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GST Reg No: M90367530Y

Issuer: Medtecs International Corporation Limited

Security: Medtecs International Corporation Limited

Meeting details:

Date: 26 April 2019

Time: 3.00 p.m.

Venue: Maharajah Suite, Basement 1, Holiday Inn Singapore Orchard City Centre, 11 Cavenagh Road, Singapore 229616

Company Description

Medtecs International Corporation Limited is an integrated healthcare products and services provider in the Asia Pacific region. The Company is an original product manufacturing (OPM) manufacturer and distributor of healthcare, hospitality and work wear products for the global healthcare and hospitality industry. Its business segments are Manufacturing, Hospital Services, Distribution and Others. The Company offers various products, such as healthcare textiles work wear, medical devices and equipment, and hospitality textiles. It manufactures products, such as medical bandages, patient apparels, surgical drapes, crochet blankets and bed linens, and other medical supplies. It also acts as an agent for other branded medical supplies, devices and equipment in the Asia Pacific region. It has operations across the United States, Asia Pacific and Europe. Its facilities are located in Singapore, Hong Kong, Taiwan, the Philippines, Cambodia and the People's Republic of China.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=546)

1. As noted in the chairman's message, FY2018 revenue for the group was up 10.5% to US\$68.3 million, with revenue from the Original Product Manufacturing (OPM) division increasing by 13.8% to US\$52.2 million while the Hospital Services division improved by 4.6% to US\$13.97 million.

Net profit attributable to ordinary shareholders is US\$ 0.91 million.

Following a management review, the company has started on the following initiatives that will be carried into the new FY, including:

- Developed operational plans for 2019 and their progressive implementation schedule across the production bases and medical services operations;
- Adopted the 5S/6S lean management approach to optimize the manufacturing process and to improve workplace efficiency at various production bases and offices; and
- Introduced and incorporated the Enterprise Resource Management (ERP) and Customer Relationship Management (CRM) systems into the daily workflow.

(i) For the benefit of new and long standing shareholders, can management identify the value drivers for the two divisions? What is the value proposition to its customers?

With revenue exceeding US\$61.8 million, the net profit for the year of \$914,000 represents a net profit margin of 1.3%.

(ii) Would the board/management elaborate further on the improvements that the group will make to its business model so as to capture its fair share of value for the benefit of all shareholders?

(iii) How cost-efficient are the group's manufacturing plants? Can management provide shareholders with an update of the new plant set up in Bavet, Cambodia in 2016? How much cost savings is management targeting through its process optimisation?

(iv) Has the board estimated the group's cost of capital? In the planning of the expansion of the group's activities, e.g. additional hospital contracts in Philippines, what are the projected returns?

2. The company last paid a dividend in 2007 of USD0.001 per share for the financial year ended 31 December 2006. It has been 12 years since the last dividend paid out to shareholders.

Since 2014, the company has provided the following communications to shareholder regarding the payment of dividends:

- 2014: No dividends shall [be] paid to the shareholders for the financial year ended 31 December 2014 as current year profit was left to accumulate for future payment of dividends

- 2015: No dividends shall be paid to the shareholders for the financial year ended 31 December 2015 as the profit was left to accumulate for future payment of dividends
- 2016: The company does not have a fixed dividend policy. The form, frequency and amount of future dividends declared will depend on earnings, general financial position, results of operation, capital requirements, cash flow, general business condition, or development plans and other factors as our directors may, in their absolute discretion, deem appropriate
- 2017: The Company does not have a fixed dividend policy. The form, frequency and amount of future dividends declared will depend on earnings, general financial position, results of operation, capital requirements, cash flow, general business condition, or development plans and other factors as the Directors may, in their absolute discretion, deem appropriate. No dividends shall be paid to the shareholders for the financial year ended 31 December 2017 as the profit would be utilised as working capital and future expansion.
- 2018: The Company does not have a fixed dividend policy. The form, frequency and amount of future dividends declared will depend on earnings, general financial position, results of operation, capital requirements, cash flow, general business condition, or development plans and other factors as the Directors may, in their absolute discretion, deem appropriate. No dividends shall be paid to the shareholders for the financial year ended 31 December 2018, to conserve cash to meet higher working capital requirements and capital expenditures so as to improve the efficiency of the Group's operations.

The group has disclosed that its capital management policy is to keep the gearing ratio in the range of 40% - 60%. As at 31 December 2018, the group has a gearing ratio of 38.4%, just below the targeted range.

- (i) Can the board help shareholders understand the deliberations it has had on the declaration of dividends?** In 2014, the company appeared to have the intention to make future dividend payments but it has not done so.

While the group is looking to re-invest back to scale up and automate the business, the strong cashflow from operating activities suggest that the group can support a dividend payment to the capital providers, i.e. shareholders. In the past three financial year, the operating cashflows are US\$5.68 million (FY2018), US\$2.37 million (FY2017), US\$4.70 million (FY2016), US\$6.92 million (FY2015) and US\$9.22 (FY2014).

- (ii) Can the board consider the feasibility of putting in place a dividend policy that can support the growth of the company and, at the same time, provide shareholders with a sustainable return in the form of dividends?**

3. The attendance of directors is shown in the table below:

The number of meetings held by the Board and Board Committees and attendance thereat during the past financial year are as follows:

DIRECTORS	BOARD		AC		RC		NC	
	No. of meetings	Attended	No. of meetings	Attended	No. of meetings	Attended	No. of meetings	Attended
Clement Yang Ker-Cheng	4	4	-	-	4	4	4	4
Xia Junwei	4	3	-	-	4	2	4	2
William Yang Weiyuan	4	4	-	-	4	2 ^(a)	4	4
Wilfrido Candelaria Rodriguez	4	4	-	-	-	-	-	-
Lim Tai Toon	4	3	4	4	4	3	4	3
Carol Yang Xiao-Qing	4	4	4	4	4	4	4	4
Lam Kwong Fai	4	2	4	3	4	3	4	3
Lim Yeow Beng	4	4	4	4	4	4	4	4

(a) Mr. William Yang Weiyuan was appointed as a member of the RC on 2 May 2018.

(Source: Company annual report)

It is observed that, in the year, three directors were absent from at least 1 board meeting. The attendance at board committee meetings could also be further improved.

- (i) **Can the company help shareholders understand if there were extenuating circumstances that led the directors to be absent for the board meetings? How far in advance are board meeting scheduled?**
- (ii) **How can the company and the company secretary work together with the directors to schedule the board and board committee meetings so that all the directors are able to attend the meetings and contribute to the effectiveness of the board?**

A copy of the questions for the Annual Report for the financial year ended 31 December 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Medtecs%20International%20Corp%20Ltd&cid=4239>

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