



Securities Investors Association (Singapore)

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Issuer: Santak Holdings Limited

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Meeting details:

Date: 26 October 2022

Time: 10.30 a.m.

Venue: 4 Clementi Loop, #01-01, Singapore 129810

Q1. As noted in the chairman's statement to shareholders, the group generated lower sales from the precision engineering ("PE") division due to weaker demand mainly from its customers in data storage, oil & gas, and medical equipment sectors.

In fact, the trend and the reasons for the performance of the PE division from FY2017 to FY2022 are as follows:

Financial year	Revenue and segment loss	Reason(s) given
FY2022	\$6.50 million, a decrease of \$1.40 million or 17.7% Segment loss: \$(1,343,857)	... primarily due to weaker demand mainly from its customers in data storage, oil & gas, and medical equipment sectors.
FY2021	\$7.89 million, a decrease of \$1.10 million or 12.2% Segment loss: \$(1,636,212)	.. primarily due to the lower sales arising from weaker demand from its data storage, oil & gas, fibre optics connectors and medical equipment sectors which was partially offset by the stronger demand from the sensor equipment sector.
FY2020	\$8.99 million, an increase of \$0.20 million or 2.2% Segment loss: \$(1,198,721)	... was mainly due to the higher sales arising from stronger demand from its data storage and oil & gas sectors.
FY2019	\$8.79 million, a decrease of \$0.51 million or 5.5% Segment loss: \$(1,895,411)	...was mainly due to the lower sales arising from weaker demand from its fibre optics connectors, data storage and oil & gas sectors.
FY2018	\$9.3 million, a decrease of \$13.5 million or 59.2% Segment loss: \$(1,749,949)	...mainly due to the cessation of sales contracts resulting from the disposal of 100% equity interest of Santak Metal Manufacturing (Wuxi) Co., Ltd.
FY2017	\$22.80 million, a decrease of \$21.74 million or 48.8% Segment loss: \$(2,748,664)	... mainly due to the lower sales arising from the substantially weaker demand from the consumer electronics sector.
FY2016	\$44.54 million, a decrease of \$10.92 million or 19.7% Segment loss: \$(1,678,842)	... mainly due to the lower sales arising from the substantially weaker demand from the recent precision machined component projects in FY2016 for the consumer electronics sector.

(Source: company annual reports)

The revenue for the PE division has decreased from \$55.5 million in FY2015 to \$6.5 million in FY2022. The segment losses add up to \$(12.25) million as shown in the table above.

- (i) **What is the company's competitive advantage in precision engineering?**
- (ii) **With the group's strategic investments in high precision and automated production machinery, how cost competitive is the group?**
- (iii) **What are the main reasons for the decrease in revenue from \$55.5 million in FY2015 to just \$6.5 million in FY2022 despite the group's 44 years of experience in the business? How does the group acquire new customers? In addition, has management analysed the reasons for its inability to retain its customers?**
- (iv) The segment losses have remained elevated for several years, with no sign of improvement. **What are management's plans to achieve profitability?**
- (v) **What target/goal has the board set for the PE division for the financial year?**
- (vi) **Has the board critically evaluated the skillsets and track record of the management team in creating long-term value?**
- (vii) **With the cessation of the operation director for the precision engineering division in July 2022, what is the progress made in appointing a new operation director? Are there plans to accelerate the leadership renewal in the group?**

Q2. As shown in Note 23 (page 62 - Commitments and contingent liabilities), the group has capital commitments in respect to property, plant and equipment amounting to \$28,000 as at 30 June 2022. These commitments mainly relate to the renovation of the building of the group's manufacturing operations in Malaysia.

- (i) **Can management provide shareholders with an update of the Johor factory, in terms of technical capability, capacity, floor space utilised, manpower staffing (of skilled workers), utilisation rate?**

The group's current assets include \$5.02 million in fixed deposits, \$1.30 million in SGD money market fund and \$2.35 million in cash (with \$1.72 million held in USD).

	Note	Group		Company	
		2022	2021	2022	2021
		\$	\$	\$	\$
Current assets					
Inventories	12	1,435,106	1,261,618	–	–
Prepayments		54,594	55,032	10,090	11,151
Trade receivables	13	2,824,525	2,124,504	–	–
Other receivables	13	123,775	161,344	–	–
Loan to a subsidiary company	14	–	–	4,030,000	4,030,000
Due from subsidiary companies (non-trade)	13	–	–	1,936,516	1,822,057
Fixed deposits	15	5,021,776	5,000,000	–	–
Short-term investment	16	1,301,899	1,300,000	–	–
Cash and cash equivalents	17	2,345,624	3,376,386	86,043	116,587
		13,107,299	13,278,884	6,062,649	5,979,795

The group is in a net cash position of \$4.28 million as at 30 June 2022.

- (ii) **Are there any major capital expenditure planned in the near future?**
- (iii) **Would the board review the group's capital structure and return excess capital to shareholders, considering that the group has been unable to generate positive returns and that the current businesses have been scaled back considerably?**

Q3. The independent directors, Mr Lee Keen Whye and Mr Ch'ng Jit Koon, have served on the board each for more than 21.5 years since March 2001.

It was disclosed that the board, after taking into account the views of the nominating committee (NC), is fully satisfied that the two long-tenured directors “*demonstrate complete independence, robustness of character and judgement both in their designated role[s] and as a board member*” (page 81).

The company further added that “no nominating committee member was involved in the deliberation in respect of his own independence”.

However, it was noted that the NC comprises Mr Ch'ng Jit Koon (as chairman), Mr Lee Keen Whye and Mr Tan Chee Hawaii (group managing director, executive director and a controlling shareholder with total interest of 48.8%).

- (i) **Can the board clarify if the NC determined the independence of the long-tenured directors in a round-robin manner, i.e. Mr Lee Keen Whye and Mr Tan Chee Hawaii deliberated on the independence of Mr Ch'ng Jit Koon and Mr Ch'ng Jit Koon and Mr Tan Chee Hawaii then deliberated on the independence of Mr Lee Keen Whye?**
- (ii) **Given that the NC comprises of the two long tenured director and a controlling shareholder who is also the group managing director and executive director, is the NC independent or can be perceived to be independent?**
- (iii) **How effective is the NC at discharging its duties given that the two independent directors, including the chairman of the NC, are long-tenured directors whose independence have to be assessed by the NC?**

On 30 November 2021, Mr Tan Boon Gin, chief executive of Singapore Exchange Regulation (SGX RegCo), gave guidance that companies are expected to use the two-tier rule sparingly to promote renewal and succession planning¹. On 13 September 2022, SGX RegCo further announced that it will consult on hard-coding the 9-year limit for independent directors².

- (iv) **Has the board/ (NC) deliberated on the guidance by SGX RegCo on the selective use of the two-tier rule to promote board renewal?**

¹ <https://www.businesstimes.com.sg/companies-markets/answer-my-question-before-i-vote-sgx-regco-sets-new-timelines-for-companies-to>

² <https://www.sgxgroup.com/media-centre/20220913-sgx-regco-require-9-year-cap-id-tenure-disclosure-directors-and-ceo>

- (v) **Will the continued appointment of the two long-tenured directors impede/delay the progressive renewal of the board? Are there any challenges faced by the board in identifying and onboarding of new board members?**
- (vi) **What are the near-term plans to refresh the board?**

^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](https://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>)