



Securities Investors Association (Singapore)

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UEN No: S99SS0111B

GST Reg No: M90367530Y

Issuer: Frencken Group Limited

Stock code: E28

Meeting details:

Date: 22 April 2022

Time: 2.30 p.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. Despite the challenges of the pandemic and supply chain disruptions in the global technology industry, the group reported its highest net profit attributable to equity holders of \$58.7 million in 2021. There was double-digit sales growth in the semiconductor, analytical & life sciences and medical segments, with strong demand from customers in Europe and Asia and weaker but still positive growth from automotive customers who had to contend with semiconductor chip supply chain challenges.

The semiconductor segment recorded strong sales growth of 55.6% to \$289.9 million in FY2021. The group benefitted from higher orders for both front-end and back-end semiconductor equipment from customers in Europe and Asia.

This reflects the underlying strength of the global semiconductor industry and continued digitalisation trend. In FY2021, semiconductor was the group's biggest contributor of revenue, at 37.8% (page 18).

- (i) **For the benefit of new and long-standing customers, can management help shareholders better understand the group's main products and services in the semiconductor industry?**
- (ii) The group successfully gained a new customer from the semiconductor industry. **What is the group's value proposition for its customers in the semiconductor industry?**
- (iii) **What are the capacities and the utilisation rates of the group's cleanroom facilities in Europe, Malaysia, Singapore and the USA?**
- (iv) **What are major capital expenditure in the near term as the group continues to increase capacity, expand capabilities, drive automation and carry out its digital transformation?**

Q2. The group made two significant acquisitions as follows:

- September 2021: To strengthen the Mechatronics division, the group acquired Avimac Pte Ltd for \$14 million to expand the division's production capacity and for access to new capabilities and competencies. Avimac has an established customer based, certified manufacturing facilities and programs in the commercial aerospace engineering industry.
- January 2022: In the IMS division, the company acquired a controlling stake in Penchem for \$5.4 million, a high technology company focused on designing, developing, formulating and manufacturing polymer materials. The investment in Penchem is expected to yield rewards over a longer-term horizon as it will not contribute materially to the group's financial performance in the short-term.

- (i) **Avimac:** As highlighted by the independent auditor in their report, the carrying value of goodwill of Avimac is a key audit matter. The purchase consideration of \$14 million led to the recognition of a goodwill of \$8.4 million. Avimac had net book value of \$4.4 million as at 31 July 2021. No independent valuation was conducted on Avimac.
 - a. **How did management arrive at the purchase consideration of \$14 million for Avimac when the net book value was \$4.4 million?**
 - b. **Can management elaborate further on the group's growth plans in the aerospace sector?**
 - c. **Did the board/management consider it prudent to structure the acquisition of Avimac with earn-outs and/or profit guarantees given that goodwill amounts to \$8.4 million out of the \$14 million acquisition?**
- (ii) **Penchem:** The group aims to incubate and integrate Penchem to create a new growth pillar and build greater diversity in the business. Penchem's core technologies and competencies include molecular design, synthesis, nanomaterials, and custom formulations.
 - a. **Can management elaborate further on the total addressable market of Penchem's technologies and capabilities?**
 - b. **The company has stated that Penchem has "an enviable customer footprint that includes multinational customers in the semiconductors, fibre optics, solid-state lighting, consumer electronics and automotive markets". Can the company disclose the major customers of Penchem?**

Q3. As disclosed in the corporate governance report, the group's internal [audit] functions are carried out in-house by qualified and experienced internal audit staff (page 81). The internal auditor reports to the chairman of the audit committee and has access to documents, records, properties and personnel.

The audit committee has reviewed and is satisfied with the independence, adequacy and effectiveness of the company's internal audit function.

During the year, the internal auditor carried out two cycles of internal audit for the Mechatronics Division in Asia and four cycles of internal audit for the IMS Division in Asia.

- (i) **Can the AC elaborate further on what a “cycle of internal audit” entails?**
- (ii) **Can the AC help shareholders better understand if the scope and extent of the internal audit were affected by travel restrictions? Given the closure of borders in the past two years, how was the efficiency of the internal audit team affected?**
- (iii) **Given that the group has 18 operating sites across Asia, Europe and the USA, how comprehensive was the internal audit?**
- (iv) **What were the key findings by the internal auditor? What recommendations have been made by the internal auditor?**
- (v) In addition, as part of the disclosure under the whistleblowing policy, the company disclosed the following:

During the financial year 2021 and until the date of this Annual Report, there were 3 reports received through the whistleblowing mechanism.

Can the AC disclose the stages of the investigation of these 3 reports? How is the AC overseeing the investigations?

[^]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.

[^] 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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Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

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