



Securities Investors Association (Singapore)

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Meeting details:

Date: 28 October 2021

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. In the financial year, the group received a boost in its sales as communities all over the world transitioned to more home-based activities, be it working, learning or playing. Revenue increased by 38% from US\$61 million in FY2020 to US\$84 million in FY2021. Even as gross profit margin improved to 33%, the group reported a loss of US\$(8) million.

Net losses in the past 3 years are:

- FY2019: US\$(3.8) million
- FY2020: US\$(17.6) million
- FY2021: US\$(7.6) million

On 12 October 2021, the company gave notice of 3 consecutive years' losses, as required by the SGX listing rules.

- (i) **Can management help shareholders understand if it has a clear vision to return the group to profitability? Please provide an update to shareholders in a presentation during the AGM highlighting management's strategies to achieve profitability.**
- (ii) **Even with the boost from the pandemic, the group still registered a loss of US\$(7.6) million even though the gross profit margin improved to 33%. Has the board evaluated its cost structure and identified the low-hanging fruits that could improve its profitability in the near term? Will the group be reassessing its strategy and business model, including market positioning?**
- (iii) **Who is responsible for driving the group's profitability?**
- (iv) **What guidance has the board given to management to turn around the business?**

Q2. From the chairman's message, it would appear that the group continues to bank on the Super X-Fi technology which debut at the CES 2018. The group collaborated with the Badminton World Federation to stream their top-tier tournaments online with SXFI LIVE throughout 2021 (page 2).

- (i) **Are collaborations, such as the ones with Badminton World Federation, likely to generate the buzz that will significantly change the growth trajectory of its Super X-Fi sales?**

In the 2018 annual report, the chairman and chief executive officer stated that Super X-Fi has been his personal dream since the 1990s.

- (ii) **Can the company disclose the total amount invested in developing Super X-Fi? What were the projections and assumptions used in the board approval process for the group's investments in Super X-Fi? Has the board considered that the "best" technology may not produce the best financial results?**

Net cash flow used in operations increased to US\$(9.64) million in FY2021. This follows operating cash outflows of US\$(7.95) million in FY2020 and US\$(7.09) million in FY2019.

During the year, in May 2021, the company obtained shareholders' approval to carry out a capital reduction exercise to reduce the share capital of the company by cancellation of the share capital that has been lost or is unrepresented by available assets to the extent of the amount of the accumulated losses of the company as at 30 June 2020 of **US\$(217,713,000)** [emphasis added].

- (iii) **Has the board/management identified how to monetise its Super X-Fi technology? If so, please explain clearly how the group would be monetising its Super X-Fi technology in the next 3-5 years. What are the major (projected) revenue streams?**
- (iv) **Is the board monitoring the "cash burn" of the group?** In the past three years, the group has recognised US\$(24.68) million in operating cash out flow.
- (v) **When will the OEM partnership with the "well-known consumer electronics maker" be finalised? Can management quantify the projected value of the OEM business?**

The group's portfolio of products includes soundbars, communication headkits, web cameras. Management has to be aware that there are many other competing brands already offering similar products, many of which had already established themselves in their respective niche. For example, a listed company that describes itself as one of the world's leading sound experience brands has a market capitalisation of US\$4 billion and is projected to achieve US\$1.7 billion in revenue in 2021.

- (vi) **What is the management's strategy in terms of product innovation and marketing to create a "Sound Blaster"-level success, 30 years on, in 2021?**

Q3. As noted in the directors' profiles, the three long-tenured non-executive directors have been on the board since 1991, 2005 and 2009 respectively.

The board's nominating committee ("NC") are Mr Ng Kai Wa (chairman), Mr Lee Kheng Nam and Mr Sim Wong Hoo (executive director).

- (i) **How did the NC review the independence of directors, given that the NC chairman and the NC member are themselves the subject of the independence review (while the third member of the NC is Mr Sim Wong Hoo who is an executive director)? Was it carried out in a round-robin manner where Mr Sim Wong Hoo and Mr Ng Kai Wa reviewed the independence of Mr Lee Kheng Nam and then for Mr Sim Wong Hoo and Mr Lee Kheng Nam to review the independence of Mr Ng Kai Wa?**
- (ii) **If so, how effective was the NC at discharging its duties? Did the NC have the requisite level of independence?**

At the annual general meeting scheduled to be held on 28 October 2021, Mr Lee Kheng Nam will retire as a director and will be seeking his re-election. In addition, all three long-tenured non-executive directors, namely Mr Lee Kheng Nam, Mr Ng Kai Wa and Mr Lee Gwong-Yih, would be seeking shareholders' two-tier vote on their continued appointment as independent directors.

- (iii) **Can the NC elaborate further on the deliberations it has had on Principle 4 of the Code of Corporate Governance 2018 which requires the board to take into account the need for progressive renewal of the board?**
- (iv) **To help shareholders decide on how to vote at the AGM, can the individual long-tenured, non-executive directors help shareholders understand their contributions to the effectiveness of the board at providing guidance to management that resulted in long-term value creation for shareholders? How did each of Mr Lee Kheng Nam, Mr Ng Kai Wa and Mr Lee Gwong-Yih contribute to the setting of the group's strategic direction and ensure that the long term objective of enhancing shareholders' value is achieved, keeping in mind that the company had just carried out a capital reduction to reduce the accumulated losses amounting to US\$(217.7 million)?**
- (v) **What other contributions can the directors make to the group going forward?**
- (vi) **As the lead independent director, and one who has served as a director on the board for 30 years since 1991, would Mr Lee Kheng Nam be holding himself to higher governance standards and lead by example, especially in setting the tone with regard to the tenure of independent directors?**

^On 1 October 2020, the Accounting and Corporate Regulatory Authority (“ACRA”), the Monetary Authority of Singapore (“MAS”) and Singapore Exchange Regulation (“SGX RegCo”) published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so. On 9 April 2021, it was announced that the alternate arrangements for meetings (“Meetings Order”) would be extend beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such time, issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

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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[^] Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation
(<https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation>)