SPINDEX INDUSTRIES LIMITED

(Registration No. 198701451M)

RESPONSE TO SIAS QUESTIONS ON THE ANNUAL REPORT 2020

The Board of Directors (the "**Board**") of Spindex Industries Limited (the "**Company**") and its subsidiaries (the "**Group**") refers to the questions raised by Securities Investors Association (Singapore) ("**SIAS**") in relation to the Company's Annual Report for the financial year ended 30 June 2020 (the "**Annual Report**"), and wishes to provide the Company's response to the questions as follows:

Q1. Based on Note 32 (page 72 – Segment information: Business segments), the third segment ("Others") has grown rapidly and contributes to approximately a third of the group's revenue and segment profit in 2020.

32. **Segment information (cont'd)**

(a) ***Business segments***

	Imaging and printing		Machinery and automotive systems		Others*		Adjustments and eliminations		Group	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenue										
External customers	32,423	36,790	68,730	70,865	48,473	48,157	–	–	149,626	155,812
Inter-segment	681	274	18,956	15,947	1,035	1,226	(20,672)	(17,447)	–	–
Total revenue	33,104	37,064	87,686	86,812	49,508	49,383	(20,672)	(17,447)	149,626	155,812
Segment profit	6,764	8,129	14,339	15,657	10,773	10,640	–	–	31,876	34,426
Distribution and selling expenses	(644)	(747)	(1,366)	(1,439)	(963)	(979)	–	–	(2,973)	(3,165)
Impairment loss on trade receivables	(74)	–	(92)	–	(100)	(4)	–	–	(266)	(4)
Unallocated other income									2,395	1,733
Unallocated expenses									(16,068)	(15,000)
Operating profit									14,964	17,990
Financial expenses									(133)	(2)
Income tax expense									(2,640)	(2,658)
Net profit for the financial year									12,191	15,330

(Source: company annual report)

As disclosed, "Others" include domestic appliances, consumer electronics, data storage, telecommunications and others.

(i) **Would management clarify if "machinery" and "automotive systems" are separate segments and could be reported as standalone operating segments?**

(ii) **In particular, would management be reviewing how it could better present its operating segments (especially "Others") to allow shareholders to understand the group's main product categories and thus the group's risks and growth prospects?**

(iii) **Given the trade war and the COVID-19 pandemic, can management provide shareholders with better visibility of the underlying performance and opportunities of the different product categories?**

(iv) **Has management been able to tap into the new and urgent demand for certain devices and appliances required during the pandemic?**

As seen from the table above, the group recognised unallocated expenses amounting to $16.1 million. While the three segments show positive segment profit ranging from $6.8 million to $14.3 million, net profit was just $12.2 million after accounting for expenses such as unallocated expenses and distribution and selling expenses.

(v) Has management reviewed how it could better allocate the $16.1 million in unallocated expenses in its management accounts?

(vi) Would the audit committee be reviewing how it could further improve the granularity of the segment reporting by allocating its costs more meaningfully? This would give shareholders a better basis to assess the performance of the segments and facilitate the chief operating decision maker to make informed decisions in his resource allocation.

Company's Response:

i), ii) and v)
The Group and AC does review and will continue to review where necessary, the presentation of its financial results, including but not limited to the segment reporting, expense allocations and its granularity. This is done in accordance with the relevant accounting standards. It believes that the current disclosure within the annual report and relevant SGXnet announcements are appropriate to allow stakeholders to understand the Group's main industry domains and their prospects.

iii) and iv)
The business environment continues to remain uncertain and challenging. In addition to the trade tariffs, Covid-19 has compounded the economic risks on the supply and demand for our products. We expect volatility to increase, with increased pricing pressures from all our customers and potential supply chain vulnerability. We will monitor market conditions closely and manage the business prudently with a long-term perspective. Our efforts to consistently improve our competitive advantage will position us well with our customers. Management is always looking into new opportunities that arise, and not just react tactically to new and urgent demand arising from the pandemic. If and when such disclosures are necessary, the company will provide the related announcements.

Q2. As noted in the chairman's statement, the group is constantly examining the allocation of its manufacturing resources across the region. The group currently has production facilities strategically located in China, Malaysia and Vietnam, and is supported by over 1,700 headcounts and more than 1,000 CNC equipment.

The group has stated that it has initiated the optimisation of its manufacturing resources by building a new plant at Nantong, China to improve operational and cost efficiencies and has recently completed a plant expansion in Hanoi, Vietnam on an adjacent plot of land.

The group has also entered into a joint venture with Acuger Precision Corporation (APC) to undertake the manufacturing of plastic moulds, plastic products and related assemblies in Vietnam.

(i) Can the company clarify if the recently completed plant expansion in Hanoi is to cater to the group's owned operations and not part of the plans of the joint venture?

(ii) With a new plant being built in Nantong, and with the recently completed plant expansion in Hanoi, would management provide shareholders with an update on the group's manufacturing capacity and capabilities in the various countries?

The joint venture with APC is a change in how the group has been operating in recent years. The main operating subsidiaries of the group are all wholly owned by the company.

(iii) Can management elaborate further on the rationale for forming a joint venture with APC? What would each party be contributing to the JV other than capital?

(iv) In particular, has the JV already identified new products or new markets?

(v) As disclosed in Note 31, the group has $5.3 million of capital expenditure contracted as at 30 June 2020. The group has a proven track record in producing strong operational cash flows. Cash and cash equivalents amounted to $51.2 million, or 31% of its total assets, as at 30 June 2020. Has the board evaluated its optimal capital structure? Given the current growth trajectory and the group's strong cash holdings, has the board evaluated distributing a special dividend to right-size its balance sheet?

Company's Response:

i)
The recently completed plant expansion in Hanoi is catered to the needs of the Group. Depending on the requirements of its joint venture(s), the Group may use part of its regional facilities to support their operations.

ii)
The new plants at Hanoi and Nantong will provide the Group with the flexibility to take on new projects with existing and new customers. We constantly evaluate the optimal distribution of our productive resources across all our plants in the region (not just limited to Vietnam and China), and the new facilities and are strategically positioned to enhance the Group's competencies and capabilities geographically, to increase its value add to customers.

iii) and iv)
The rationale for the JV has been disclosed in the relevant announcements. Other than capital, the JV partner will bring precision plastic molding expertise to Vietnam, and complement the Group's precision machining expertise. This will broaden the Group's range of capabilities and product offerings to its customers whether directly through the JV or via the Group in the form of new products or markets.

v)
The Board takes into account several factors in deciding the amount of cash position in the Group. Such factors include, but are not limited to:

- the renewal and expansion of plant (eg. building of new factories) and equipment to allow the Group to better allocate resources and be competitive over the longer term;
- maintaining sufficient cash resources in this uncertain business environment; and
- the financial flexibility to capitalise on business opportunities as and when they arise.

Q3. As noted in the company's corporate governance report, the company's internal audit function is currently outsourced to Mazars LLP (page 21). In FY2020, the scope of the internal audit primarily covers financial, operational, compliance and information technology controls and risk management systems of the group.

The appointed internal auditor is responsible to (i) evaluate the effectiveness of internal controls to ensure that an effective internal control system is in place; (ii) ensure compliance with established policies and procedures and best practices; (iii) identify improvement opportunities; and (iv) develop recommendations for improvement in controls and operational efficiency.

In addition, Mazars was also engaged by the group to perform an Enterprise Risk Assessment exercise to identify existing and potential key risks facing the group and to develop risk mitigation strategy to manage those risks.

(i) Can the audit committee (AC) confirm that Mazars has been tasked to (a) perform the group's enterprise risk assessment (including setting up the risk register) and to (b) conduct the internal audit as the group's outsourced internal auditor?

(ii) Did the AC consider if there would be any threat of self-review by Mazars which assisted in drawing up the Enterprise Risk Management Framework and then, as the internal auditor, reviewed the adequacy of the group's internal controls which includes the risk management systems?

Company's Response:

i) and ii)

As set out on page 21 of the Annual report of the Audit Committee (AC), the internal audit function is outsourced to Mazars LLP and it directly reports to the AC.

The role of Mazars LLP in the ERM exercise was limited to facilitating the development of the ERM framework for the Group, and the Group's management remains responsible for risk management activities. Mazars is not involved in managing any of the risks identified on behalf of management. The identification and assessment of the risks was done by the senior management of the Company covering the various areas of functions and business and the risks identified are being monitored by management on an ongoing basis.

Hence it has been assessed that there should not be any threat of self-review with regards to the role of Mazars LLP as internal auditors and their role in facilitating the development of the ERM framework.

BY ORDER OF THE BOARD
Tan Choo Pie @ Tan Chang Chai
Chairman
6 November 2020