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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Valuetronics Holdings Limited

Stock code: BN2

Meeting details:
Date: 29 July 2022
Time: 10.00 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. In FY2022, revenue from the Consumer Electronics ("CE") segment rose by 3.8% to HK$706.9 million in FY2022 mainly due to a rebound of orders from smart lighting customers. Going forward, management has guided that the rebound in the CE segment is not likely in FY2023 due to lower customer forecasts and components shortages.

In the Industrial and Commercial Electronics ("ICE") segment, there was a significant drop in ICE revenue (17.5%) largely due to the group's auto customer switching to North America suppliers. In addition, the components shortage also affected the group's order fulfilment for certain ICE customers. As noted in the chairman's statement, the group is now preparing for the trial production for its newly acquired customers in ICE segment, including a hardware provider customer for retail chain stores, and a customer providing cooling solutions for high performance computing environments.

The group's gross profit margin decreased from 16.9% to 13.6%, due to higher component prices as a result of tight supply, increased labour and operating costs. This was despite the group proactively implementing mitigation measures, such as re-engineering products, identifying alternative parts, etc.

(i) **Profit margin: Given the decline in profit margin, how can the group prevent further deterioration in profit margin? What is the ability of the group to pass on cost increases to customers? In view of the challenges in the supply chain and the price volatility of the components, how is management structuring new contracts to address these external risks, such as passing on or sharing the risks with the customers?**

(ii) **ICE: Was pricing a factor in the auto customer's decision to switch to suppliers in North America or did the current challenges in the supply chain (including long freight time from Asia) prompt the customer to source domestically in the US? What are the chances that the group is able to win back the auto customer(s)?** For FY2022, customers based in the USA were the largest contributors of revenue, amounting to HK$711 million or 35% of the group's total revenue. **Does management see a trend of North American customers sourcing more products and components domestically?**

(iii) **M&A activities: How is the company carrying out its search for suitable target companies? What are the investment criteria used by the board to shortlist companies?**

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Q2. The group was timely in expanding to Vietnam and benefitted from a multi-site strategy which mitigated the group's exposure to Sino-US trade tensions and escalating geopolitical risk.

As highlighted in the chairman's statement, the 52,541 sqm, newly constructed Vietnam campus in Vinh Phuc Province doubled the group's production floor space. In addition, the Vietnam campus has commenced mass production for three customers in the last quarter of FY2022, following the successful completion of ISO and customer audits.

(i) **With the new Vietnam campus, does management expect the group's fixed costs to double in tandem?**

(ii) **Has the group stationed its experienced managers in Vietnam to oversee the new campus? What are the challenges faced by the group, in terms of availability of experienced managers/technical staff, relocation of staff, culture differences, language barrier, etc? How did the group manage the challenges caused by travel restrictions in Hong Kong and the People's Republic of China?**

The Vietnam factory obtained its ISO9000 certification at the end of 2021 and ISO14000 certification in March 2022. It mirrors the group's China campus with one-stop manufacturing solutions that include SMT, Chip-on-Board ("COB"), wave soldering, plastic injection molding and its secondary operations, as well as box build assembly (page 7).

(iii) **Has the group been able to recruit the necessary skilled manpower it requires for its production?**

(iv) **Does the new Vietnam campus have a higher level of automation compared to the China facilities?**

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Q3. Would the board provide shareholders with more clarity on the following governance matters? Specifically:

(i) **Directors' fees:** The directors' fees proposed for FY2023 have increased from $250,000 to up to $350,000. The company has stated that this was to cater to the appointment of an additional independent director in FY2023 as part of the board renewal process and additional fees, if any. **For shareholders' benefit, what is the search and nomination process for new directors, especially independent directors? Will the nominating committee be using a third-party search firm and/or professional body to cast its net wider for potential candidates?**

(ii) The attendance of directors at board and board committee meetings is shown in the table below (page 14 of the annual report).

The number of Board and Board Committee meetings held during the financial year and the attendance of the Directors at such meetings are set out below *(Provision 1.5 of 2018 Code)*:

Meeting of	Board	AC	NC	RC
No. of meetings held in FY2022	5	4	2	4
Executive Directors				
Tse Chong Hing	5	*4	*1	*1
Chow Kok Kit	4	*4	*1	*1
Independent Non-Executive Directors				
Ong Tiew Siam	5	4	2	4
Loo Cheng Guan	5	4	2	4
Tan Siok Chin	5	4	2	4

* Executive Directors are invited to attend Board Committee meetings.

(Source: company annual report)

Such board committee meetings would have included agenda items on interested person transactions, performance assessment, remuneration of the executive directors and the audit/financial reporting/internal controls of the group.

Is it a board-approved practice for non-board committee members (i.e. the executive directors) to attend board committee meetings?

What are the board's governance structure and "Chinese walls" that are put in place at the board committee meetings when the independent directors on the board committees may be reviewing and discussing matters that are related to or affect the executive directors?

Are the independent directors able to conduct the board committee meetings without the executive directors in attendance?

Are the committees able to make decisions objectively and independently?

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(iii) At the last AGM on 26 July 2021, the company similarly hosted its AGM via live audio-visual webcast and an audio-only stream. No physical attendance, live voting nor live Q&A was allowed. **Did the independent directors review the level of engagement with shareholders at the last AGM? Did the directors receive any feedback from shareholders on the conduct of the AGM? Would the company look into how it can introduce live Q&A at the AGM that will be held on 29 July 2022 (and future shareholder meetings) to improve the level of engagement with shareholders?**

^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)