



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

Issuer: Spindex Industries Limited

Stock code: 564

Meeting details:

Date: 23 October 2020

Time: 2.30 p.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. Based on Note 32 (page 72 – Segment information: Business segments), the third segment (“Others”) has grown rapidly and contributes to approximately a third of the group’s revenue and segment profit in 2020.

32. Segment information (cont’d)

(a) **Business segments**

	Imaging and printing		Machinery and automotive systems		Others*		Adjustments and eliminations		Group	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue										
External customers	32,423	36,790	68,730	70,865	48,473	48,157	–	–	149,626	155,812
Inter-segment	681	274	18,956	15,947	1,035	1,226	(20,872)	(17,447)	–	–
Total revenue	33,104	37,064	87,686	86,812	49,508	49,383	(20,872)	(17,447)	149,626	155,812
Segment profit	6,764	8,129	14,339	15,657	10,773	10,640	–	–	31,876	34,426
Distribution and selling expenses	(844)	(747)	(1,306)	(1,439)	(963)	(979)	–	–	(2,973)	(3,165)
Impairment loss on trade receivables	(74)	–	(92)	–	(100)	(4)	–	–	(266)	(4)
Unallocated other income									2,395	1,733
Unallocated expenses									(16,068)	(15,000)
Operating profit									14,964	17,990
Financial expenses									(133)	(2)
Income tax expense									(2,640)	(2,658)
Net profit for the financial year									12,191	15,330

(Source: company annual report)

As disclosed, “Others” include domestic appliances, consumer electronics, data storage, telecommunications and others.

- (i) **Would management clarify if “machinery” and “automotive systems” are separate segments and could be reported as standalone operating segments?**
- (ii) **In particular, would management be reviewing how it could better present its operating segments (especially “Others”) to allow shareholders to understand the group’s main product categories and thus the group’s risks and growth prospects?**
- (iii) **Given the trade war and the COVID-19 pandemic, can management provide shareholders with better visibility of the underlying performance and opportunities of the different product categories?**
- (iv) **Has management been able to tap into the new and urgent demand for certain devices and appliances required during the pandemic?**

As seen from the table above, the group recognised unallocated expenses amounting to \$16.1 million. While the three segments show positive segment profit ranging from \$6.8 million to \$14.3 million, net profit was just \$12.2 million after accounting for expenses such as unallocated expenses and distribution and selling expenses.

- (v) **Has management reviewed how it could better allocate the \$16.1 million in unallocated expenses in its management accounts?**
- (vi) **Would the audit committee be reviewing how it could further improve the granularity of the segment reporting by allocating its costs more meaningfully?** This would give shareholders a better basis to assess the performance of the segments and facilitate the chief operating decision maker to make informed decisions in his resource allocation.

Q2. As noted in the chairman's statement, the group is constantly examining the allocation of its manufacturing resources across the region. The group currently has production facilities strategically located in China, Malaysia and Vietnam, and is supported by over 1,700 headcounts and more than 1,000 CNC equipment.

The group has stated that it has initiated the optimisation of its manufacturing resources by building a new plant at Nantong, China to improve operational and cost efficiencies and has recently completed a plant expansion in Hanoi, Vietnam on an adjacent plot of land.

The group has also entered into a joint venture with Acuger Precision Corporation (APC) to undertake the manufacturing of plastic moulds, plastic products and related assemblies in Vietnam.

- (i) **Can the company clarify if the recently completed plant expansion in Hanoi is to cater to the group's owned operations and not part of the plans of the joint venture?**
- (ii) **With a new plant being built in Nantong, and with the recently completed plant expansion in Hanoi, would management provide shareholders with an update on the group's manufacturing capacity and capabilities in the various countries?**

The joint venture with APC is a change in how the group has been operating in recent years. The main operating subsidiaries of the group are all wholly owned by the company.

- (iii) **Can management elaborate further on the rationale for forming a joint venture with APC? What would each party be contributing to the JV other than capital?**
- (iv) **In particular, has the JV already identified new products or new markets?**

- (v) As disclosed in Note 31, the group has \$5.3 million of capital expenditure contracted as at 30 June 2020. The group has a proven track record in producing strong operational cash flows. Cash and cash equivalents amounted to \$51.2 million, or 31% of its total assets, as at 30 June 2020. **Has the board evaluated its optimal capital structure? Given the current growth trajectory and the group’s strong cash holdings, has the board evaluated distributing a special dividend to right-size its balance sheet?**

Q3. As noted in the company’s corporate governance report, the company’s internal audit function is currently outsourced to Mazars LLP (page 21). In FY2020, the scope of the internal audit primarily covers financial, operational, compliance and information technology controls and risk management systems of the group.

The appointed internal auditor is responsible to (i) evaluate the effectiveness of internal controls to ensure that an effective internal control system is in place; (ii) ensure compliance with established policies and procedures and best practices; (iii) identify improvement opportunities; and (iv) develop recommendations for improvement in controls and operational efficiency.

In addition, Mazars was also engaged by the group to perform an Enterprise Risk Assessment exercise to identify existing and potential key risks facing the group and to develop risk mitigation strategy to manage those risks.

- (i) **Can the audit committee (AC) confirm that Mazars has been tasked to (a) perform the group’s enterprise risk assessment (including setting up the risk register) and to (b) conduct the internal audit as the group’s outsourced internal auditor?**
- (ii) **Did the AC consider if there would be any threat of self-review by Mazars which assisted in drawing up the Enterprise Risk Management Framework and then, as the internal auditor, reviewed the adequacy of the group’s internal controls which includes the risk management systems?**

[^]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.

[^] 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>)



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

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