Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: PNE Industries Ltd

Stock code: BDA

Meeting details:
Date: 20 January 2022
Time: 9.00 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.

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Q1. Would the board/management provide shareholders with greater clarity on the following operational and financial matters? Specifically:

(i) **Order book:** Revenue from contract manufacturing declined by 27%, from $78.7 million to $57.7 million. This was attributed to lower customer orders, aggravated by delays in production due to key component shortages, and a global shortage of container capacity which led to shipping delays (page 1 of the annual report). Inventories increased by $5.8 million due to more raw material held as buffer stocks and as a result of delays in shipment to customers. **Would management consider disclosing the order book to provide shareholders with greater clarity on the performance and prospects in the contract manufacturing segment? Can management also elaborate further on how they are dealing with shipping delays?**

(ii) **Segment information:** In Note 26(b) (page 80 – Segment information: Geographical information), it can be seen that revenue in Romania actually increased from $25.1 million to $27.0 million. Revenue from Netherlands, Europe and China decreased by 30%, 36% and 75% respectively. **What factors allowed the group to increase revenue in Romania? In addition, what are the circumstances that led to the disproportionally large 75% decrease in revenue from customers in China? Does the group have good visibility of the demand from its customers in China?**

(iii) **Products:** The group manufactures electronic controllers and other electrical and electronic products based on individual customer's unique specifications. In FY2021, two major customers accounted for $42.6 million in revenue (66% of revenue). In the previous financial year, three major customers accounted for $61.5 million (or 72%) (page 80). **What is the distribution of the revenue by product type/class, e.g., lighting, consumer electronics, IOT etc?**

Q2. As noted in the chairman's statement, the group incurred a "one-time" charge of $0.8 million pursuant to a transfer pricing review conducted on the subsidiary in China. This amount comprises of $0.5 million of taxes as well as $0.3 million of interest charges.

In Note 23 (page 76 – Income tax expense), it was disclosed that under-provision of taxes in prior years amounted to $924,000. While profit before tax for FY2021 was only $677,000 (FY2020: $8.018 million), the income tax expense remained high at $1.456 million (FY2020: $1.824 million).

(i) **Can the board/management help shareholders understand the circumstances leading to the "one-time" charge pursuant to the transfer pricing review?**

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(ii) **Was the subsidiary in China audited/investigated by the relevant authorities for its transfer pricing? If so, when was the audit/investigation carried out?**

(iii) **Has the audit committee (AC) reviewed the group's transfer pricing framework? If so, is the AC satisfied that the group's framework and practices are in line with the statutory requirements?**

(iv) **What changes have the group made to its transfer pricing policy?**

Q3. In the corporate governance report, the company has stated that it is committed to maintaining good standards of corporate governance to protect the interests of its shareholders and maximise long-term shareholder value.

The board currently comprises seven members, of whom two are executive directors, two non-executive (non-independent) directors and three independent directors.

All the independent directors have or will have served on the board for more than 9 years in this financial year. Mr Tan Lee Khiang and Mr Tung Chee Weng were each first appointed on 4 May 2000 and would have each served on the board for more than 21.5 years. Mr Lim Meng Wee, who was first appointed on 1 June 2013, is currently in his ninth year of service. The profile of the directors can be found on page 5 of the annual report.

(i) **Given that the chairman and the executive directors are related, and that two of the three independent directors have served on the board for more than 21 years (with the third ID serving his ninth year), how does the board avoid groupthink?**

(ii) **Has the board/nominating committee deliberated on and reviewed the benefits of progressive board renewal? When will the board be embarking on the progressive renewal of the board?**

(iii) In addition, the company is cognisant that Provision 2.2 of the Code of Corporate Governance 2018 requires independent directors to make up a majority of the board when the chairman is not independent. Even with the 3 long-tenured independent directors, the percentage of independent directors currently make up just 43% of the board. **Given that the company has stated its commitment to maintaining good standards of corporate governance, has the board deliberated on how it could meet the requirements of Provision 2.2? What are the barriers/difficulties faced by the board to meet Provision 2.2?**

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(iv) **Has the NC reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in future director appointments?**

(v) **Did the NC review if the lack of directors with recent and relevant (professional) experience in accounting and legal might have contributed to the group's experience in China on the transfer pricing?**

^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

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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)