

Issuer: InnoTek Limited
Security: InnoTek Limited

Meeting details:

Date: 25 April 2018

Time: 9.30 a.m.

Venue: Basement 1, Oasia Hotel Novena, 8 Sinaran Drive, Singapore 307470

Company Description

InnoTek Limited, an investment holding company, operates as a precision metal components manufacturer in the People's Republic of China and Singapore. The company's Precision Components and Tooling segment provides tooling design and fabrication, and die making services to the manufacturers of automotive components, and office automation and consumer electronics products, as well as sells stamping components. Its Precision Subassembly segment engages in the subassembly of products primarily for the TV and office automation industries; and offers metal-related components for customers in TV, tablet, and mobile-phone industries. It also provides frame components. The company was formerly known as Magnecomp International Limited and changed its name to InnoTek Limited in November 2007. InnoTek Limited was founded in 1984 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=M14)

Q1. Would management provide better clarity to shareholders on the following operational/financial matters? Specifically?

- a) **Business segments:** Given the long term trends and the group’s business focus, what would be the group’s target for the revenue split across the segments of office automation (“OA”), TV and automotive in the next 3-5 years? What is the revenue split across the three segments in FY2017?
- b) **Profit margin:** Should the TV segment account for an increasing percentage of the group’s business, what are the possible ways for the group to maintain or increase its margins given that the TV segment typically has lower margins?
- c) **Automotive:** What are management’s efforts and progress in obtaining more automotive programmes especially since it is a huge and growing market in the PRC?
- d) **New facility (Weihai):** The new plant has passed Hewlett Packard’s (“HP”) audit requirements and will now support the customer’s enlarged printer-related operations. **What is the capacity of the plant? What is the level of automation at this new plant?**
- e) **New facility (Rayong):** **What is the manufacturing capacity of the new Thai plant relative to the group’s existing facilities? How much more cost efficient can it be?**

Q2. As shown in Note 35 (page 103 – Capital management), the group is currently in a net cash position. The group also has a longstanding policy of keeping the gearing ratio below one. Gearing ratio is defined as net debt divided by total capital where net debt includes total loans and borrowings less cash and cash equivalents and capital includes equity attributable to the owners of the company less the fair value adjustment reserve and the restricted statutory reserve fund.

The group has been in a healthy net cash position with the net cash level hitting \$35.7 million in 2017 (page 15 – Financial highlights). In fact, in its balance sheet, as at 31 December 2017, the group has \$27.0 million in investment properties and \$14.8 million in other investments (page 40 – Balance sheets), of which quoted equity securities accounted for \$4.8 million and debt securities accounted for \$10.0 million (page 76).

Would the board consider a review of the group’s optimal capital structure so that the group has sufficient resources to fund its future growth and, at the same time, evaluate the excess capital on the balance sheet and deploy these excess capital more meaningful or to return to shareholders to improve the group’s return on equity?

Q3. On 9 March 2017, Mr. Lou Yiliang was granted 3,000,000 options under the InnoTek Employees’ Share Option Scheme 2014. As disclosed in the Directors’ Statement (page 32), the options given to Mr. Lou are “exercisable between the periods from 9 March 2018 to 8 March 2022 at the exercise price of \$0.350 if the vesting conditions are met”. In the announcement dated 9 March 2017, the company has announced that the vesting period was 1 year from the date of grant.

- a) **Can the remuneration committee (RC) explain if there are other vesting conditions and if so, what are they?**

In addition, in the 2016 annual report, the company provided shareholders with details on the assumptions used in the calculation of the fair value of the grant of share options. The inputs to the option pricing model, such as expected volatility, dividend yield and expected life of options, were provided.

- b) **Can the RC provide the inputs to the option pricing model and tell shareholders the fair value of the grant given on 9 March 2017?**