



Securities Investors Association (Singapore)

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UEN No: S99SS0111B

GST Reg No: M90367530Y

Issuer: Eidec Corporation Limited

Security: Eidec Corporation Limited

Meeting details:

Date: 15 April 2019

Time: 10.00 a.m.

Venue: 100H Pasir Panjang Road, OC@Pasir Panjang, #01-01, Singapore 118524

Company Description

Eidec Corporation Limited, an investment holding company, manufactures and distributes clean air environmental technology solutions for residential, commercial, and industrial customers in Singapore, China, Malaysia, and internationally. The company operates through Clean Room Equipment, Heating Ventilation and Air-Conditioning Products, Air Purification Equipment, and Others segments. The Clean Room Equipment segment offers fan filter units, air showers, clean booths, pass boxes, clean hand dryers, clean benches, and others. It also provides value-added design services and customized cleanroom equipment. The Heating Ventilation and Air-Conditioning Products segment provides dampers, deflection grilles, and air diffusers to regulate the airflow within a confined space in commercial, residential, and industrial buildings, as well as in offshore platforms and vessels. The Air Purification Equipment segment designs, manufactures, and sells air purifiers, and fresh air purification and ventilation systems, which remove solid and gaseous pollutants from the air. The Others segment offers cooling towers. The company also provides technology consultation and services; and after-sales services. In addition, it engages in the wholesale of clean room and ventilation equipment; and agency, and import and export of industrial products, as well as in the related supporting business. The company was founded in 1984 and is headquartered in Singapore. Eidec Corporation Limited is a subsidiary of Weiye Holdings Limited.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=42Z)

1. The group has reported losses since FY2016 when the loss attributable to equity holders of the company amounted to \$(841,000). In FY2017, the loss increased to \$(1,848,000) and in the last financial period ended 31 December 2018, the losses further increased to \$(2,467,000).

Equity attributable to owners of the company now stands at \$9.31 million as at 31 December 2018.

All three main segments, namely Clean room equipment, Heating ventilation and air-conditioning products and Air purification equipment, were unprofitable in the past 3 years except for the Air purification equipment segment which last turned a profit in FY2016.

- (i) Would the board/management help shareholders understand the brand equity and the market positioning of the group's brand names, "Eindec" and "Kyodo"?**
- (ii) What is the profile of the group's top 3-5 customers in each of the three segments?**

In the operational review, it was disclosed that the group has transformed itself from an equipment manufacturer to a customised clean environmental air solutions provider, offering a full suite of services including analysis of airflow management for buildings, design and manufacturing of customized equipment, installation, monitoring and maintenance of environmental air systems.

- (iii) Can management articulate in greater detail the new strategic direction of the group? What are the key value drivers and does the group have the requisite human talent to support the new business model?**
- (iv) Can management elaborate further on the key priorities in the next 12-18 months to improve the profitability of the group?**

2. With the adoption of Singapore Financial Reporting Standards (International) (SFRS(I)), the group uses an allowance matrix to measure the Expected credit loss (ECLs) of trade receivables from customers, which comprise a very large number of small balances.

An analysis of the trade receivables and the exposure to credit risk and ECLs is shown on page 101 and reproduced below:

	Weighted average loss rate %	Group		Credit impaired
		Gross carrying amount \$'000	Impairment loss allowance \$'000	
Current (not past due)	0.78	1,499	(12)	No
1 – 30 days past due	0.91	727	(7)	No
31 – 60 days past due	1.55	405	(6)	No
61 – 90 days past due	2.91	270	(8)	No
91 – 180 days past due	6.65	310	(21)	No
181 – 365 days past due	9.14	306	(28)	No
More than 365 days past due	38.37	258	(99)	No
		<u>3,775</u>	<u>(181)</u>	

(Source: Company annual report)

Trade receivables amounting to \$2.28 million are past due but not impaired. This accounts for nearly a quarter of the group's remaining equity of \$9.31 million.

- (i) **Would management help shareholders understand the profile of the debtors with long outstanding debt?**
- (ii) **Can the company provide an upper bound to the long-outstanding trade receivables?**
- (iii) **What are the reasons for the delay in payment by customers with debt that are past due by more than 181 days?**
- (iv) **What are the efforts by management to further improve on the collection of trade receivables to ensure that the group has sufficient working capital?**
- (v) **As shown in the table above, even for trade receivables that are past due by more than 365 days, there is no credit impairment recognised. Can the audit committee/management help shareholders understand the situation and the circumstances that would lead to a "credit impairment" under the group's accounting policy?**

3. The company has outsourced its internal audit function to Nexia TS Risk Advisory Pte. Ltd. who is a member of the Institute of Internal Auditors Singapore ("IIA"), an [international] professional association for internal auditors which has its headquarters in the United States. Nexia has said that the audit work carried out is guided by the International Standards for the Professional Practice of Internal Auditing (IIA Standards) laid down in the International Professional Practices Framework issued by the IIA.

As stated in its Corporate governance report, the audit committee (AC) reviewed the annual internal audit plan for FY2018 and was satisfied that the internal audit functions

are independent and have been adequately resourced and carried out its function effectively.

- (i) What were some of the key findings of the internal audit report?**
- (ii) What are some of the improvements made/to be made to the group's internal audit controls?**

In addition, Nexia is working with the group to establish a structured Enterprise Risk Management (“ERM”) framework which will provide documented guidance on the process for identifying and assessing risks, adequacy of countermeasures and the manner in which risks matters are reported to the board and AC.

- (iii) Can the AC confirm that Nexia has been asked to establish the group's risk management framework and to provide assurance on it as Nexia also serves the group's outsourced internal auditor?**
- (iv) Did the AC consider if there would be any threat of self review?**
- (v) Can Nexia confirm that they are complying with the IIA standards about independence of IA services?**

A copy of the questions for the Annual Report for the financial year ended 31 December 2017 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Eindex%20Corporation%20Ltd&cid=4574>

The company's response could be found here: -----