



Securities Investors Association (Singapore)

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Issuer: JEP Holdings Ltd.

Stock code: 1J4

Meeting details:

Date: 22 April 2021

Time: 9.30 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. As noted in the chairman's statement, 2020 was an especially difficult year as the coronavirus pandemic caused unprecedented disruptions to the aerospace industry. The group made a strategic move to preserve a resilient operation so as to be ready to meet ramp-up of demand when customer demands returns. It is in the midst of setting up a new factory in Penang, Malaysia. Management expects the factory to be completed in Q2 of 2022 and reach full operating capacity by year 2024. It has also guided that the new site will work on relatively lower complexity work.

- (i) **Penang: Would management help shareholders understand the capacity and the capability of the new Penang site? Does the site serve both the precision machining and equipment manufacturing segments?**
- (ii) **First article inspections ("FAIs"):** The company has disclosed that it has commenced FAIs for many new complicated and high value-added parts. It is expected that these low volume FAI will turn into volume production within the next two years. **Can management help shareholders understand what are the other (internal and external) milestones to be achieved before these FAIs can go into high-volume production?**

Q2. The "Impairment review of goodwill" is a key audit matter (KAM) highlighted by the Independent Auditors in their Report on the Audit of the Financial Statements (page 37). Key audit matters are those matters that, in the professional judgement of the Independent Auditors, were of most significance in the audit of the financial statements of the current period.

As mentioned in the KAM, goodwill was recognised following the group's acquisition of Dolphin Engineering Pte. Ltd. ("DEPL"), JEP Precision Engineering Pte. Ltd. ("JEPS") and JEP Industrades Pte. Ltd. ("JEPI").

As of 31 December 2020, the carrying amount of the group's goodwill is \$11.3 million after an impairment loss of \$6.25 million during the current financial year. In particular, the goodwill for JEPS (Precision machining) was reduced from \$11.45 million to \$5.2 million. The goodwill for Equipment manufacturing (DEPL) and Trading and others (JEPI) remained at \$5.3 million and \$0.8 million respectively.

The key assumptions for the value in use calculations include discount rates, growth rates (shown below) and expected changes to selling prices and direct costs during the period.

The assumptions used to discount the forecast cash flows is as follows:

Group	Gross margin		Discount rate	
	2020	2019	2020	2019
Precision machining - JEPS	8%	13%	11.58%	9.63%
Trading and others - JEPI	20%	20%	10.57%	9.92%
Equipment manufacturing - DEPL	25%	21%	10.52%	10.01%

(Source: company annual report)

(i) What were the growth rates used in the value in use calculations?

Despite the complexity of the precision machining segment, management has estimated a gross profit margin that has been consistently lower than the gross profit margin from trading and from equipment manufacturing.

(ii) Is the group able to obtain sufficient profit margins in the precision machining segment to generate a long-term, sustainable return that is commensurate with the level of risks taken?

(iii) Can management elaborate further on JEPS' value proposition? How strong is JEPS' position in setting its selling price?

In addition, revenue from the equipment manufacturing segment increased by 45% from \$15.1 million in FY2019 to \$21.9 million. This was largely due to strong demand globally in the semiconductor and industrial manufacturing equipment segments. The group has guided that the outlook remains positive on strong demand for manufacturing equipment due to the pandemic-accelerated digitalisation, 5G proliferation and cloud expansion. Segment result have also increased from \$1.99 million in 2019 to \$4.19 million in 2020.

(iv) What is management's strategy to further grow the equipment manufacturing business (including its strategy to acquire new customers)?

Q3. During these uncertain times, management focused on liquidity and conserving cash. The group carried out cost saving measures such as shorter work weeks; freezing pay rise, hiring and overtime; as well as a retrenchment exercise during the second half of FY2020 and pivoted its excess resources to other well-performing business unit.

While total employee benefits expense has decreased from \$16.3 million to \$13.8 million in FY2020 (page 69), key management compensation increased from \$1.52 million to \$1.97 million (page 89; reproduced below).

Key Management Compensation

Key management personnel are directors and those persons having authority and responsibility for planning, directing and controlling the activities of the company, directly or indirectly. The below amounts are key management compensation:

	Group	
	2020	2019
	S\$'000	S\$'000
Salaries, bonuses and related benefits	1,889	1,436
Defined contribution plans	84	86
	1,973	1,522

(Source: company annual report)

- (i) **Can management help shareholders reconcile the increase in key management compensation when the group carried out cost saving measures such as shorter work weeks; pay freeze; retrenchment exercise?**

In addition, excluding a key management personnel (KMP) whose contract has expired, the directors and KMPs received bonuses of between 24% and 62% of their packages (average of 42%) in FY2020. In FY2019, the bonuses ranged from 17% to 45% and averaged 27%.

The top remuneration band for the executive directors has increased to \$500,000 – S\$749,999 in FY2020. In FY2019, it was \$250,000 – S\$499,999.

- (ii) **Would the board/remuneration committee elaborate further on its review and recommendation on executive remuneration in FY2020?** This was a year when the group carried out cost-saving measures and retrenched workers. The group also received grants (Jobs Support Scheme and Covid-19 Relief) from relevant government agencies amounting to \$3,788,000 (page 67).
- (iii) **What were the key performance indicators used to assess executive directors and KMPs?**

^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.

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](#)

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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>)