



**Securities Investors Association (Singapore)**

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**Issuer:** Spindex Industries Limited

**Security:** Spindex Industries Limited

**Meeting details:**

Date: 26 October 2018

Time: 2.30 p.m.

Venue: The Chevrons, Carnation Room Level 3, 48 Boon Lay Way, Singapore 609961

**Company Description**

Spindex Industries Limited, together with its subsidiaries, engages in the manufacture, import, export, and trade of mechanical, electrical, electronic, and precision machine parts, as well as other engineering materials. It provides precision turned parts, such as shafts, mini shafts, sleeves, and other critical components used various applications, including consumer copiers, facsimiles, laser printers, inkjet printers, scanners, multi-function centers, commercial printers, commercial offset printers, etc. The company also offers various components used in automotive sensor assemblies, throttle mechanisms, and gear shafts that are used in brakes, drive systems, and industrial tools. In addition, it provides mini fasteners, transmission shafts, and bearing shafts for use in bicycles, fishing rods, washers, and irons. The company serves MNC customers operating in imaging and printing, domestic appliances, consumer electronics, data storage, machinery, automotive systems, and telecommunications sectors. It has operations in the People's Republic of China, Singapore and other ASEAN countries, the United States, Europe, and internationally. The company was founded in 1981 and is headquartered in Singapore. Spindex Industries Limited is a subsidiary of DBS Nominees Pte. Ltd.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=564](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=564))

1. As noted in the Chairman's Statement, the group registered another year of growth as revenue increased by 8% to \$153.3 million. This was achieved despite the backdrop of increasing trade conflicts. All three business sectors registered growth, with the "Machinery and Automotive Systems" leading the way with an 11% improvement in revenue.

Gross profit margin slipped from 22.7% in FY2017 to 18.7% in FY2018 due to newly commenced projects that have not reached optimal efficiency. In FY2014-FY2017, the group's gross profit margin has fluctuated between 22.7% and 23.94%.

- (i) What are the operational issues with the new projects? Have management resolved these?**
- (ii) Going forward, does management expect the group to perform at a level similar to the performance in FY2014-2017 (i.e. achieve a gross profit margin of approximately 22-23%)?**

In FY2017 and FY2018, the group added \$8.6 million and \$17.3 million to its plant and machinery. The investment is part of the equipment renewal programme to boost productivity and manufacturing efficiency.

- (iii) What is the expected improvement in cost-efficiency?**
- (iv) What are the utilisation rates of its manufacturing facilities?**

The group has been looking to expand its manufacturing footprint either by expanding existing sites or investing in new sites.

- (v) Can management update shareholders on the progress made in its expansion plan?**
- (vi) Has management considered the current tension between the United States and China? Is it a significant factor in the choice of the location of the new site?**

2. The directors have proposed a first and final cash dividend of 3.0 Singapore cents per ordinary share for the financial year ended 30 June 2018. The total dividend to be paid out to shareholders amounts to \$3.46 million.

As at 30 June 2018, the company has cash and cash equivalents of \$29.1 million. Net cash flows generated from operating activities exceeded \$35 million in the past two years although the company invested upwards of \$27 million into the business.

Even after a round of significant equipment renewal, the group has no borrowings.

- (i) Can the board explain how it determined the first and final cash dividend of 3.0 Singapore cents per ordinary share?**

- (ii) **Given the current financial position, growth prospects and the cash generative ability of the operations, did the directors review the group's capital structure and evaluate if it could support a higher level of dividends?**
- (iii) **Would it be opportune for the board to formalise a dividend policy?**

3. Would the board provide shareholders with better clarity on the following governance matters? Specifically:

- (i) **Directors' fees:** At the 31<sup>st</sup> Annual General Meeting scheduled to be held on 26 October 2018, the company is seeking shareholders' approval for the payment of directors' fees of \$276,540 for the financial year ended 30 June 2018 (2017: \$156,125). **Can the board elaborate further on the significant increase in fees?**
- (ii) **Long tenured director:** Mr Chew Heng Ching has been an independent director of the company since 1998. Mr Chew is also the chairman of the audit committee and the lead independent director since 2011. **Would the board explain in greater detail how the rigorous review of the independence of Mr Chew was carried out?**
- (iii) **Revised code of corporate governance:** In August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance ("2018 Code"). As a consequence of the revised 2018 Code, the Singapore Exchange will be making amendments to its Listing Rules. The Listing Rule changes will come 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. **Has the company evaluated the impact of the 2018 Code and the amendments to the Listing Rules on the board?**
- (iv) **Attendance at board committee meetings:** The attendance of directors at board and board committee meetings is shown in the table below:



The details of the number of Board Meetings held during the financial year as well as the attendance of each Board member at those meeting of various Board Committees are disclosed below:

Name of Directors	The Board		AC		NC		RC	
	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended
Tan Choo Pie @ Tan Chang Chai	4	4	4	4	1	1	1	1
Tan Heok Ting	4	4	4	4	1	1	1	1
Chen Chang Rong	4	4	4	4	1	1	1	1
Chew Heng Ching	4	4	4	4	1	1	1	1
Chan Meng Wah Alexander	4	4	4	4	1	1	1	1
Peter Tan Boon Heng*	4	4	4	4	1	1	1	1

\* Peter Tan Boon Heng was appointed as an Independent Director on 12 September 2017 and as a member of each of the Audit, Nominating and Remuneration Committees on 12 September 2017.

(Source: Company annual report)

**Can the board help shareholders understand if it is the usual practice for non-board committee members (i.e. the executive directors) to attend the board committee meetings? Were there specific agenda items or reasons to invite the executive directors to all the board committee meetings? What is the dynamics of the board committee meetings when the board committee members may be reviewing and discussing matters that are related to or affect the executive directors? Such board committee meetings would have included agenda items on performance assessment and remuneration of the executive directors and on the audit/financial reporting of the group. Do the invited directors also actively participate in the discussions during the board committee meetings?**

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

<https://sias.org.sg/qa-on-annual-reports/?company=Spindex%20Industries%20Ltd>

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