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

Issuer: Sunright Limited

Security: Sunright Limited

Meeting details:
Date: 16 November 2018
Time: 10.00 a.m.
Venue: SCCC Zhong Sheng Jian Recital Studio, Level 6, Singapore Chinese Cultural Centre, 1 Straits Boulevard, Singapore 018906

Company Description

Sunright Limited, an investment holding company, provides burn-in, testing, and electronic manufacturing services to semiconductor and electronics manufacturers in Singapore, Malaysia, China, Taiwan, Hong Kong, the Philippines, Thailand, Vietnam, the United States, and internationally. The company offers burn-in services for a range of integrated circuits, such as memories, micro-controllers, microprocessors, digital signal processors, etc., as well as turnkey services, including wafer sort, test, burn-in, mark, scan, and drop ship. It also provides testing services; manufactures parallel test/burn-in boards, test interface board assemblies, and probe cards; and designs, develops, and delivers hardware and software products for burn-in parallel tests comprising parallel test burn-in systems, and handling and storage products. In addition, the company offers design, engineering, and manufacturing services for electronic products to aerospace, automotive, computing, consumers' electronics, industrial, medical, and mobile OEM customers. Further, it assembles electronic and electrical components; provides research and development services for burn-in and test related activities; and trades in and distributes high-technology electronic equipment and materials. Sunright Limited was founded in 1978 and is headquartered in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=S71)

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1. As disclosed in the Directors' statement (page 43 of the annual report), the company's treatment of its 48.41% stake in KESM Industries Berhad and its subsidiaries ("KESM") is as follows:

For the purpose of the disclosures in this statement as required by the Singapore Companies Act, Chapter 50, KESM Industries Berhad ("KESMI") and its subsidiaries are not considered as subsidiaries of the Company and have therefore been treated as associates of the Group by virtue of the Company's shareholding of 48.41% in KESMI.

However, in other sections within the financial statements, for the purpose of the disclosures as required by the Singapore Financial Reporting Standards, KESMI and its subsidiaries are considered to be subsidiaries of the Group, following the Group's adoption of FRS 110 *Consolidated Financial Statements* and FRS 27 *Separate Financial Statements*.

(Source: Company annual report)

(i) Would management help shareholders understand the level of oversight, influence and control over the day-to-day operations and strategic matters of KESM?

(ii) What is the strategic value of KESM to the group's long term growth plans?

(iii) Has the board considered raising the company's stake in KESM if it is a critical and integral part of the group's value chain? On the other hand, has the board evaluated how it could crystallise value to shareholders if a distribution-in-specie of KESM is carried out?

[The following question was sent to the company following a review of the 2017 annual report. As the company has not provided further clarification or updated its practices, the question is updated and reposted to the company.]

2. On page 27, in the Corporate Governance Statement, the directors have stated that the board of director is "*committed to ensure that good corporate governance practice is observed throughout the Group as a fundamental part of discharging its responsibilities to protect and enhance shareholders' value and the financial performance of the Group.*"

Despite its "commitment", the company has disclosed that it had generally adhered to the principles and guidelines set out in the 2012 Code of Corporate Governance except for the following:

- Guideline 2.2 – independent directors to make up at least half of the Board where the Chairman and the Chief Executive Officer ("CEO") is the same person;
- Guideline 3.1 – the Chairman and CEO should in principle be separate persons;
- Guideline 3.3 – appoint lead independent director where the Chairman and the CEO is the same person;
- Guidelines 4.1 and 7.1 - establish Nominating Committee and Remuneration Committee;
- Guidelines 9.2 – fully disclose the remuneration of each individual director and the CEO; and
- Guideline 9.3 – disclose the name and remuneration of at least the top five key management personnel.

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The reasons provided include:

Guideline	Requirements	Reason
Guideline 2.2	Independent directors to make up at least half of the Board where the Chairman and the Chief Executive Officer ("CEO") is the same person;	*Whilst the Chairman and CEO is the same person, the Board opines that as there is already a strong independence element and considering the Group's current size and operations, it is not necessary to introduce more independent directors solely to make up at least half of the Board.*
Guideline 3.1	The Chairman and CEO should in principle be separate persons;	*Although the roles are combined, the Board is of the view that there are sufficient Independent Directors on the Board to ensure fair and objective deliberations at Board meetings and who are capable of exercising independent judgements.*
Guideline 3.3	Appoint lead independent director were the Chairman and the CEO is the same person;	*The Board is not making such an appointment as it is of the opinion that based on past experiences, it is remote and highly unlikely that shareholders will be unable to relate or resolve their concerns through the normal channel of the Chairman/CEO or Executive Director of the Company, or to communicate with the Independent Directors if they wished to do so.*
Guidelines 4.1 and 7.1	Establish Nominating Committee and Remuneration Committee;	*The Company did not establish a Nominating Committee ("NC") as recommended by the Code as the Board itself can fulfill the role of NC. The size of the Board does not warrant having a sub-committee for the stated purposes.* *The Board itself fulfills the role of an RC, in respect of the review of the remuneration of Directors, from time to time; and has delegated the review of senior managers of the Group, to the Executive Directors. Also, the size of the Board does not warrant having a sub-committee for the stated purposes.*
Guideline 9.2	Fully disclose the remuneration of each individual director and the CEO; and	*The Company refrains from disclosing the details of the remuneration of its Directors and top five (5) key executives as it believes that doing so is not in its best interests due to the sensitive and confidential nature of such information. The Company has only two (2) key management staff, being its Executive Directors.*
Guideline 9.3	Disclose the name and remuneration of at least the top five key management personnel.	

While the board of directors has declared that it is "*committed to ensure that good corporate governance practice is observed throughout the Group*", the various deviations from the 2012 CG Code (as shown in the table above) may have reduced, or perceived to reduce, the independent element on the board.

(i) Specifically, would the board elaborate further why it has opined that the current board composition of two executive directors, a non-executive non-independent director and two long tenured independent directors (both appointed on 18 January 1994) is considered as having "a strong independent element" and not introduce more independent directors?

The 2012 CG Code also recommends the establishment of the remuneration committee (RC) and the nominating committee (NC) and for them to have a majority of independent directors, including the RC chairman and the NC chairman. The company appears to be the only listed company on the Singapore Exchange that does not have a RC. Even KESM has a nominating committee.

(ii) Would the board reconsider its deviation of not establishing a RC and a NC that meets the recommendations of the code?

Guideline 2.4 of the CG Code calls for the board to "also take into account the need for progressive refreshing of the Board".

(iii) As the two independent directors have each served on the board since 18 January 1994, can the board let shareholders know its near-term plans for the progressive refreshing of the board?

Further, 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.

(iv) Has the company evaluated the impact of the 2018 Code and the amendments to the Listing Rules on the board?

3. As seen in Note 11 (pages 78 to 82 – Investment in subsidiaries), revenue recognised in the year for KESM was up 6.3% to $115.9 million and its profit for the year was $13.0 million. The consolidated revenue and profit for the group in FY2018 were $153.4 million and $13.6 million respectively.

In the business review, it was disclosed that the group "delivered several Fastrack units", shipped g32 and launched EZ in July 2018 while the KX5 is still in the final phase of pre-production evaluation.

(i) Can management help shareholders better understand the potential of each of the group's products? What is the profile of the typical customer? What is the addressable market?

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(ii) Has the board evaluated the return on investment of the group's innovation efforts (e.g. the manufacturing segment)? What is the gestation period (including R&D and commercialisation)?

(iii) For the benefit of new and old shareholders, would management help shareholders understand the key value drivers for the group's operations(outside of KESM)?

(iv) How does the board monitor the group's performance? What are the key performance indicators used to measure and assess senior management?

4. The company has stated that it does not have a fixed dividend policy. The form, frequency and amount of dividends the board may recommend or declare, will depend on various factors, including general financial condition, the level of group's cash and earnings, results of operations, capital requirements, cash flow, general business condition, development plans and other factors as the directors may deem appropriate (page 41).

(i) Can management help shareholders understand if there is any major capital expenditure required in the near future to support the company's growth plans?

As shown in Note 15 (page 86 – cash and short-term deposits), the group's cash and short-term deposits increased from $68.2 million as at 31 July 2017 to $87.4 million at the end of the reporting period. The group is in a net cash position of $51.7 million. KESM has increased its dividend from 12.5 sen per share in 2017 to 18.5 sen per share in 2018. In fact, since 2014, KESM has increased its dividend per share from 3 sen (2014), to 6 sen (2015), to 7.5 sen (2016), to 12.5 sen (2017) and to 18.5 sen (2018).

(ii) What deliberations did the board have on the declaration of dividend for the financial year ended 31 July 2018?

(iii) Would the board help shareholders understand how it could balance the need to support the group's growth and the need to provide shareholders with adequate returns (in the form of sustainable dividends)?

A copy of the questions for the Annual Report for the financial year ended 31 July 2017 and 31 July 2016 could be found here:

https://sias.org.sg/qa-on-annual-reports/?company=Sunright%20Ltd

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