of \$136.8 million in FY2017 from customers in a diverse range of market segments including analytical instruments, medical equipment, semi-conductor equipment, oil and gas industries, aviation and displays for industrial applications.

- (i) **To help shareholders better understand the operations of the group, can management provide a breakdown of the revenue by segment?**
- (ii) **Which segments have been driving the growth of the group in the past three years?**

In FY2017, gross profit margin stayed flat at approximately 23% although general and administrative costs and selling and distribution costs were higher. The group’s revenue and profit trends since FY2013 are shown in the table below:

	2013 \$	2014 \$	2015 \$	2016 \$	2017 \$
Revenue	109,662,944	121,321,963	132,340,531	130,281,591	136,786,504
Gross profit	24,126,638	29,344,545	33,444,343	30,392,323	31,604,386
Gross profit margin	22.0%	24.2%	25.3%	23.3%	23.1%
Profit after taxation	3,637,967	5,138,941	10,816,223	8,806,301	6,526,974
Net profit margin	3.3%	4.2%	8.2%	6.8%	4.8%

(Source: Company annual reports)

- (iii) **What is management’s target for the group’s gross profit margin in the mid-term?**

Despite higher revenue, the net profit margin has dipped from 8.2% in FY2015 to 6.8% in FY2016 to 4.8% in FY2017. The increase in the costs was attributed to higher general and administrative costs of \$19.1 million (2016: \$17.0 million) and selling and distribution costs of \$4.7 million (2016: \$4.2 million).

- (iv) **Can the company show the breakdown of the general and administrative costs (\$19.1 million) and of the selling and distribution costs (\$4.7 million)?**
- (v) **What are management’s strategies to improve productivity and become more cost efficient?**
- (vi) **What can be a sustainable net profit margin target in the mid-term?**

2. The group's capital investment and depreciation of property, plant and equipment are as follows:

	2013 \$	2014 \$	2015 \$	2016 \$	2017 \$
Capital expenditure	2,581,494	1,229,640	1,136,741	584,385	1,358,115
Depreciation of property, plant and equipment	2,306,415	2,605,296	2,422,339	2,153,006	2,058,545
Property, plant and equipment	9,820,636	8,444,980	7,159,382	5,590,761	4,802,817

(Source: Company annual report)

- (i) Even though the company focuses on the high mix low volume niche segment, how sustainable is the current cycle of low investment into the business?
- (ii) How technologically advanced are the group's manufacturing sites?

From Note 27 (page 71 – Segment information), the total assets allocation to Indonesia and Vietnam amounted to \$2.6 million and \$1.9 million respectively.

27. Segment information (cont'd)

The Group's assets are based mainly in Singapore, Indonesia, and Vietnam where the Group operates:

The following table presents the asset information regarding geographical segments at 31 December 2017 and 2016.

	Singapore		Indonesia		Vietnam		Consolidated	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Segment assets	58,008	60,079	2,644	3,569	1,851	1,865	62,503	65,513
Goodwill	1,063	1,063	-	-	-	-	1,063	1,063
Interests in associated company	1,339	1,301	-	-	-	-	1,339	1,301
Total assets	60,410	62,443	2,644	3,569	1,851	1,865	64,905	67,877
Capital expenditure	1,091	326	172	61	95	197	1,358	584

(Source: Company annual report)

- (iii) **Can management help shareholders understand the manufacturing capability and capacity of the Indonesia and Vietnam plants? What are the products that are manufactured in these plants?**

3. As disclosed in the Corporate Governance Report, the board comprises six directors and considers three of them, namely Mr. Tan Bien Chuan (first appointed on 9 February 2000), Mr. Tang Martin Yue Nien (first appointed on 9 February 2000) and Mr. Colin Ng Teck Sim (first appointed on 1 January 2007), independent.

As all three independent directors were first appointed to the board more than nine years ago, their independence has been subjected to particularly rigorous review as recommended by the 2012 Code of Corporate Governance (Code).

The nominating committee (NC) comprises Colin Ng Teck Sim (as chairman), Tang Martin Yue Nien, Tien Sing Cheong and Tan Bien Chuan and has been delegated the task of assessing the independence of directors.

- (i) **As the NC comprises all three long tenured independent directors and Mr Tien Sing Cheong (an executive director), would the NC help shareholders understand how exactly was the review of the independence of directors carried out?**
- (ii) **Can the NC confirm that no director was involved in the review and deliberation of his own independence?**

The NC has also stated that it seeks to refresh the board membership progressively and in an orderly manner, to avoid losing institutional memory.

- (iii) **What are the company's near-term plans to progressively refresh the board?**

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

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

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