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Issuer: Santak Holdings Limited

Stock code: 580

Meeting details:

Date: 27 October 2020

Time: 10.30 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

Q1. As noted in the chairman's statement, revenue decreased by 6.1% to \$13.26 million in FY2020, with revenue from the Precision Engineering Division ("PE") eking out a 2% increase to \$8.99 million. This was due to stronger demand from the data storage and oil & gas sectors.

- (i) **Would management elaborate further on the strength of the underlying demand from the data storage and oil & gas sectors? How sustainable is the increase?**
- (ii) **What are management's efforts to acquire new customers and to broaden its customer base given that the top 4 major customers accounted for 91% of its total revenue in FY2020? What are the profiles of the group's major customers?**

Despite the increase in revenue in the PE division, the segment loss was \$(1.20) million in FY2020 although it was an improvement from the loss of \$(1.90) million in the previous year. The segment lost \$(1.99) million, \$(2.75) million, \$(1.68) million and \$(0.62) million from FY2018, FY2017, FY2016 and FY2015(restated) respectively.

- (iii) **Has management kept up with technological changes and maintained its competitiveness of its PE division given the advances in the industry?**
- (iv) **What are the competitive strengths of the PE division?**
- (v) **What is the group's production capacity and the utilisation rate in FY2020?**
- (vi) **Has management evaluated the group's breakeven point?**
- (vii) **What are the outstanding (a) shifting and set-up costs and (b) capital expenditure to fully equip the group's new factory in Johor?** As disclosed in Note 29 (page 84 – Subsequent events), the group has plans to shift all its main machines and equipment to the Johor factory by December 2020. **What is the current planned capacity of the new Johor factory?**
- (viii) **Has management taken the opportunity to review its work processes and workflow so that it can further improve its productivity and be more cost-efficient? What is the level of cost savings that can be expected from the shift?**
- (ix) **Given the continued and sustained losses in the PE division, has the board deliberated on its options, including a sale of the business or winding up the operations?**

Q2. The group has been trying to dispose its property at 31 Senoko South Road for at least 2 years (since July 2018). The first prospective buyer was not able to obtain the necessary JTC approval and hence the option lapsed.

The group subsequently granted an option to another third-party purchaser for \$10.5 million in June 2019. The sale has not been completed. As announced by the company on 23 June 2020, the company has obtained approval to extend the date of completion of the assignment to 31 December 2020.

Due to the Circuit Breaker measures in Singapore and the Movement Control Order in Malaysia, the group faced delays in the shifting of its equipment to the new factory in Johor.

As a result, the loss on the proposed disposal will increase to \$(1.16) million.

- (i) **Would management help shareholders understand if there were any extenuating circumstances for the delay (prior to the pandemic) in shifting its equipment given that the Malaysia site was acquired in December 2018?**
- (ii) **Has management maintained its organisational agility in order to respond to the rapidly changing environment and instilled a culture of getting things done expediently and efficiently?**

In the announcement on the proposed disposal dated 27 June 2019, the company has stated that the proceeds will be used for general working capital of the group.

The company has not distributed a dividend since 2015, with the board citing the challenges of the industry and the need “to conserve cash for working capital”. The group has a negligible net debt of \$62,381 and a gearing ratio of 0.3% (page 84). Cash and cash equivalents amounted to \$3.2 million as at 30 June 2020. This is before the receipt of the gross proceeds of \$10.5 million from the sale of the factory (less any transactional expenses).

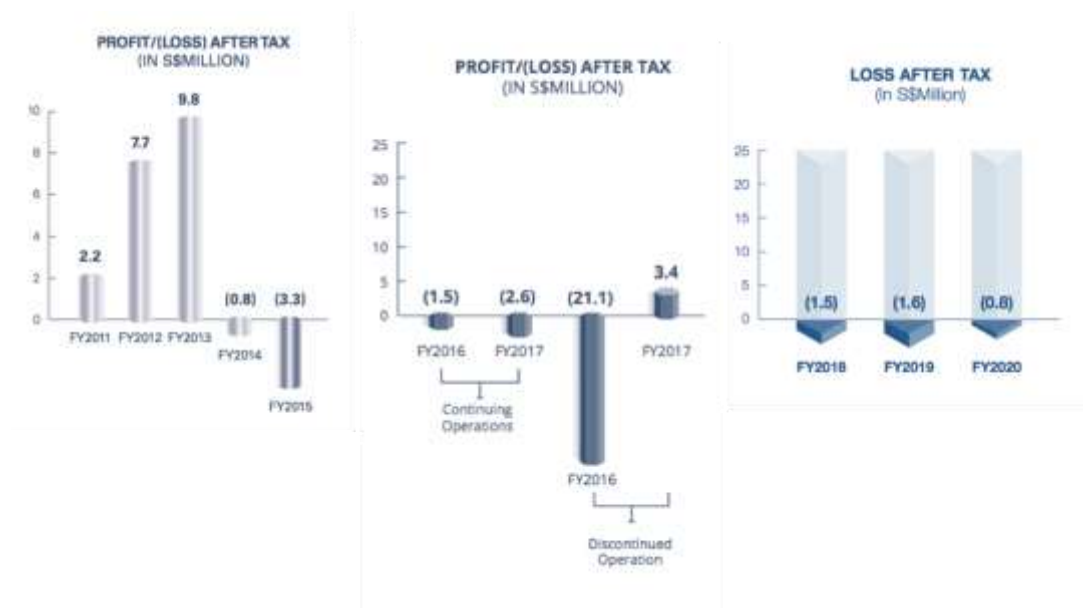
- (iii) **Given the recent track record of the group and the challenges conditions, would the board consider declaring a special dividend from the sale proceeds to right-size the group’s balance sheet?**

Q3. Mr Lee and Mr Ch’ng have served on the board as independent directors since March 2001. Accordingly, each of Mr Lee and Mr Ch’ng has served on the board for more than 19.5 years. At the annual general meeting scheduled to be held on 27 October 2020, Mr Ch’ng Jit Koon is retiring pursuant to Regulation 91 of the company’s constitution and would be seeking his re-election.

The nominating committee (NC) has determined that the long tenured directors to be independent. The NC is chaired by Mr Ch'ng Jit Koon (non-executive director) and the other members are Mr Lee Keen Whye (non-executive director) and Mr Tan Chee Hawaii (group managing director).

The board has also stated that the two long-tenured directors are valuable to the group in terms of their experience and knowledge in finance, understanding of the precision components business and the markets notwithstanding their long tenure.

The track record of the group in the past 10 years is shown below.



(Source: company annual reports; not to scale)

On page 86, the board has stated that directors are fiduciaries who act objectively in the best interests of the company and hold management accountable for performance. It further added that the board is collectively responsible for the long-term success of the group and provides entrepreneurial leadership to management.

- (i) **Would the independent directors help shareholders understand how they have contributed to the effectiveness of the board and have held management accountable for the group's performance?**
- (ii) **Has the board evaluated the performance of the group in the past decade? If so, is the board satisfied with the performance of the group?**

- (iii) **Specifically, as the board has stated that the long-tenured non-executive directors “are valuable to the group in terms of their experience and knowledge in finance, understanding of the precision components business and the markets”, can the independent directors help shareholders understand their individual contributions to the performance of the group?**
- (iv) **Would the company be early-adopting a two-tier voting for long-tenured independent directors?**

In addition, the NC has decided not to adopt a formal Board Diversity policy (page 91). As noted in the Code of Corporate Governance 2018 issued by the Monetary Authority of Singapore, companies are expected to comply with the Provisions, and variations from Provisions are acceptable to the extent that companies explicitly state and explain how their practices are consistent with the aim and philosophy of the Principle in question.

Provision 2.4 of the Code states that the company has to disclose its diversity policy and progress made towards implementing the board diversity policy, including objectives, in the company’s annual report.

- (v) **Would the NC reconsider its decision not to adopt a formal Board Diversity policy? What are the diversity targets and how does the NC measure the progress made towards the diversity targets?**

[^]Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer’s website, through “live” webcast and on SGXNet.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can’t attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on [SIAS website](http://www.sias.org.sg)

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[^] Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (<https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings>)