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Issuer: Memtech International Ltd.

Security: Memtech International Ltd.

Meeting details:

Date: 25 April 2019

Time: 2.00 p.m.

Venue: M Hotel Singapore, Anson III, Level 2, 81 Anson Road, Singapore 079908

Company Description

Memtech International Ltd. is engaged in investment holding. The Company is a components solution provider that works with its partners in the business of automotive components, industrial and medical, mobile communications and consumer digital services. It operates through segments, which include the automotive segment, the telecommunication segment, the consumer electronic segment, and the industrial and medical segment. The automotive segment is involved in the manufacture and sales of keypads and plastic components for automotive products. The telecommunication segment is involved in the manufacture and sales of keypads and plastic components for telecommunication devices. The consumer electronic segment is involved in the manufacture and sales of keypads and plastic components for consumer electronic products. The industrial and medical segment is involved in the manufacture and sales of keypads and plastic components for industrial and medical products.

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

1. As noted in the chairman’s statement, ten years after the global financial crisis, the macroeconomic environment is once again uncertain, with significant tariff risks arising from US-China trade tensions.

For the year ended 31 December 2018, the group reported its highest revenue of US\$192.5 million although gross profit margin slipped to 16.2% and net profit margin declined to 5.0%.

The financial highlight is shown on page 8 of the annual report and reproduced below:

FINANCIAL POSITION (US\$'000)						FINANCIAL INDICATORS					
	2014	2015	2016	2017	2018		2014	2015	2016	2017	2018
Total Shareholders Equity	112,126	112,138	110,642	126,992	125,660	Return on Shareholders Equity	15.3%	7.2%	5.7%	11.1%	7.6%
Total Assets	152,900	151,428	165,733	187,418	187,377	Earnings Per Share (EPS)	2.4	1.2	4.5*	10.0	6.9
Total Liabilities	40,774	39,049	54,900	60,100	61,336	Price-Earnings Ratio	3.1	8.0	10.1	8.0	8.4
Net Current Assets	71,609	74,496	78,214	87,263	80,133	Dividend Paid USD '000s	3,211	3,271	2,478	5,798	3,083**
Cash and Cash Equivalents	32,433	26,767	27,353	34,896	22,156	Dividend Paid Per Share S\$ cents	0.6	0.66	2.5*	5.5	3.0
Debt to Equity Ratio %	3.0%	2.0%	4.1%	3.8%	2.8%	Dividend Payout Ratio	18.7%	40.3%	39.5%	41.0%	32.1%
						Market Capitalisation S\$'000	70,592	91,573	88,755	150,743	109,963

(Source: Company annual report)

- (i) **With all three manufacturing sites in China, namely Dongguan, Kunshan & Nantong, has the group felt any impact from the trade war?**
- (ii) **Which of its segments, i.e. automotive, industrial & medical, mobile communications and consumer digitals, will likely be most affected by any tariffs?**
- (iii) **How much automation is there in the group’s manufacturing processes?**
- (iv) **Where are the likely countries/cities that the group will be setting up its fourth manufacturing site in? How much capital expenditure has been earmarked for this new site?**
- (v) **The group also mentioned that it has been exploring inorganic growth opportunities that are synergistic to the group’s operations. What would be an ideal target in terms of investment size and technical capability that would further transform the group?**

2. The “Allowance for obsolete inventories” is a key audit matter (KAM) highlighted by the Independent Auditor’s in their Report on the Audit of the Financial Statements (page 39). 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, as at 31 December 2018, the group's total inventories amounted to \$25.8mil, representing 19% of the total current assets of the group. As at 31 December 2018, the Group has recorded allowance for obsolete inventories of \$3.6 million. The allowance for obsolete inventories relates mainly to raw materials and finished goods.

In FY2018, the group recognised a substantial increase in allowance of stock obsolescence of US\$1.08 million. The allowance since FY2014 is shown below:

FY2013 – US\$(151,000) (write-back)
FY2014 – US\$66,000
FY2015 – US\$880,000
FY2016 – US\$758,000
FY2017 – US\$43,000
FY2018 – US\$1,082,000

- (i) What were the reasons for the increase in allowance of stock obsolescence in FY2018?**
- (ii) How much of the allowance recognised was for raw material?**
- (iii) Given that technology/product cycles are getting shorter, has management adapted its stocking/replenishment policy accordingly?**
- (iv) What guidance has the board given to management to better manage/reduce the obsolescence risks?**

3. In August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance (“2018 CG Code”). As a consequence of the revised 2018 CG Code, the Singapore Exchange has made amendments to its Listing Rules which came into effect on 1 January 2019, except for the rules on the 9-year tenure for independent directors and the requirement for independent directors to comprise one-third of the board which come into effect on 1 January 2022. Under the revised Listing Rules, 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.

The board comprises of five executive directors and three independent directors who were each appointed on 6 June 2004.

Accordingly, all the independent directors have served on the board for more than 9 years.

- (i) Has the company evaluated the impact of the 2018 CG Code and the amendments to the Listing Rules on the board?**
- (ii) Has the nominating committee reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in future director appointments, especially as the board is evaluating acquisitions and setting up a manufacturing facility outside of China?**

When searching for a new director, the nominating committee (NC) will evaluate candidates proposed by management or the directors or identified through the NC's network of contacts or through engagement of an external professional search firm.

- (iii) Would the NC help shareholders recall if the company has appointed an independent director to the board after it was listed?**
- (iv) Would the NC consider a formal search through a professional search firm as it might increase the diversity and possibly the quality of its candidate pool?**
- (v) Given that the independent directors were all appointed in 2004 and that board does not have independent directors make up half of the board, what are the company's near term plans to refresh the membership of the board to comply with the new 2018 Code in good time?** Reconstituting the board early to comply with the new 2018 Code would avoid undue disruption and help to maintain institutional knowledge and continuity in the board.

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=Memtech%20International%20Ltd&cid=6419,4595>

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