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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Cheung Woh Technologies Ltd

Security: Cheung Woh Technologies Ltd

Meeting details:
Date: 24 Jun 2019
Time: 11.00 a.m.
Venue: 23 Tuas South Street 1, Singapore 638033

Company Description

Cheung Woh Technologies Ltd is engaged in investment holding and trading. It manufactures and supplies precision hard disk drive (HDD) components. It operates through two segments: hard disk drive components, which include voice coil motor (VCM) plates and air combs, and precision metal stamping components, which mainly include sheet metal machined parts and stamped parts, prototypes, stamping tool design and fabrication. Its subsidiaries include Cheung Woh Technologies (Malaysia) Sdn Bhd, which is the manufacturer and provider of stamping process for metal works and manufacturer of tool and die; Cheung Woh Technologies (Johor) Sdn Bhd, which is the provider of services in the secondary processes of computer parts and components; Cheung Woh Precision (Zhuhai) Co., Ltd, which is the manufacturer of VCM plates and provider of precision metal stamping services, and Cheung Woh Technologies (Zhuhai) Co., Ltd, which manufactures hard disk drive components and sheet metal machined parts.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=C50)

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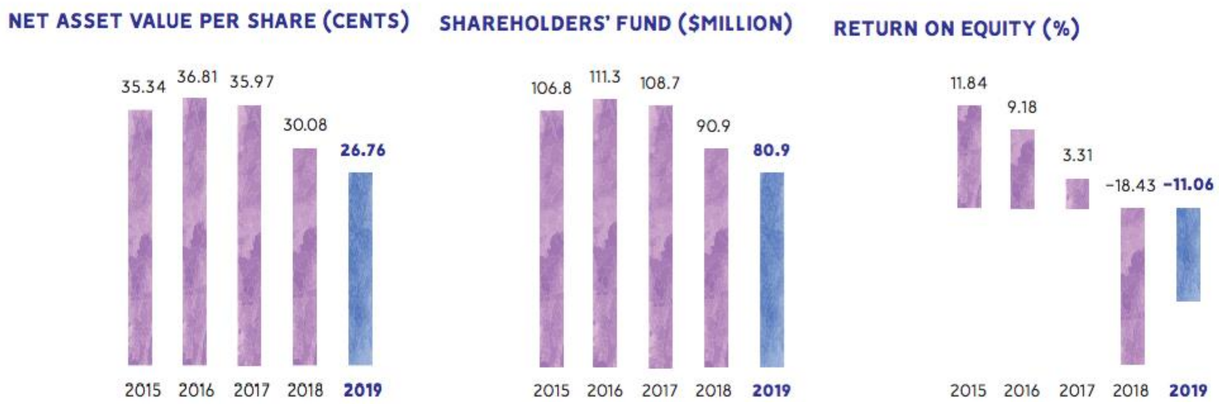
Q1. The group reported a loss of $(8.9) million for the financial year ended 28 February 2019. Although this was an improvement from a loss of $(16.8) million in the previous financial year, shareholders' funds have decreased to just $80.9 million. The following financial highlights are extracted from page 13 of the annual report for reference:



(Source: Adapted from company annual report)

Would the board/management provide shareholders with better clarity on the following operational/financial matters? Specifically:

(i) **Forged helium-filled hard-disk drive Baseplates:** In the chairman's statement, it was disclosed that the group's customer will switch to an alternative manufacturing method for their baseplates. The group will be supplying its baseplates until September 2019. With the completion of the current orders, the group expects its forged helium-filled hard-disk base Baseplates production to cease/substantially reduced. In the past two financial years, the group has recognised more than $11.5 million in impairment of its property, plant and equipment (PPE) and a further $1.4 million on capitalised expenses and patents related to the Baseplates.

(a) Can management help shareholders understand the total investments made to fund the group's venture into forged helium-filled hard-disk drive Baseplates?

(b) Following the cessation of orders from the group's customer, what are the prospects of the group's forged helium-filled hard-disk drive Baseplates segment? Would there be further impairment of its PPE and/or retrenchment/restructuring costs in the future?

(c) Would management help shareholders understand the revenue derived from other HDD components (less revenue from helium-filled Baseplates)?

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(d) **Would the board consider ceasing major investments into the HDD segment?**

(e) **What will be the utilisation rate of the group's manufacturing facilities after September 2019 when the orders are completed?**

(ii) **Precision metal stamping (PMS) segment:** Segment revenue decreased from $15.7 million in FY2018 to $12.0 million in FY2019, a drop of 24%. This despite the group trying to diversify away from the HDD business. The chairman has disclosed that the group has new projects in various stages of progress, from sample submission to mass production. **Can management elaborate further on the major opportunities in the next 12-24 months? What is the group's strategy to acquire new customers/projects? What is management's projected profit margin when bidding for these new projects?**

(iii) **Aerospace: Would management help shareholders understand the opportunities available to the group in the aerospace industry? Given that the aerospace segment is also highly competitive, how does the group ensure that it can be competitive/profitable as it ventures into this new segment?**

(iv) **High mix low volume business: Given that the group's core competency was in high volume (low mix) production, what changes have been made to the group's operations and culture to carry out the new high mix low volume business successfully?**

Q2. As disclosed in Note 5 (page 69 - Investment properties), the group's investment properties have a fair value of $7.06 million as at 28 February 2019. The two properties in Tuas are carried at a book value of $2.46 million.

(i) **Can the company let shareholders know if the two investment properties are fully leased out?**

In addition, the group has 2 manufacturing sites in Penang, 2 manufacturing sites in Senai, Johor, Malaysia and a large manufacturing site in Zhuhai, China. The details of the major properties can be found on the inner back cover of the annual report.

(ii) **Has the rising trade tension between USA and China affected the group's operation in Zhuhai, China?**

(iii) **Given the scaling down of the forged helium-filled hard-disk drive Baseplates segment, are there opportunities for the group to further streamline its operations?**

(iv) Given the trends of the group's HDD business, has the board considered if it would be opportune to scale back its manufacturing operations and to right-size the manufacturing capacity?

At the group level, the carrying value of leasehold land and buildings is $21.45 million as at 28 February 2019. This is based on the group's accounting policy of measuring property, plant and equipment at cost less accumulated depreciation (and any accumulated impairment losses).

(v) Has the board carried out a valuation of the leasehold properties in the group? What is the fair value of the properties recognised as leasehold land and buildings (under property, plant and equipment)?

(vi) Given the group's long term growth prospects, are there opportunities to monetise some of these properties recognised as PPE?

Q3. At the annual general meeting scheduled to be held on 24 June 2019, the company is proposing to re-elect Dr. Chen Yuk Fu who is retiring in accordance with Article 107 of the Company's Constitution.

Dr. Chen was first appointed to the board on 15 September 2000. As such, Dr. Chen has served as a director on the board for more than 18 years.

In addition, Mr Lim Kian Wee, an independent director on the board, was first appointed on 30 September 2005 and has served for more than 13 years.

In the Corporate Governance report, the company has disclosed that, following a rigorous review of the independence of the long tenured directors, the board has confirmed that the two long tenured independent directors are independent. It further stated that "*the board agreed there is* ***no need for progressive refreshing***" (page 17) [emphasis added].

In August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance ("2018 CG Code"). As a consequence of the revised 2018 CG Code, the Singapore Exchange has made amendments to its Listing Rules which came into effect on 1 January 2019, except for the rules on the 9-year tenure for independent directors and the requirement for independent directors to comprise one-third of the board which come into effect on 1 January 2022. Under the revised Listing Rules, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier vote by shareholders.

(i) Has the company evaluated the impact of the 2018 CG Code and the amendments to the Listing Rules on the board?

(ii) Can the nominating committee (NC) elaborate further on the succession plans for the board and other key management positions?

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(iii) **Has the nominating committee reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in future director appointments?** This is especially important as the group diversifies itself away from the HDD industry.

(iv) **In view of the impending cessation of the forged helium-filled hard-disk drive baseplates business and with the group's effort to go into high mix low volume machining business, would the board be evaluating the benefits of progressive refreshing of the board?** As noted above, the board has stated that it "***agreed there is no need for progressive refreshing***" (page 17) [emphasis added].

(v) **What are the company's near term plans to refresh the membership of the board to comply with the new 2018 Code in good time?** Reconstituting the board early to comply with the new 2018 Code would avoid undue disruption and help to maintain institutional knowledge and continuity in the board.

A copy of the questions for the Annual Report for the financial year ended 28 February 2018 and 28 February 2017 could be found here:

https://sias.org.sg/qa-on-annual-reports/?company=
Cheung%20Woh%20Techologies%20Ltd&cid=6790,4656,4318

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