



Securities Investors Association (Singapore)

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UEN No: S99SS0111B

GST Reg No: M90367530Y

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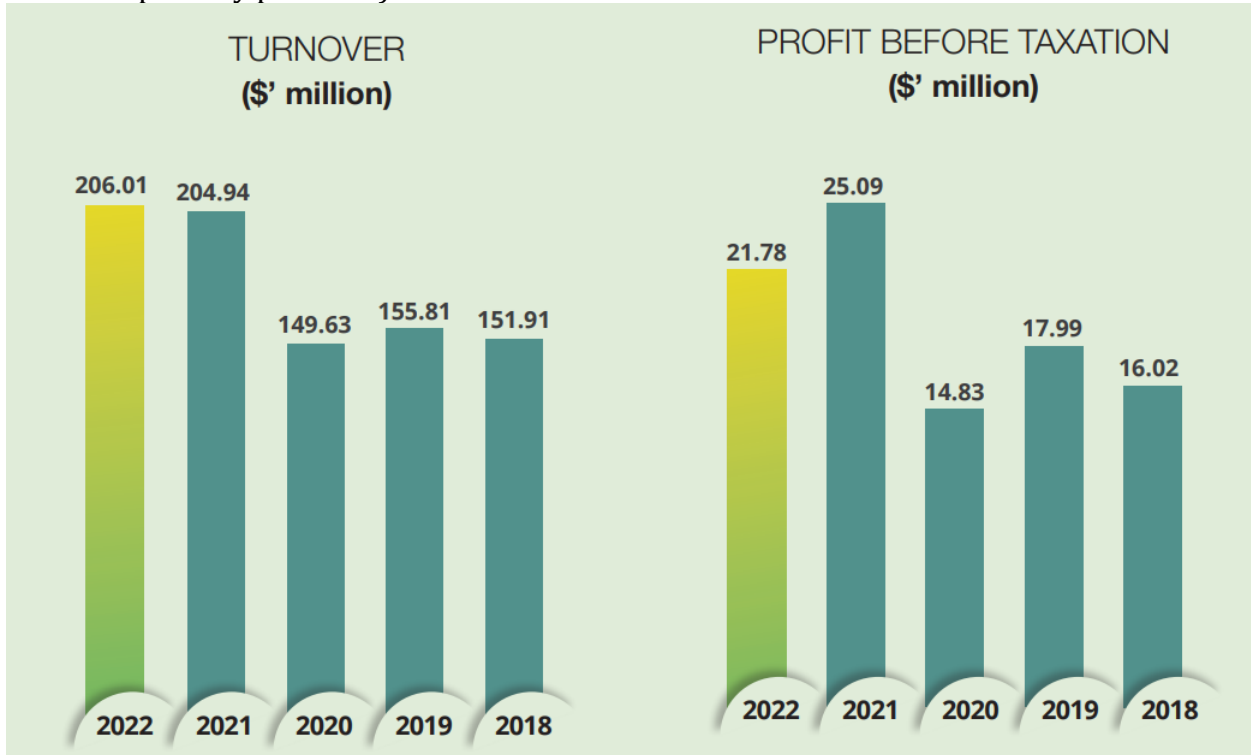
Meeting details:

Date: 26 October 2022

Time: 2.30 p.m.

Venue: 8 Boon Lay Way #10-03, 8@TradeHub 21 Singapore 609964

Q1. As shown in the financial highlights, turnover for the group was higher at \$206.01 million despite the challenging operating environment that resulted from COVID-19 lockdowns, supply chain disruptions, weaker customer demand (due to poor reception for one of its primary products) etc.



(Source: company annual report)

Management has signalled that demand *“is likely to remain volatile and weaker in FY2023”* (page 3) and that inflation is likely to have a bigger impact on the group’s operating expenses.

- (i) **Can the company (re)state the group’s competitive advantage as a precision engineering solutions provider?**
- (ii) **How is the group adjusting its pricing/contracts with customers such that the group passes on some/more of the increases in the prices of raw material and labour to the customers?**

As disclosed in Note 31(b) (page 74 – Segment information: Geographical segments), the group has two major customers with revenue of \$55,135,000 (2021: \$53,056,000) and \$57,012,000 (2021: \$33,161,000), arising from “Machinery and automotive systems” segments and “Consumer product and others” segments respectively. The two top customers account for 54% and 42% of the group’s total revenue in FY2022 and FY2021 respectively.

- (iii) **Has the board reviewed the group’s customer concentration risk? If so, what guidance has the board given to management to broaden its customer base?**
- (iv) **How does the group acquire new customers? How successful has the group been in acquiring new customers?**

Non-current assets amounted to \$58.7 million as at 30 June 2019, just before the pandemic. As at 30 June 2022, the amount has increased to \$101.1 million, with the bulk of the increase being made in China. The company’s investment in Spindex Precision Technologies (Nantong) Co., Ltd. alone is \$31.65 million.

Revenue, non-current assets and capital expenditure information based on the geographical location of customers and assets respectively are as follows:

	Revenue		Non-current assets		Capital expenditure	
	2019	2018	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
People's Republic of China	54,186	57,107	15,741	16,188	2,942	3,454
Singapore	3,255	4,668	562	539	452	327
ASEAN (excludes Singapore)	34,415	33,291	42,393	44,652	3,465	17,107
USA, Europe and others	63,956	56,846	-	-	-	-
	<u>155,812</u>	<u>151,912</u>	<u>58,696</u>	<u>61,379</u>	<u>6,859</u>	<u>20,888</u>

	Revenue		Non-current assets		Capital expenditure	
	2022	2021	2022	2021	2022	2021
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
China	70,019	83,523	47,726	30,713	22,963	12,273
Singapore	1,826	2,276	1,862	2,118	64	219
ASEAN (excludes Singapore)	49,103	44,788	51,491	55,687	4,347	17,999
USA, Europe and others	85,061	74,348	-	-	-	-
	<u>206,009</u>	<u>204,935</u>	<u>101,079</u>	<u>88,518</u>	<u>27,374</u>	<u>30,491</u>

(Source: company annual reports; emphasis added)

- (v) **What are the characteristics of the Nantong plant, in terms of automation, technical capability, manufacturing capacity etc?**
- (vi) **Given the trade tariffs and China's COVID-19 policies, is the group considering streamlining its operations in China and rationalising the older or less efficient plant(s)?**

Separately, the joint venture (JV), Spindex Acuger Precision Pte. Ltd. ("SAPPL"), continues to report losses even though revenue increased from \$305,000 in FY2021 to \$2.36 million in FY2022 (page 61). The post-acquisition losses have increased to \$(370,000) (based on the group's 50% share) and the carrying amount of the investment has slipped to \$1.31 million.

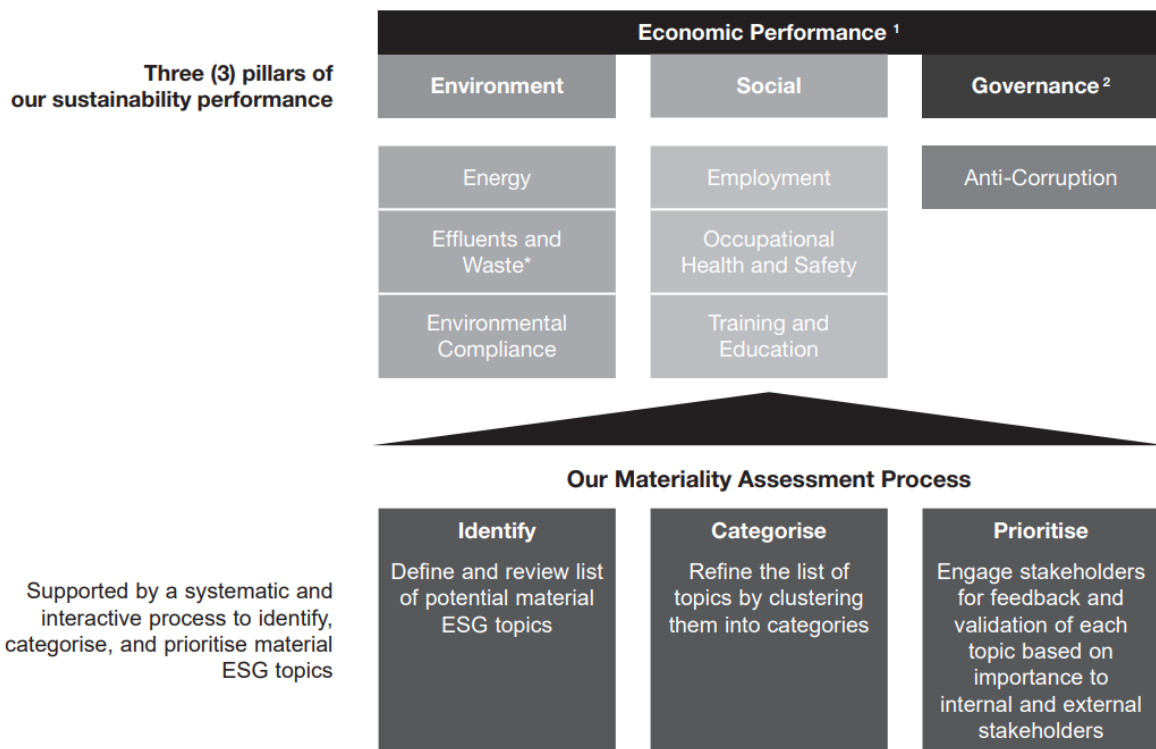
- (vii) **Is management satisfied with the rate of growth by the JV? What are management's plans to improve the operational and financial performance of the JV?**

Q2. The group’s statement on sustainability can be found on page 29 of the annual report. The company has reported on its sustainability journey since FY2018. The sustainability report for FY2021 can be found here:

https://links.sgx.com/FileOpen/Spindex_Sustainability%20Report%20FY2021.ashx?App=Announcement&FileID=692696

In FY2021, the group identified Energy practices as a relevant and important topic to monitor and disclose under the group’s sustainability report and in FY2022, the group identified two new Waste disclosures (GRI 306-4: Waste diverted from disposal, 306-5: Waste directed to disposal) as relevant and important metrics to monitor and disclose under the group’s sustainability report.

The group’s sustainability performance management framework for FY2022 is shown below:



* 2 new disclosures under this sub-category

(Source: company sustainability report 2021)

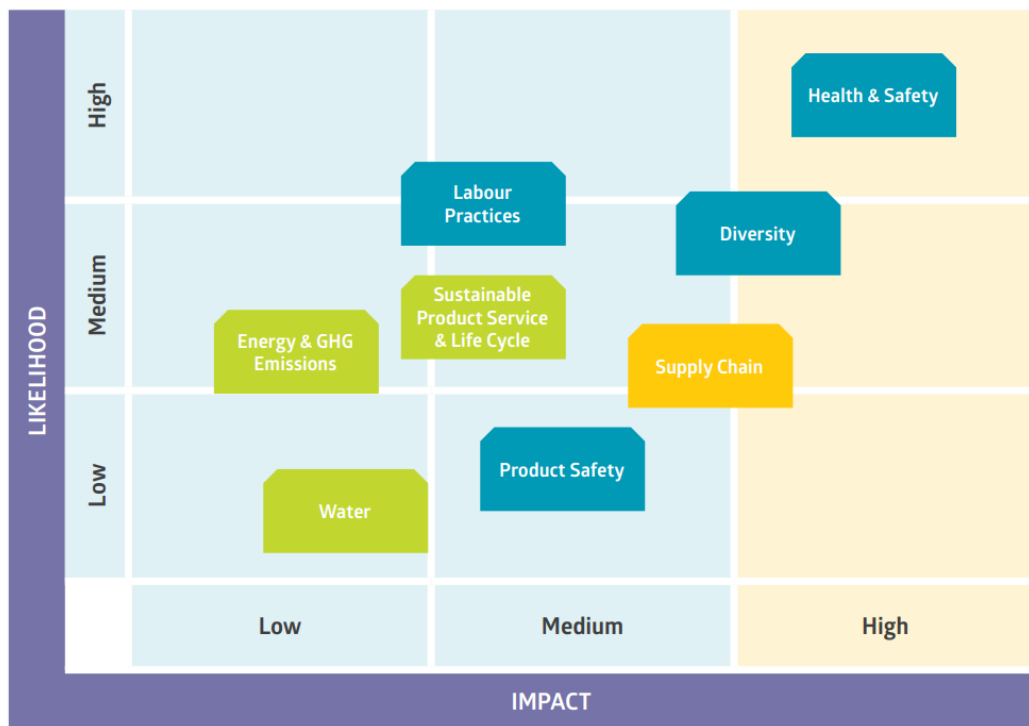
- (i) **Given that the nature of the group’s business has not changed since 2018, what are the reasons that new metrics are belatedly added to the group’s sustainability report in the past two years?**

- (ii) **How comprehensive is the materiality assessment?**
- (iii) **Can the board elaborate further on the group’s plans to become a net-zero carbon business?**

Currently, the group lists down its seven material ESG topics in the sustainability report for FY2021.

- (iv) **Has the board further analysed the material topics and prioritised them, for example based on likelihood and impact in a materiality matrix?** An example based on SGX’s resources on sustainability reporting is shown below:

Template 3: Material factors matrix



Source: KPMG

(Source: Sustainability Reporting Guide dated 22 Feb 2018)

Q3. In the company's corporate governance report, the company reaffirmed its commitment to ensuring and maintaining a high standard of corporate governance within the company to ensure effective self-regulation practices are in place to enhance corporate performance and accountability (page 8).

However, the company has deviated from Provision 2.2 of the Code of corporate governance 2018 which requires independent directors to make up a majority of the board where the chairman is not independent.

On page 11, the company has stated the following, referencing "guideline" 2.2 of the Code:

Independence of Directors

Pursuant to [guideline 2.2](#) of the Code, the Independent Directors should make up majority of the Board where the Chairman is not independent and pursuant to guideline 2.3 of the Code, non-executive directors should make up a majority of the Board. The NC is of the view that there is a strong and independent element on the Board and currently, majority of the Board are non-executive directors, two of whom are independent directors and one is a non-executive director. After taking into account the views of the NC, the Board considers all the Independent Directors of the Company are independent in character and judgement and that there are no individual or small group of individuals dominate the Board's decision-making process.

(Source: company annual report; emphasis added)

In the CG Code 2018, MAS had specifically stated the following:

*These Provisions, which replace the Guidelines of previous Codes, are drafted in a simple and direct manner, and describe the tenets of good corporate governance. Companies are expected to comply with the Provisions, and variations from Provisions are acceptable to the extent that companies explicitly state and explain how their practices are consistent with the aim and philosophy of the Principle in question. The explanations of variations should be **comprehensive and meaningful** [emphasis added].*

- (i) **Can the board and the company confirm that they are familiar with the Code of Corporate Governance 2018 (and its principles and provisions) (CG Code 2018) that was issued by the Monetary Authority of Singapore (MAS)?**

With regard to the deviation from Provision 2.2, the company has stated, inter alia, the following:

The NC is of the view that there is a strong and independent element on the Board... Although the Chairman is not independent and the Independent Directors of the Company do not make up majority of the Board, there are two Independent Directors and one Non-Executive Director making up more than half of the Board, providing an independent element on the Board capable of exercising objective judgment and no individual or group is able to dominate the Board's decision-making process. The Board and NC are satisfied that the Board has an appropriate level of independence and diversity to enable it to make decisions in the best interests of the Group...

The “justification” above provided by the board is in essence Provision 2.3 which requires non-executive directors to make up a majority of the board. Provision 2.2 is separate and distinct, requiring independent directors to make up a majority of the board when the chairman is not independent.

- (ii) **Can the board elaborate further on the underlying reasons for the deviation from Provision 2.2? Since the CG Code 2018 is on a comply-or-explain basis, can the board help shareholders better understand the difficulties it faced in trying to comply with Provision 2.2?**

The company has also stated that it does not have a formal diversity policy (Provision 2.4) but it is committed to building a diverse, inclusive and collaborative culture and it recognises and embraces the benefits of diversity on the board (page 11).

- (iii) **Would the board/nominating committee be reviewing the board practices with a view to better comply with the provisions of the CG Code 2018, specifically to strengthen the independence and to improve the diversity of 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.

[^] 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>)



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