Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Matex International Limited

Security: Matex International Limited

Meeting details:
Date: 29 April 2019
Time: 3.00 p.m.
Venue: 47 Ayer Rajah Crescent, #05-10 Singapore 139947

Company Description

Matex International Limited is a Singapore-based holding company, which is a manufacturer, supplier and marketer of dyestuffs and specialty chemicals, color measurement and computer aided systems. The Company's principal activities are the formulation, manufacturing and sale of specialty chemicals focusing on dyestuff and auxiliaries for the textile industry. The Company's geographical segments include People's Republic of China (PRC) and Other Asia Pacific countries. The Company offers its products to various global markets, such as paper, leather, detergent and polymers industry. The Company offers its products under Matex and Megafix brands. The Company, through its subsidiary, Dedot Trading (Shanghai) Co., Ltd (DTS) is engaged in import, export and wholesale of garments, textile products and chemical products. The Company's subsidiaries also include Shanghai Matex Chemicals Co., Ltd, Unimatex Sdn Bhd, Amly Chemicals Co., Ltd and Matex Chemicals (Taixing) Co., Ltd, among others.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=M15)

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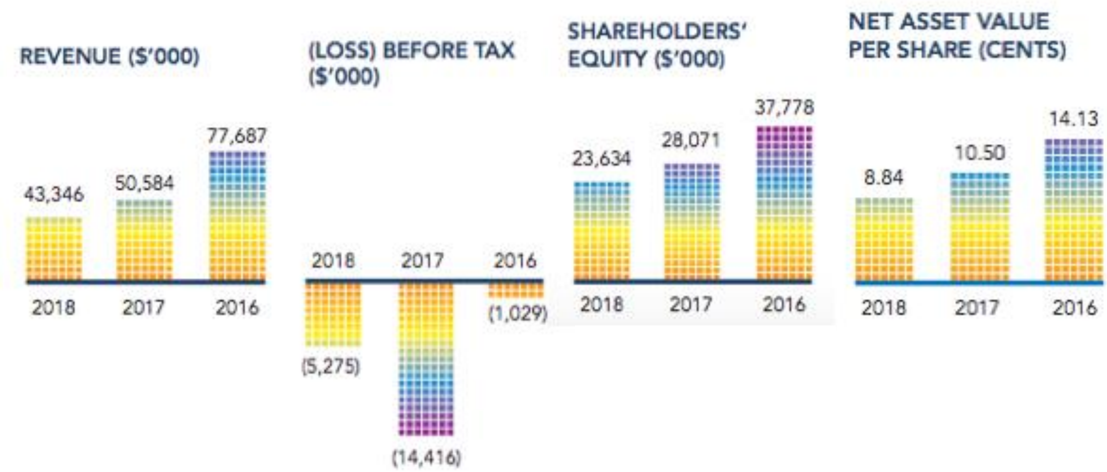
Q1. In the 15th year of its listing on the SGX, and celebrating its 30th anniversary, the group's revenue fell by 14.3% year-on-year to just $43.3 million. In FY2014, the group's revenue was as high as $104.8 million and since then, the group has been making losses. In FY2015 to FY2018, the loss after tax attributable to owners of the parent were $(1.63) million (FY2015), $(1.47) million (FY2016), $(9.63) million (FY2017) and $(3.72) million (FY2018).

Total equity has dropped from $64.4 million as at 31 December 2014 to just $32.2 million. Equity attributable to owners of the parent drop from $42.5 million to $23.6 million over the same period.

The company has provided a summary of its financial highlight on page 12 of the annual report:



(Source: Adapted from 2018 annual report; note FY2018 is on the left of each chart)

- **(i)** **Would the board clearly articulate the group's business model? Please also identify the key value drivers of the group's businesses.**

- **(ii)** **What are the milestones/targets that management needs to achieve to return the group to profitability?**

- **(iii)** **Given the scale of the group's operations, the level of competition in the market and the changes in market demand, has the board evaluated the competitiveness, the profitability and the long term viability of the group's core business?**

- **(iv)** **Would the board consider it opportune to carry out a strategic review of the group's operations to assess the core competencies of the group, its board and its management team, its assets (including the brand and its**

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R&D) and its financial strength and to fine-tune its strategy so as to create long-term sustainable value for all shareholders?

Q2. The "Impairment of trade receivables" is a key audit matter (KAM) highlighted by the Independent Auditor's in their Report on the Audit of the Financial Statements (page 18). Key audit matters are those matters that, in the professional judgement of the Independent Auditor's, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM:

> *The gross balance of the Group's trade receivables as at 31 December 2018 is $14.9 million, against which an allowance for expected credit loss ("ECL") and impairment of $6.1 million was made.*

As disclosed in Note 15 (page 67 – Trade and notes receivables), the movement in allowance for expected credit losses of trade receivables was computed based on lifetime ECL. A charge of $(761,000) was recognised in the year.

(i) **Can management elaborate further to show how the charge of $(761,000), based on lifetime expected credit loss, was calculated? What were the historical credit loss rates?**

(ii) The impairment losses on trade receivables have been elevated in the past two years, with $(761,000) being recognised in FY2018 and a further $(1,048,000) recognised in FY2017. **What are the reasons for the significant jump? Is there a material deterioration in the credit quality of its customers?**

(iii) As stated in Note 32 (page 80 – Financial risk management objectives and policies), during the financial year, the group has adopted stricter credit policy for new customers by requesting for 20% to 30% of the contractual sum as advance payment for PRC customers. **What is the practice for its existing customers with outstanding debt? How does the audit committee monitor the compliance of its credit risk policies?**

(iv) **What are the efforts by management to collect on the long outstanding debt?**

In addition, the company has disclosed that it had granted extended credit terms to a key customer and its balances are reflected under non-current trade receivables. This amounted to $751,000 as at 31 December 2018.

(v) **What is the reason for granting the customer extended credit terms?**

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Q3. At the company's annual general meeting scheduled to be held on 29 April 2019, Dr John Chen Seow Phun is retiring in accordance with Article 89 of the company's Constitution.

As disclosed in the Corporate Governance Report, Dr Chen has been the chairman and independent director of the company since 11 July 2003.

Dr Chen's sits on the board of eight listed companies, including as executive chairman of Pavillon Holdings Ltd. The principal commitments of Dr Chen are shown on page 106 and reproduced below:

Name of Director	Dr John Chen Seow Phun
Other Principal Commitments including Directorships	Past (for the last 5 years) • National University Health System Pte Ltd • Pattern Discovery Technologies Pte Ltd Present • OKP Holdings Ltd • Hiap Seng Engineering Ltd • Hanwell Holdings Ltd • Tat Seng Packaging Group Ltd • HLH Group Ltd • Fu Yu Corporation Ltd • Pavillon Holdings Ltd • JLM Foundation Ltd • Pavillon Financial Leasing Co. Ltd • Pavillon Business Development (Shanghai) Co. Ltd

(Source: Company annual report; HLH Group Ltd refers to Hong Lai Huat Group Limited.)

(i) **With the group in a critical period having recognise steep drops in revenue and large losses in the past 3 years, would Dr Chen, as chairman of the board, help shareholders understand how much of his time, energy and attention is spent on the group's matters?**

(ii) **Should Dr Chen be re-elected as a director of the company, would Dr Chen be reviewing his commitment and focus more on the company's matters?**

In August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance ("2018 CG Code") and under the revised Listing Rules, the requirement for

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independent directors to comprise one-third of the board come into effect on 1 January 2022. In addition, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier vote by shareholders.

(iii) Has the company evaluated the impact of the 2018 CG Code and the amendments to the Listing Rules on the board?