



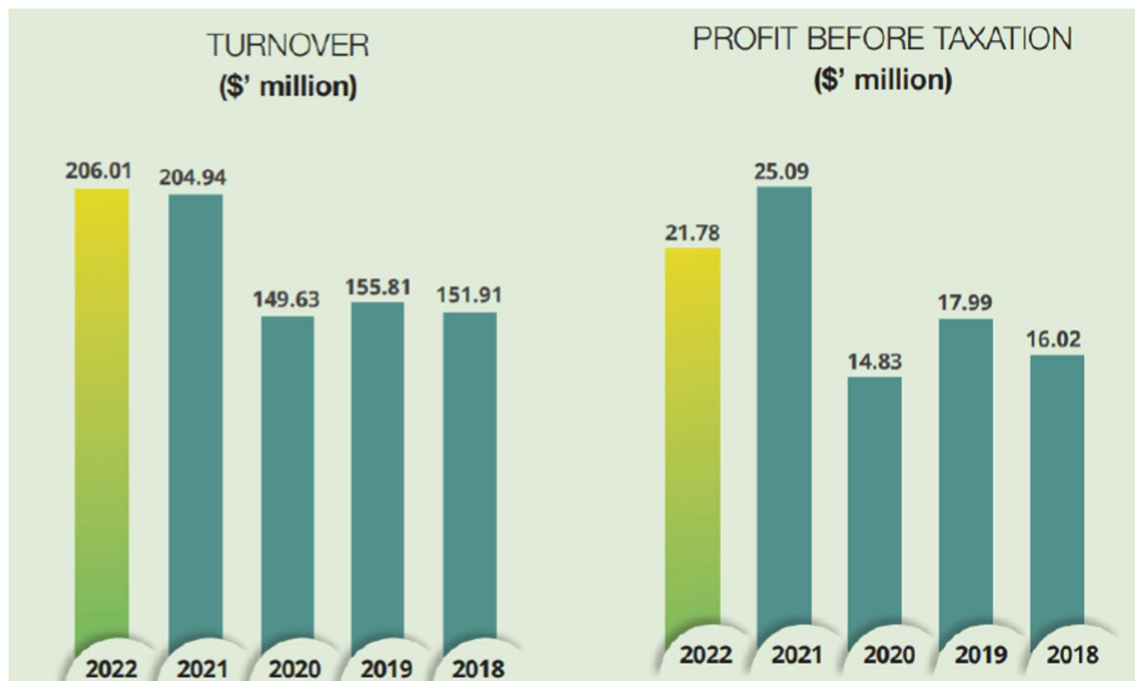
SPINDEX INDUSTRIES LIMITED

(Registration No. 198701451M)

RESPONSE TO SIAS QUESTIONS IN RELATION TO THE 2022 ANNUAL REPORT

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 2022 (the “Annual Report”), and wishes to provide the Company’s response to the questions as follows:

1. 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?

Company's Response:

- i. The Group has many years of experience in supplying a wide range of precision components from its network of factories in Asia. Spindex is a very reliable supplier and its components are price competitive.
- ii. Pricing of products with customers is done on a case by case basis. Wherever possible, some of the price increases will be passed on to some customers. In addition, we undertake a gradual and continuous improvement in productivity to lower our cost structure.

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?**

Company's Response:

iii. As disclosed in AR2022, the individual customers with revenue more than 10% of the Group’s total revenue were from “Machinery and Automotive systems” and “Consumer Product and others”. This did not mean that there was only two major customers in these categories. During the financial year, revenue from one of the existing customers from “Consumer Product and others” exceeded 10% of Group total revenue and as a result the total revenue of major customers in these two segments increased from 42% to 54% of the Group’s total revenue.

Customer concentration risk is reviewed on a regular basis. The review takes into account the name of the customer, the type of products and how long the relationship with the Group. The Group is constantly reviewing and evaluating potential new customers and where suitable, would expand its customer base on a selective basis.

iv. Potential new customers could come from enquiries, referrals or through the Group's marketing channel. On a selective basis, new customers have been added to the Group.

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)?**

Company's Response:

<p>v. The Nantong plant, being a new plant, has a good level of automation where applicable. Its technical capabilities are among the best in the Group and manufacturing capacity can be added progressively where necessary.</p> <p>vi. The Group is constantly evaluating its manufacturing footprint to achieve an optimal distribution of manufacturing facilities. This is important in order to respond to customers' needs on a timely basis, as well as achieve productivity growth. Where appropriate, manufacturing facilities will be rationalised.</p>

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?**

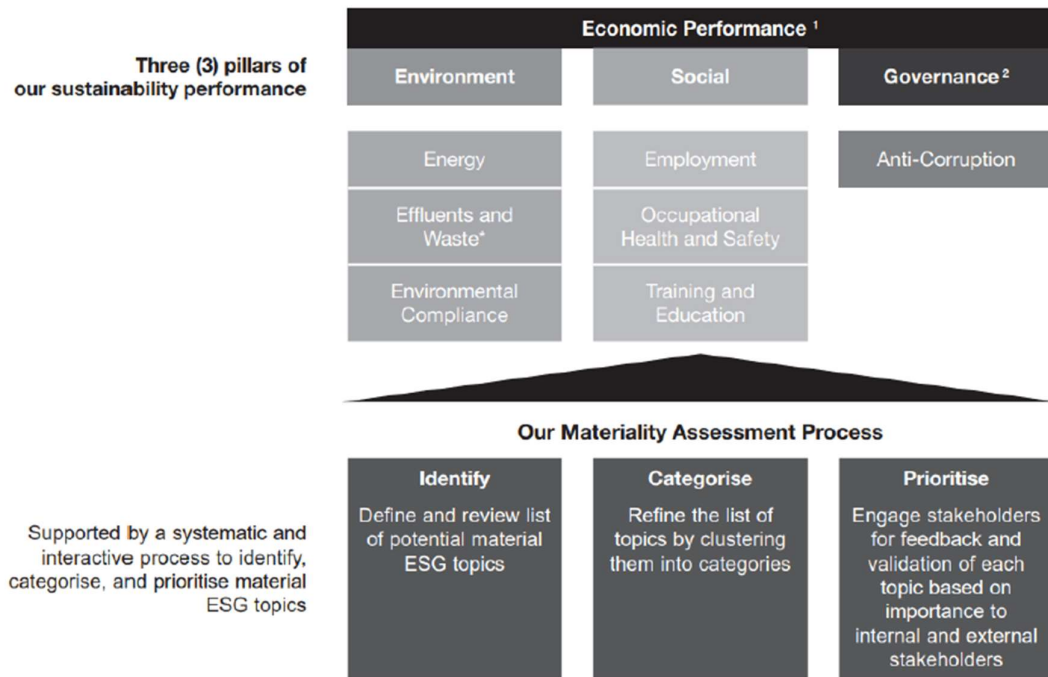
Company's Response:

vii. The JV is a relatively new set up and has made satisfactory progress in spite of the volatility and disruptions caused by Covid-19 in the last 2 to 3 years. With time, when business relationships with existing customers grow and new customers added, the financial performance of the JV will continue to improve.

2. 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?**

Company's Response:

i. Management takes a proactive approach to constantly review material or new climate disclosures to be disclosed in the Group's Sustainability Report. For this financial year, the new metric GRI 306-4 and 306-5 was added as the Group increase the focus on further waste recovery and disposal effort.

ii. As stated in page 5 of our SR report, we adopt an approach to identify priority areas based on the business strategy outlined in our plan. Our materiality assessments were based on the AA1000 Accountability Principles of Inclusivity and Materiality, as well as the Global Reporting Initiative Principles for Defining Report Content – stakeholder inclusiveness, sustainability context, materiality, and completeness. Materiality with respect to sustainability reporting, as defined by GRI Standards, includes topics and indicators that reflect the organisation's significant environmental and social impacts; and would substantively influence the assessments and decisions of stakeholders. Management have reviewed the stakeholders across the Group's value chain and identified five (5) key stakeholder groups (Customers, Community, Suppliers, Shareholders & Investors and Employees) by their significance and impact of their interest on the Group's business.

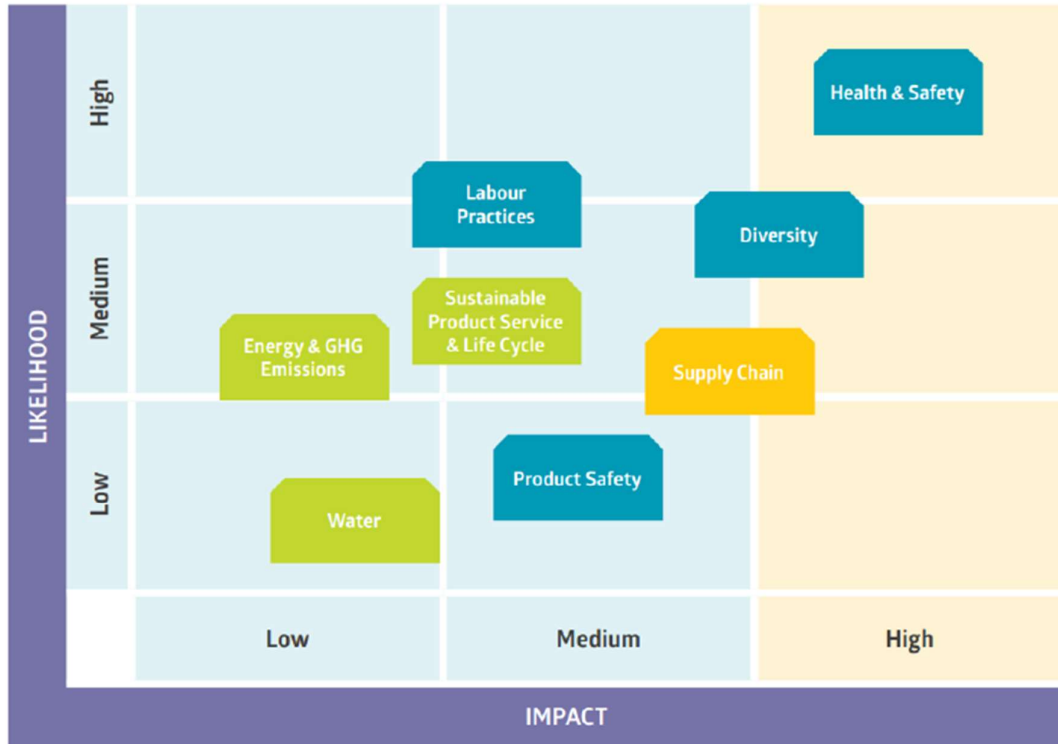
iii. Management is currently exploring different renewable energy options and sources to reduce carbon emissions. A few of our plants have already started installing solar panels to reduce our reliance on non-renewable energy sources. Management is also looking to introduce these alternative sources of energy for the other entities and operations in the Group. Additionally, management is looking at additional initiatives to reduce carbon emissions: replace old lights to LED lights in factories, more energy efficient air-conditioning and implement temperature controls to conserve energy and reduce emissions, etc.

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)

Company's Response:

iv. Please refer to comment above where the company's current materiality assessment approach has been disclosed in page 5 of our SR report. Management has also taken note of the new SGX requirements on SR reporting and will work with our external consultant to further review the Group's climate risk assessment approach.

3. 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)?**

Company's Response:

Yes, the Board and the Company confirm that we 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").

The Company had, throughout the financial year, complied with the provisions of the CG Code 2018 which forms part of the continuing listing obligations of the SGX Listing Manual. The Company also took guidance from the CG Code 2018 and accompanying Practice Guidance. The Company has generally adhered to the principles and provisions as set out in the CG Code 2018.

As disclosed in the Corporate Governance part of the Company's Annual Report 2022 ("CG"), "The board of directors (the "Board" or "Directors") of the Company confirms that, for FY2022, the Company has adhered to the principles and provisions of the Code. In so far as any provision has not been complied with, the reason has been provided."

The Board and the Company refer to the CG Code 2018, which supersedes and replaces the Code that was issued in May 2012. The CG Code 2018 has been applied to the Company's Annual Report for the financial years ended 30 June 2020, 30 June 2021 and 30 June 2022 as it applies to Annual Reports covering financial years commencing from 1 January 2019.

The Corporate Governance Advisory Committee ("CGAC") has also been established by the MAS on 12 February 2019, to advocate good corporate governance practices among listed companies in Singapore. The CGAC revises the Practice Guidance from time to time.

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?**

Company's Response:

CG Code 2018 has, at its core, broad Principles of Corporate Governance. Compliance with these Principles is mandatory. Principle 2 of the CG Code 2018 provides "The Board has an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the Company." The Company's corporate governance practice does conform to this Principle 2 of the CG Code 2018.

The above was elaborated in the CG as follows "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 Nominating Committee ("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 Group has a majority of three (3) out of five (5) directors on the Board who are Non-Executive Directors and thus, comply with Provision 2.3 of the Code and given the disclosures in the Annual Report under Provision 2.4, they are consistent with the intent of Principle 2 of the Code which requires the Board to have an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the Company."

The Board understands the need for healthy board dynamics which encourages introduction of differing perspectives essential for decision making. Every director, regardless non-executive, executive or independent directors, is free and happy to voice his opinions and add helpful objectivity to board discussions. Although majority of the board is not made up of independent directors, with the two independent directors as well as a non-executive director (making up a majority of the board of directors of the Company), the NC is of the view that there is a strong and independent element on the Board. Such view has been disclosed in the CG that "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."

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?**

Company's Response:

The Board and NC has been reviewing the board practices to strengthen the independence and to improve the diversity of the Board. As mandated by SGX, issuers are to have in place a board diversity policy. In addition, issuers are to disclose in their annual reports amongst others, the following:

- the board diversity policy, targets for achieving the stipulated diversity, accompanying plans, and timeline for achieving the targets; and
- a description of how the combination of skills, talents, experience and diversity of directors in the Board serves the needs and plans of the issuer. The description should be specific to the issuer's Board composition and take into account its current plan and future strategy.

SGX has mandated that annual reports for the financial years commencing on or after 1 January 2022 should disclose the board diversity policy that addresses gender, skill and experience, and other relevant aspects of diversity, and layout details such as diversity targets, plans, timelines, and progress. The Board recognises that disclosure of diversity policies increases transparency and enhances accountability of the Company. As such, the Board will ensure that the diversity policy is well-structured, realistic and best suited for the Company and in place; disclosure on such diversity policy will be provided in the next annual report of the Company as mandated by the SGX.

BY ORDER OF THE BOARD

Tan Choo Pie @ Tan Chang Chai
Chairman
21 October 2022