

**Issuer:** CDW Holding Limited

**Security:** CDW Holding Limited

**Meeting details:**

Date: 30 April 2018

Time: 3.00 p.m.

Venue: Kallang Room, Holiday Inn Singapore Atrium, 317 Outram Road, Singapore 169075

**Company Description**

CDW Holding Limited, an investment holding company, produces and supplies precision components in the People's Republic of China, Japan, and internationally. The company operates through four segments: LCD Backlight Units, Office Automation, LCD Parts and Accessories, and Others. It offers small to medium sized LCD backlight units and flexible printed circuits that are used for the production of a range of equipment, including mobile communication, consumer information technology, and entertainment equipment; and small to large sized high precision metal and plastic frames and reflectors for a range of equipment, such as notebook monitors, mobile phones, gamebox entertainment equipment, and GPS navigators. The company also provides other precision accessories, such as customized labels, shock absorbers, insulators, and other precision accessories for various office equipment and electrical appliances, including photocopiers, printers, TV monitors, projectors, microwave oven, etc. In addition, it is involved in the provision of food and beverage management and advisory services. Further, the company offers surface mounting technique services in electronic product assembly; plastic injection for electronic consumer products and automobiles; agriculture product management and advisory services; general trading; and label printing services. CDW Holding Limited was founded in 1991 and is headquartered in Shatin, Hong Kong.

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

1. As noted in the Corporate Profile, the company is a “Japanese-managed precision components specialist serving the global market focusing on the production and supply of niche precision components for mobile communication equipment, gamebox entertainment equipment, consumer and information technology equipment, office equipment and electrical appliances” (page 2 of the annual report).

The four reportable operating segments are: LCD backlight units, Office automation, LCD parts and accessories and Others.

The “Others” segment accounted for US\$1.46 million or 1.4% of the group’s revenue while reporting a loss of US\$(1.55) million for FY2017. This segment includes the group’s businesses of general trading, food and beverage and life sciences.

As noted in the Letter to Shareholder (page 9), the group has made progress in diversifying its customer base and products to mitigate the headwinds in the core precision components business. At the same time, the group is also diversifying into general trading, food and beverage and life sciences.

The group has had mixed results – the sole restaurant that the group invested in in 2016 was closed in the financial year; the investment into electric boats has not worked out; Menkobo Muguruma Co., Limited has not been able to scale up substantially and the group has also ventured into the life science business with the acquisition of 95% equity interest in GSP Enterprise Inc. in Japan and the incorporation of a wholly owned subsidiary, A Biotech Co., Limited, in South Korea.

- (i) **While the group’s efforts in strengthening its core business of precision components is clear to shareholders as evidenced by the results, can the board elaborate further on its strategy to diversify into other businesses? Specifically, with the core business of precision engineering, what synergies or advantages does the group have in the food and beverage business and in the life science business? What are the transferable skillsets to these new businesses?**
- (ii) **Both the Head of Life Sciences and Head of Food and Beverage are experienced professionals with decades of experience as team members of the group’s precision engineering operations. While the group has a team of experienced professionals to leverage on, would the group benefit by shortening its learning curves in the new businesses by engaging professionals with the domain knowledge? Specifically, would the group be able to drive the new businesses with experienced business professionals that have a good track record in the Life Sciences sector and in the F&B sector?**
- (iii) **In evaluating new investments, what is the company’s investment hurdle rate?**
- (iv) **At the group level, the cash and cash equivalent stood at US\$43.8 million as at 31 December 2017, decreasing slightly from US\$45.0 million as at 31 December 2016 and US\$50.4 million as at 31 December 2015. The gearing ratios were 16.0%, 10.1% and 7.7% respectively. Has the board evaluated the group’s capital structure? Given the current scale of operations and future investment needs, could the board consider right-sizing the balance sheet by giving out a special dividend to improve the group’s return on equity?**

2. The group’s revenue was stable at US\$104 million while the group reported a profit attributable to owners of the company of US\$1.72 million in FY2017, up 328% from US\$403,000 in FY2016. As at 31 December 2017, trade receivables amounted to US\$24.0 million, or more than 27% of the group’s total assets which stood at US\$88.5 million. Net cash used in operating activities was US\$3.5 million in FY2017 as compared to US\$0.6 million of net cash from operating activities in FY2016.

As disclosed in Note 92 (page 18 – Trade and other receivables), the increase was mainly due to longer credit terms requested by a key customer from 60 days to 120 days.

- (i) **Can management help shareholders understand if the longer credit term of 120 days was only offered to a key customer? What are the other measures taken by management to monitor and to manage the credit risk arising from the longer credit term?**

3. As shown in the profiles of the directors on page 16, Mr Lai Shi Long, Edward, has served as an independent director of the company with effect from 26 February 2015. Mr Lai is also the chairman of the Audit Committee, and a member of the remuneration committee and of the nominating committee.

Mr Lai was an executive director of the company from 5 August 2004 to October 2011. Mr Lai was re-designated from executive Director to non-executive director in October 2011, and subsequently to an independent director on 26 February 2015.

From the 2010 Annual Report, Mr Lai's roles and responsibilities (then as an executive director) was disclosed as follows:



**LAI Shi Hong, Edward**

*Executive Director of our Group.*

Mr Lai is responsible for overseeing our finance, compliance and corporate development functions. He has more than 23 years of experience in finance, accounting and business management. Mr Lai graduated from the University of Hong Kong and is currently a Member of the Hong Kong Institute of Certified Public Accountants, The Institute of Chartered Accountants in England and Wales and a Fellow Member of the Association of Chartered Certified Accountants.

(Source: Company annual report 2010)

- (i) **As chairman of the Audit Committee, would Mr Lai be put in a position where he has to review policies and procedures implemented by the board/Mr Lai when he was an executive director from the period of August 2004 to October 2011?**
- (ii) **Would the nominating committee comment on the self-review risks of appointing Mr Lai as the chairman of the Audit Committee? Would the board re-consider how the risks can be reduced or eliminated?**