

Issuer: JEP Holdings Ltd.
Security: JEP Holdings Ltd.

Meeting details:

Date: 25 April 2018

Time: 10.00 a.m.

Venue: 16 Seletar Aerospace Crescent, Singapore 797567

Company Description

JEP Holdings Ltd., an investment holding company, provides precision engineering works for parts used in the aerospace, oil and gas, and other general engineering and machinery works industries. Its Aerospace segment provides manufacturing services for engine casings. The company's Oil and Gas segment offers manufacturing services to oil drilling equipment, such as body connectors for clip risers and related rigs. Its Electronics segment provides manufacturing and assembly services for parts used by the semiconductor, telecommunication, and medical industries. The company's Precision Engineering segment offers precision machining services for automotive parts. Its Trading and Other segment sells machines and provides customized cutting tools. The company's Equipment Manufacturing segment provides large format precision engineering and equipment fabrication services. It operates in Singapore, the People's Republic of China, Malaysia, the United States, and internationally. The company was formerly known as Alantac Technology Ltd. and changed its name to JEP Holdings Ltd. in May 2010. JEP Holdings Ltd. was incorporated in 1994 and is headquartered in Singapore. (Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5FA)

Q1. As noted in the Chairman’s Statement, in January 2018, SGX Mainboard-listed UMS Holdings Limited (“UMS”) acquired 29.5% of the company’s shares and became the single largest shareholder of the company.

Mr. Luong Andy, currently the Executive Chairman and Chief Executive Officer of UMS Holdings Limited, has taken over the leadership of the company and its subsidiaries as executive chairman in February 2018.

- a) **Can the board help shareholders understand if the new substantial shareholder, UMS, has begun discussions with the group to explore areas of collaboration?**
- b) The chairman has mentioned the synergistic effect between the company and UMS that will allow greater cost efficiency by stripping out overlapping costs. **What changes have been made in the operations or the corporate side since February?**
- c) **Will the newly constituted board be carrying out a strategic review and map out a refined growth strategy for the group?**

Q2. In Note 32 (page 75 – Segment information), the group has the following reportable operating segments under FRS 108:

- i. Precision machining: Provider of precision machining services for aerospace, oil and gas, electronics and automotive industry
- ii. Trading and other segment: Provider of machine sales and customised cutting tools for our customers
- iii. Equipment manufacturing segment: Provider of large format precision engineering and equipment fabrication service

In the 2016 Annual Report, the group reported 6 operating segments, as follows:

34 Segment information (Cont’d)

(a) By business

	Aerospace		Oil and gas		Electronics		Precision machining		Trading and others		Equipment manufacturing		Adjustments and eliminations		Group	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Continuing operations																
REVENUE:																
External customers	37,589	32,816	3,380	9,753	2,940	1,479	8	161	18,488	6,250	9,529	8,319	-	-	71,934	58,778
Inter-reporting unit sales	-	-	-	-	-	-	131	174	3,463	2,609	463	695	(4,057)	(3,478)	-	-
Total revenue	37,589	32,816	3,380	9,753	2,940	1,479	139	335	21,951	8,859	9,992	9,014	(4,057)	(3,478)	71,934	58,778
Results																
Segment results	(427)	975	(945)	(946)	(48)	124	10	(2)	2,314	854	1,635	1,413	-	-	2,539	2,418

(Source: Company annual report 2016)

- a) **Could management help shareholders understand if the group has since been re-organised and its reporting structure and decision making process concentrated to just 1 decision maker? If not, what was the reason to aggregate the 4 operating segments (Aerospace, Oil and gas, Electronics and Precision machining) to just one (Precision machining)?**

Notes to Financial Statements

December 31, 2017

(a) By business

	Precision machining		Trading and others		Equipment manufacturing		Group	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
REVENUE:								
External customers	49,215	44,048	21,985	21,951	17,715	9,992	88,915	75,991
Inter-reporting unit sales	(594)	(131)	(2,005)	(3,463)	(223)	(463)	(2,822)	(4,057)
Total revenue	48,621	43,917	19,980	18,488	17,492	9,529	86,093	71,934
Results								
Segment results	(4,100)	(2,459)	2,502	1,893	3,544	1,231	1,946	665

(Source: Company annual report 2017)

Although the segment was aggregated from four to one, the financial review on page 6 still discussed each segment separately. For example, the increase in revenue from Equipment Manufacturing, Aerospace and Electronics and Trading & Others was \$8.0 million, \$4.6 million and \$4.2million respectively.

- b) Can management tell shareholders the profitability of each segment?**
- c) Can management help shareholder reconcile how revenue for the precision machining segment increased to \$48.6 million but suffered a higher segment loss of \$(4.1) compared to a year ago?**
- d) How much of the losses were one-off and not expected to recur, e.g. \$0.8 million relocation costs incurred in moving to the new Seletar Aerospace Park site?**

Q3. Out of the group's total assets of \$117 million, intangible assets amounted to \$18.0 million as at 31 December 2017, of which \$17.5 million was allocated as the carrying amount of goodwill of the cash-generating unit (CGU). The "Precision machining" CGU accounted for \$11.5 million of the goodwill while the "Equipment manufacturing" CGU accounted for \$5.3 million.

In addition, the "impairment review of goodwill" was a key audit matter highlighted by the Independent Auditor's in its Report on the audit of the Financial Statements. Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current year.

The discount rates used in the determination of the value-in-use are as follows:

The rate used to discount the forecast cash flows is as follows:

Group	2017			2016		
	Precision machining	Trading and others	Equipment manufacturing	Precision machining	Trading and others	Equipment manufacturing
	%	%	%	%	%	%
Discount rate	9.5	13.1	13.0	12.2	13.4	13.2

(Source: Company annual report)

- a) **Can the audit committee (AC) help shareholders understand the reasonableness of using a discount rate of 9.5% for the “Precision machining” segment? The discount rate used last year was 12.2% and 12.6% in 2015. What changed in the last year to warrant a lower discount rate for the segment?**
- b) **Can management also provide the revenue growth rate, budgeted gross margin and terminal value growth rate like what it had done in the 2016 Annual report (as shown below)?**

The key assumptions are as follows:

Group	← 2016 →			← 2015 →		
	JEPS	JEPI	DEPL	JEPS	JEPS	DEPL
	%	%	%	%	%	%
Revenue growth rate	3.0 to 7.3	-13.0 to 3.9	5.0 to 10.3	0.5 to 24.2	0.0 to 5.0	-3.4 to 11.7
Budgeted gross margin	8 to 16	22	11.6 to 17.9	9.4 to 16.7	26.9 to 27.0	17.7 to 22.7
Discount rate	12.2	13.4	13.2	12.6	12.7	13.8
Terminal value growth rate	2.1	1.9	2.0	1.5	1.5	1.5

(Source: Company annual report

2016)