



Securities Investors Association (Singapore)

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Issuer: Trek 2000 International Ltd

Security: Trek 2000 International Ltd

Meeting details:

Date: 23 April 2019

Time: 10.00 a.m.

Venue: 30 Loyang Way, #07-13/14/15 Loyang Industrial Estate, Singapore 508769

Company Description

Trek 2000 International Ltd, an investment holding company, engages in the research, design, development, and dealing of computer hardware, software, electronic components, and other related products. The company operates through three segments: Interactive Consumer Solutions, Customised Solutions, and Licensing. The Interactive Consumer Solutions segment offers patented products and solutions under various technologies, including USB, wireless, anti-piracy, compression, security/encryption, and enterprise solutions, as well as portable storage solutions, such as flash memory, hard disk, and optical technologies. The Customised Solutions segment provides design solutions, such as complete design-in modules or sub-modules in semi-customized or customized forms. The Licensing segment licenses its patented technologies and trademarks. The company is also involved in the research and experimental development on medical technologies; research, design, development, and distribution of memory modules, and other related products and solutions; and development and marketing of Web portal services, including social networking sites. It has operations in Singapore, Taiwan, the United States, China/Hong Kong, Japan, Europe, Malaysia, India, Thailand, and internationally. The company was incorporated in 1999 and is headquartered in Singapore. (Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5AB)

1. As disclosed in the chairman's statement, the Chairman Emeritus, Mr Henn Tan, has been instrumental in the group's success since 2000 and the board has appealed to the Exchange to re-appoint Mr Henn Tan. The board has stated that this is in the best interests of the group's long-term profitability and sustainability.

- (i) What is the current leadership bench depth across different functions, such as research & development, business development, sales?**
- (ii) As the remuneration committee (RC) has oversight of management development and succession planning in the group, would the RC elaborate further on the group's talent management programme?**
- (iii) How much success does the group have in hiring, developing and retaining talent?**
- (iv) Mr Henn Tan was appointed as a consultant to the group and Mr Tan has been advising on matters relating to, inter alia, general strategic and business planning and stakeholder management and administration. Can the board help shareholders understand the difference in roles and responsibilities should Mr Tan be appointed as executive director?**
- (v) Would the board continue to be in compliance with Principle 3 of the 2012 Code of Corporate Governance which recommends the chairman and the chief executive officer to be separate persons?**
- (vi) As disclosed in Note 3 (page 81 – Ongoing investigations), the company carried out its own investigations since the release of the Phase 2 report and has submitted a full written legal representation of the findings with supporting evidence of the SGX RegCo on 5 October 2018. The ongoing investigations relate to certain interested person transactions dating back to November 2007 to March 2014. The Phase 2 Report identified certain suspicious transactions such as those involving round-tripping transactions with interested persons as well as transactions with non-existent entities and fictitious transactions using fabricated documents. What are the key findings from the company's investigations that was carried out after the Phase 2 report? What was the scope of the company's investigations? Who led the investigations? Did the independent directors find the Phase 2 report by RSM to be inconclusive or lacking in certain areas? Did the independent directors oversee the subsequent investigations to ensure that company's time and resources were meaningfully spent? Has the board, especially the independent directors, assessed the reputational damage suffered by the group? Please also provide an update of the investigations by the Commercial Affairs Department ("CAD").**

2. Would the board/management provide shareholders with better clarity on the following operational and strategic matters? Specifically:

- (i) **Revenue:** Revenue dropped 73.3% which management had attributed to “weakening customer demand in the region arising from the trade war.” **Would management elaborate further on how the trade war led to the steep drop in demand? What is the profile of its customers that were so severely impacted by the trader war?**
- (ii) **Inventories:** The carrying amount of inventories jumped to US\$3.4 million as at 31 December 2018 from US\$1.1 million in 31 December 2017. Inventory turnover days in FY2018 went up to 57 days, from just 4 days. The carrying amount of US\$3.4 million has already been adjusted for provision for slow-moving and obsolete inventories of US\$2.35 million. **How agile is management in responding to market conditions and adjusting its orders/supply chain?**
- (iii) **Operating segments:** In Note 29 (pages 107 to 110 – Operating segments), the company has disclosed that, for management purposes, the group is organised into the following 7 reportable operating segments: USB; Wireless; Anti-piracy; Compression; Security/Encryption; Enterprise Solutions; and Portable Storage Solutions encompassing Flash Memory, Hard Disk and Optical Technologies.

However, the group reported the segment revenue and results as “Customised solutions”, “Interactive consumer solutions”, “Licensing” and “Others”. The “Interactive consumer solutions” segment accounted for over 90% of the group’s revenue, making the disclosure on segment information less than useful.

Would the audit committee help shareholders understand if the group would consider reporting the segment results of the 7 operating segments? This would better fit the definition in the Singapore Financial Reporting Standards (International) (I) 8 Operating segments.

3. In the Report on Corporate Governance, the company described its internal audit policy and framework (reproduced below):

Internal Audit (Principle 13)

The Company and the Group have established an internal audit function that is independent of the activities it audits. The Company’s internal audit function is outsourced to external professional firms, who report directly to the Chairman of AC. The Internal Auditors has unrestricted direct access to AC and unfettered access to all the Company’s documents, properties and personnel, including access to the AC.

The AC reviews the adequacy and effectiveness of the internal audit function and approves the hiring, removal, evaluation and compensation of the head of the internal audit function or the firm to which the internal audit function is outsourced. The internal auditor’s plan the audit scope and schedule in consultation with the management, which is subject to the review and final approval of the AC. The internal auditors report findings and recommendations to the Chairman of the AC.

The AC has reviewed the scope and results of the internal audit and is satisfied that the internal audit function is adequately resourced and that there is appropriate coordination between the internal and external auditors and management.

The AC has reviewed the Company’s risk assessment based on the internal audit report. The Board, with the concurrence of the AC, is satisfied that there are adequate internal controls in the Group, including financial, operational, compliance and information technology controls, and risk management systems.

(Source: Company annual report)

- (i) **Can the audit committee (AC) clarify if it had engaged more than 1 external professional firm for the internal audit function?** The company has disclosed that it outsourced the internal audit function “to external professional firms, who report directly to the Chairman of AC”.
- (ii) **Can the AC identify the professional firm(s) it used to carry out its internal audit function?**
- (iii) **Does the internal auditor carry out its function according to the standards set by nationally or internationally recognised professional bodies including the Standards for the Professional Practice of Internal Auditing by The Institute of Internal Auditors?**
- (iv) **Would the AC disclose the scope and key findings of the internal audit?**
- (v) **What are some of improvements made to the group’s internal controls, including financial, operational, compliance and information technology controls, and risk management systems?**