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: Megachem Limited

Stock code: 5DS

Meeting details:
Date: 25 June 2020
Time: 2.30 p.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. As mentioned in the chairman's statement, the group achieved stable sales volume but recognised a 3.5% dip in revenue to $113.8 million due to lower prices as compared to a year ago.

The group experienced the greatest increase of 11.6% to Europe, with revenue from Europe increasing to $9.3 million. On the flip side, revenue from Australia experienced a substantial decrease, dropping 25.8% to $4.04 million.

(i) **Can the board help shareholders understand if its customers are generally "sticky" and orders tend to be recurring in nature?**

(ii) **What are the main reasons for the high variance in sales?**

As shown in the group's business model (page 13 of the annual report), the group sources globally and distributes globally.



(Source: company annual report)

(iii) On pages 14 & 15, the company has listed its competitive strengths. **Given that a distribution business is fairly commoditised, can management elaborate further on the group's unique value-add that sets it apart from its competitors?**

(iv) **How does management maintain/increase its profit margin?**

In addition, in FY2014, revenue from distribution and manufacturing were approximately $113 million and $3.4 million respectively. In FY2019, they were $110 million and $3.7 million respectively.

(v) **Has the group reached a level where organic growth is limited?**

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Q2. Revenue from the group's manufacturing segment remained steady at $3.7 million. As shown in Note 31 (page 167 – Financial information by segments), the segment results were $548,000.

The major industry coverage of the group are Performance Coatings & Polymers, Advanced Polymer Composites, Surface Technology, Biotech, Oil & Gas and Resources. The breakdown can be seen on page 30.

(i) **What are some of the major opportunities in the next 18-24 months?**

(ii) **Are there plans to carry out manufacturing/blending in markets other than Singapore?**

(iii) **Did the group see any opportunities during the COVID-19 pandemic?** This could be in terms of product innovation, supply of critical chemicals or even acquisitions.

Q3. As noted in the written terms of reference of the nominating committee ("NC"), one of the responsibilities of the NC is to (page 51):

> *developing and maintaining a formal and transparent process for director appointments and re-nomination and making recommendations to the Board on director appointment and re-appointment (including the appointment of alternate Directors, if any), and recommending to the Board re-nominations of existing Directors for re-election in accordance with the Company's Constitution, having regard to their competencies, commitment, contribution and performance and taking into consideration the composition and progressive renewal of the Board;*

The company further stated that it does not have a formal criterion of selection for the appointment of new directors to the board and that the NC may rely on search companies, personal contacts and recommendations for the right candidates.

The three independent directors were appointed in 2003, 2007 and 2013.

(i) **Would the company help shareholders understand its thinking on the progressive renewal of the board?**

(ii) **Would the board disclose its board diversity policy, as required by Provision 2.4 of the Code of Corporate Governance 2018?**

(iii) **How does the company's search and nomination process support its board diversity policy?**

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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)