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Issuer: Broadway Industrial Group Limited

Security: Broadway Industrial Group Limited

Meeting details:

Date: 26 April 2019

Time: 3.00 p.m.

Venue: Seminar Room 6-7, Level 5, 3 Fusionopolis Way, Symbiosis, Singapore 138633

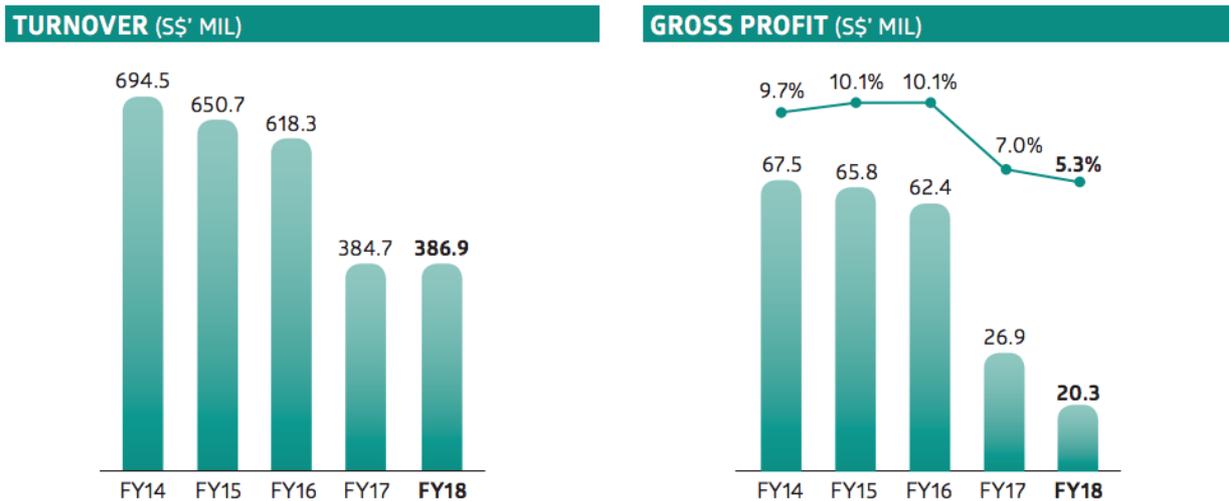
Company Description

Broadway Industrial Group Limited is an investment holding company. The Company is a manufacturer of precision-machined components for the electronics, automotive, oil and gas and other industries. The Company's segments include Hard disk drive (HDD) and Precision engineering solutions. HDD segment is involved in the manufacture and distribution of actuator arms and related assembly for the HDD industry. Precision engineering solutions segment is involved in the manufacture and distribution of precision machined components for industrial products used mainly in automotive consumer devices and semiconductor sectors. The Company, through its subsidiary, manufactures a range of actuator arms, as well as assembles related subcomponents, such as the coil, flex circuit and bracket/connector to the actuator arm before delivery to customers. The Company has manufacturing facilities located across China, Thailand and the United States.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=B69)

Q1. The group reported a slight increase in revenue for the first time in 4 years. Revenue inched up to \$386.9 million although gross profit dropped to \$20.3 million.

The 5-year summary of turnover and gross profit can be seen in the charts below:



(Source: Company annual report)

The company also stated that the long term downward trend for HDD is expected to continue at a compounded annual growth rate of negative 6.5%.

- (i) For the benefit of new and old shareholders, can the board/management help shareholders understand the group's business model?**
- (ii) Specifically, how will the group address the challenges of a shrinking market? When will the group substantially reduce/stop investing into the business that is shrinking at a fast pace?**
- (iii) Has the board carried out scenario planning and prepared the group for a day where it is no longer viable to continue with its HDD business? In the worst case, how soon will that be?**
- (iv) The group incurred redundancy costs \$(2.85) million in FY2018 and \$(3.94) million in FY2017. What are the ways to better manage the redundancy costs? Will it remain at this elevated level as the group's restructuring continues?**

Q2. The board comprises of five directors, of whom two are independent directors. The profile of the directors could be seen on page 5 of the annual report.

Mr Chuah Aik Loon resigned as an executive director on 18 January 2019.

Other than the executive director, Mr Ng Ah Hoy, none of the directors on the board have deep experience or expertise in technology, precision manufacturing or investing.

The group will need to explore new businesses and achieve diversification from the current HDD core business to ensure the group's viability in the long term.

- (i) Has the nominating committee evaluated if the board is effective in setting of the group's strategic plans and objectives and reviewing major investments and funding decisions?**
- (ii) What is the group's deal sourcing and deal structuring approach?**
- (iii) What are the possible new business areas the group has considered? Is the group prepare to venture into adjacent and related industries or possibly non-related industries?**
- (iv) Would the board/nominating committee be reviewing its composition to further augment the current board with directors with deeper technology/management/investments experience?**

Q3. As disclosed in the Corporate Governance report, Mr Lew Syn Pau was deemed an independent director for FY2018. With the introduction of the 2018 Code, Mr Lew was deemed non-independent under the Provision 2.1 of the 2018 Code and he was re-designated as non-executive non-independent chairman on 1 January 2019.

Following the redesignation, the number of independent directors on the board does not make up a majority of the board. The nominating committee (NC) is in the process of reviewing the composition of the board to ensure continued compliance with the 2018 Code.

The two independent directors are Mr Lee Chow Soon (first appointed on 24 October 1994) and Mr Eu Yee Ming Richard (first appointed on 15 September 2005). Mr Lee and Mr Eu have served on the board for more than 24 years and more than 13 years respectively.

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, especially the impact on the long tenured independent director?**

The NC has stated that the search and nomination process for new directors, if any, would be “through contacts, recommendations and executive search firms”.

- (ii) Would the NC be leveraging on a professional search firm to enable the board to cast its net wider and further improve the diversity and possibly the quality of the candidate pool?**
- (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, especially as the core HDD business is facing huge challenges?**

A copy of the questions for the Annual Report for the financial year ended 31 December 2017 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Broadway%20Industrial%20Group%20Ltd&cid=6665,4632>

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