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Issuer: Sunright Limited

Stock code: S71

Meeting details:

Date: 22 November 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. Revenue for the year increased marginally by 1% to \$111.4 million for the financial year ended 31 July 2021 (“FY2021”). Profit attributable to owners of the company decreased by 22% from \$1.69 million to \$1.31 million (page 58 – Consolidated statement of profit or loss and other comprehensive income).

For the purpose of the disclosures as required by the Singapore Financial Reporting Standards (International), specifically SFRS(I) 10 Consolidated Financial Statements and SFRS(I) 1 - 27 Separate Financial Statements, KESM Industries Berhad (KESMI) and its subsidiaries are considered to be subsidiaries of the group.

From Note 12 (page 90 – Investment in subsidiaries), it can be seen that revenue and profit attributed to the 48.41%-owned KESMI increased by 2.3% from \$79.18 million to \$80.99 million and from \$32,000 to \$2.39 million respectively.

In the chairman’s statement, it was mentioned that the group will adopt its successful business model of “systems and service” to progressively and incrementally enhance shareholders’ value (page 3).

- (i) **Can management elaborate further on the business model of “systems and service”? How did the board evaluate the success of the “systems” business? What is the 5-year/10-year/15-year performance of the “systems” business?**
- (ii) **How much of the group’s FY2021 revenue is derived from the electric vehicles (“EV”) and autonomous vehicles (“AV”) megatrends?**
- (iii) **Would the board help shareholders understand the size of the addressable EV and AV markets?**
- (iv) **How well-positioned is the group to tap into these megatrends?**
- (v) **What are management’s plans to turn the opportunities in EV and AV into revenue (and profits) for the group in the next 18-24 months?**
- (vi) **Can management elaborate further on the group’s competitive advantage in System Level Test (“SLT”)? How does it compare against other SLT providers?**

In particular, in the business review, management highlighted the following achievements: (a) delivering a customised solution to a major customer for testing of their advanced processor chips with high I/Os for cloud computing and communication applications; and (b) the installation of a large scale SLT testing for another major customer along with a burn-in reliability test system for devices used in EVs (page 4 – Business review).

- (vii) **Can management clarify if these would lead to additional orders and/or purchases?**
- (viii) As disclosed in Note 28(b) (page 113 – Segment information: Information about major customers), approximately \$85 million (2020: \$80 million) of the group’s revenue was contributed by 4 (2020: 3) customers from the burn-in, testing and electronic manufacturing services segment. **Can management share the profiles of these major customers? From FY2017-FY2019, the group had 2 major customers contributing revenue of between \$74 million and \$94 million (average of \$85 million). Can management help shareholders understand the reasons for the decrease in revenue contribution by the top 2 major customers?**
- (ix) **What is the impact of the Movement Control Orders (“MCOs”) on the group’s operations? Are there still restrictions on the group’s operations currently?**

Q2. Would the board/audit committee (AC) provide shareholders with greater clarity on the following items in the financial statements? Specifically:

- (i) **Impairment assessment of property, plant and equipment:** The “impairment assessment of property, plant and equipment” is a key audit matter (KAM) highlighted by the independent auditor in their report on the audit of the financial statements (pages 54 & 55). As at 31 July 2021, the carrying amount of the group’s property, plant and equipment was \$43,142,000, which represented 30% of the group’s net assets. **Can the AC provide shareholders with greater clarity on the key estimates (such as revenue growth rates, discount rates) used in the value-in-use calculation? Please also disclose the sensitivity analysis of the impairment assessment.**
- (ii) **Recognition of deferred tax assets:** Similarly, the “recognition of deferred tax assets” is another KAM highlighted by the independent auditor (page 55). As at 31 July 2021, the group recognised deferred tax assets of \$1,100,000, which mainly relate to deductible temporary differences. **Please also disclose the key assumptions used in management’s projection of the deferred tax assets.**
- (iii) **Investment securities:** The group has \$4.92 million in investment securities as at 31 July 2021 (FY2020: \$3.19 million). As seen from the consolidated cash flow statement, the group recognised net fair value gain of \$1.16 million and made net purchase of \$635,000 during the financial year. **What are the underlying investments? What is the investment mandate for the group’s equity investment? Is there a robust risk management framework in place? What is the level of oversight by the board?**

- (iv) **Capital structure: Has the board considered right-sizing its balance sheet and to return excess capital to shareholders instead of buying investment securities (which appears to be outside of the core competencies of the group)?** It should also be noted that the group has \$97.9 million (or 56% of total assets) held in cash and short-term deposits (FY2020: \$103.3 million, 58% of total assets).

Q3. At the AGM held on 23 November 2020, resolution 6 for the continued appointment of Mr Francis Lee Choon Hui as an independent director was not carried. Accordingly, Mr Francis Lee Choon Hui was re-designated as a non-independent non-executive director. Mr Francis Lee Choon Hui was first appointed to the board on 18 January 1994. Subsequent to his re-designation, Mr Francis Lee Choon Hui resigned on 1 February 2021.

The nominating committee (NC), consisting of all five directors, has principal functions including succession planning for directors, in particular the executive directors (page 38).

- (i) **Has the NC evaluated the key person risk for the group?**
- (ii) **Would the NC help shareholders understand the depth of the group's leadership bench strength in the core functions of the group, such as R&D/technology, operations, sales, etc?**
- (iii) **In particular, can the NC provide shareholders with greater clarity on the succession plan for the executive directors?**
- (iv) In addition, on 1 February 2021, the company appointed Ms Sandy Foo Fei Ying as a new independent director. Ms Sandy Foo Fei Ying is a first-time director of an issuer listed on the SGX. The profile of Ms Sandy Foo Fei Ying can be found on page 7 of the annual report. Additional information on Ms Sandy Foo Fei Ying who is seeking her re-election can be found on pages 120 to 123. **Can the NC elaborate further on the search and nomination process for new directors, especially 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](#)

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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>)