Securities Investors Association (Singapore)
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Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: MSM International Limited

Stock code: 5QR

Meeting details:
Date: 29 September 2020
Time: 11.00 a.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.

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Q1. When the company announced the half-year results in November 2019, revenue slipped by 20.7% to RM34.4 million although profit attributable to equity holders of the company improved to RM1.70 million.

On a full year basis, revenue declined by 9.2% to RM74.7 million compared to FY2019 while net loss attributable to shareholders was RM(9.22) million in FY2020. Compared to net profit of RM2.8 million in FY2019, the drop in profit attributable to equity holders was RM12.02 million for the full year.

Loss attributable to shareholders was RM(10.92) million in the second half of FY2020, partly due to writing down obsolete inventory amounting to approximately RM6.0 million.

(i) **Would management elaborate further on the reason(s) for the significant write off in "obsolete inventory" amounting to RM6.0 million?**

(ii) **What were the products/items in the inventories that were written off? What is the average age of the inventory that was written off?**

(iii) **Does the group have a robust inventory policy/obsolescence management framework? What improvement has management made to its workflow and inventory policy? Specifically, does the group have a policy of stocking up raw material or building up inventory of finished products in anticipation of orders?**

(iv) **What were the other factors that significantly affected the profit of the group in the second half of FY2020 (other than the inventory write off)? Please quantify the impact of each significant factor that contributed to the group's losses.**

(v) For FY2020, gross profit margin decreased to 12.2% from 26.4% in the previous year. Excluding the inventory write-off, the estimated gross profit margin would be approximately 20.2%, still lower than gross profit margin of 26.4% achieved in FY2019. **Can management help shareholders understand the reason for the drop in gross profit margin? What are the gross profit margins in the three segments (namely OEM contract manufacturing; kitchen appliances, equipment and related services; and cleanroom and laboratories)?**

Q2. In October 2019, the company completed a renounceable non-underwritten rights issue, raising net proceeds of approximately $1.0 million (after deducting expenses of approximately $0.1 million).

The 15,391,186 new shares represent approximately 68.41% of the 22,500,000 Rights Shares available for subscription.

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In the company announcement dated 22 October 2019, it was stated that no other Entitled Shareholder accepted their entitlements for Rights Shares that were provisionally allotted other than the Undertaking Shareholder pursuant to the Irrevocable Undertaking.

(i) **As the board evaluated the outcome of the rights issue? Has it reviewed why no entitled shareholder (other than the undertaking shareholder) accepted their entitlement?**

Based on the statistics of shareholders, as at 20 June 2019, the company had 120 shareholders on its share registry. Only 6 shareholders held more than 1 million shares each, including the undertaking shareholder (Triumphant Hope Sdn. Bhd.) and Mr Chan Wen Chau.

(ii) **Prior to the rights issue, did the board evaluate the likelihood of a successful rights issue given that it was non-underwritten?**

With less than $1 million raised, the group's gearing ratio stands at 1.91x as at 31 March 2020. Finance expenses increased from RM2.88 million to RM3.35 million in FY2020 and the group has utilised RM11.5 million in bank overdraft. Cash and cash equivalents as at 31 March 2020 amounted to RM691,000.

(iii) **Has the board evaluated the financial position of the group? Is the current balance sheet able to support the group's operations (and growth plans) in view of the challenging environment caused by the pandemic?**

Q3. Following a corporate restructuring, the group now owns a 36% stake in Cosmos Technology International Bhd. ("CTIB") which was admitted to the LEAP Market of Bursa Malaysia Securities Berhad on 9 March 2020.

(i) **What is management's level of oversight and influence on the strategic and operational matters of CTIB?**

The carrying value of the group's investments in associated companies increased from RM1.89 million to RM5.81 million as at 31 March 2020. This was partly boosted by a "Distribution from associated companies" amounting RM1.572 million and a "Gain on dilution of interest in associated companies" amounting RM1.593 million.

(ii) **Can management elaborate further on the RM1.572 million recognised as "distribution from associated companies?**

(iii) **Is there any synergy between CTIB and the group?**

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^Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer's website, through "live" webcast and on SGXNet.

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

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

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^ Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings)