Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Nam Lee Pressed Metal Industries Limited

Security: Nam Lee Pressed Metal Industries Limited

Meeting details:
Date: 18 January 2019
Time: 9.30 a.m.
Venue: Orchid Country Club, Sapphire Suite, Social Clubhouse, No. 1 Orchid Club Road, Singapore 769162

Company Description

Nam Lee Pressed Metal Industries Limited, together with its subsidiaries, designs, fabricates, supplies, and installs steel and aluminium products in Singapore, Malaysia, and Hong Kong. It operates through four segments: Aluminium, Mild Steel, Stainless Steel, and Others. The company's steel and aluminum products include gates, door frames, railings, laundry racks, letter boxes, sliding windows and doors, curtain walls, and cladding systems for building and infrastructure projects. It also manufactures and supplies aluminium industrial products for container refrigeration units. In addition, the company manufactures grilles, drying racks, hoppers, and other metal and steel-based products. Further, it is involved in the fabrication, installation, and supply of building materials and products; and manufacture and sale of decoration materials. Additionally, the company offers glasses and shower screens for building construction projects; and mild steel products on door frame and entrance gate for building construction projects. Nam Lee Pressed Metal Industries Limited was incorporated in 1975 and is headquartered in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=G0I)

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1. In November 2018, the parent of the group's major customer announced its intention to separate into three companies, spinning off an independent company that will be a leading global provider of innovative HVAC and refrigeration technologies, amongst others.

The separation is expected to be completed in 2020. The company has also disclosed in its risk management framework that the business relationship with its top customer is a major risk factor.

(i) Has the board/management evaluated the potential impact of the corporate action by the major customer?

(ii) How does the group intend to further cement its unique position as the "only worldwide third-party manufacturer of aluminium frames for container refrigeration units in the world" for the major customer?

(iii) How much order visibility does the group have from its major customer(s)?

In FY2018, "*led by buoyant demand for [the group's] aluminium products*", revenue from the aluminium segment increased by $22.7 million (19%) to $144.2 million although it was disclosed in the annual report that "*the group is bracing for the anticipated geopolitical trade-related developments and ensuing uncertainties in [the] key markets to affect [the] core aluminium industrial product business in the year ahead*" (page 6).

(iv) Has management estimated the impact of the escalating trade tension between USA and its trading partners on the group's aluminium industrial product business? How is the company pro-actively managing the impact from any such fall-out?

2. In the Chairman's statement, it was stated that the group's building product business would "*continue to be subject to pressure… external factors such as the prevailing intense market competition, continuing government measures to cool the local housing market and tight labour market for foreign construction workers, etc; will combine to exert pressure on profit margin…*".

Specifically for the mild steel building products segments, revenue decreased by $7.9 million (or 40%) to $12.0 million in FY2018 and the segment recorded a loss before tax of $(2.1) million in the financial year.

A summary of the profit before tax for the mild steel segment since FY2010 is shown below:

FY2010 - $2.62 million
FY2011 - $1.48 million
FY2012 - $2.72 million
FY2013 - $3.05 million
FY2014 - $2.74 million
FY2015 - $0.123 million

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FY2016 - $0.241 million
FY2017 - $0.216 million
FY2018 - $(2.06) Million

- **(i) Can management further elaborate on the reasons for the steep losses of $(2.06) million in FY2018 for the mild steel building products segment?**

- **(ii) Can the company help shareholders understand the main reasons for the reduced profitability of the segment since FY2015 when the profit before tax dropped to $123,000 and have remained at depressed levels?**

- **(iii) What are management's pro-active efforts to turnaround the segment and to improve its profitability?**

- **(iv) Does management have an estimate of the group's market share in Singapore?**

- **(v) Beyond the core sub-segment of residential projects for its building products, how much headway has the group made in the commercial and infrastructure market segments?**

In addition, the group further invested $4.1 million (as addition to non-current assets for the mild steel segment) with the acquisition of a piece of industrial land in Iskandar that is earmarked for a new factory for a new range of building products.

- **(vi) Would management help shareholders understand the potential of the new range of building products?**

- **(vii) Will the group be streamlining its operations and consolidate its manufacturing facilities? How much more cost efficient can the new site be?**

3. The "impairment assessment of trade receivables" is a key audit matter (KAM) highlighted by the Independent Auditor in their Report on the Audit of the Financial Statements (page 38). 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 period.

As noted in the KAM, as at 30 September 2018, the group's total trade receivables balances accounted for 20.6% of its total assets, comprising of trade receivables of $30.9 million from external parties and retention receivables of $4.8 million.

While trade receivables have decreased despite the increase in revenue, trade receivables past due but not impaired have increased to $4.88 million as at the end of the financial year, up from $1.57 million a year ago.

The aging analysis is shown in the table below (page 79 – Note 16: Trade receivables):

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	Group	
	2018	**2017**
	$'000	$'000
Trade receivables past due but not impaired:		
Lesser than 30 days	**2,244**	975
30 - 60 days	**262**	213
61 - 90 days	**1,674**	366
91 - 120 days	**–**	–
More than 120 days	**695**	12
	4,875	1,566

(Source: Company annual report)

(i) **Would management help shareholders understand the reason(s) for the significant jump in trade receivables past due by more than 61 days but not impaired?**

(ii) **Can the company show the trade receivables past due but not impaired by business segment/product type? What are the profiles of the customers that have long outstanding debts?**

(iii) **Has there been a change in the group's credit terms/credit risk framework?**

(iv) **How does management assess the creditworthiness of its customers?**

4. [*The following question on board renewal and long tenured independent directors was posted to the company following the review of the 2017 annual report. As the company has not responded nor improved its disclosure/corporate governance practices, the question is updated and reposted.*]

All three independent directors, namely Mr Khoo Ho Tong, Mr Chidambaram Chandrasegar and Mr Tan Soo Kiat, have each served on the board for a period exceeding nine years from the date of their first appointment.

Mr Khoo, Mr Chandrasegar and Mr Tan were first appointed to the board on 9 September 1999, 1 March 2005 and 9 June 2008 respectively. Accordingly, Mr Khoo, Mr Chandrasegar and Mr Tan have each served on the board for more than 19 years, 13 years and 10 years respectively.

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

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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) **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?**

(iii) **What is the search and nominating process for directors, especially independent directors?**

(iv) **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?** This would avoid undue disruption and maintain institutional knowledge and continuity in the board.

A copy of the questions for the Annual Report for the financial year ended 30 September 2017 and 30 September 2016 could be found here:

https://sias.org.sg/qa-on-annual-reports/?company=Nam%20Lee%20Pressed%20Metal%20Industries%20Ltd

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