



**MEGACHEM LIMITED**  
**Registration No.198803293M**

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**RESPONSES TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION  
(SINGAPORE)**

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The Board of Directors (the "Board") of Megachem Limited ("Megachem" or the "Company", and together with its subsidiaries and associated companies, collectively the "Group") refers to:

- (a) the annual report of the Company for the financial year ended 31 December 2022 (the "Annual Report") and;
- (b) the Notice of Annual General Meeting ("AGM") issued on 28 March 2023.

The Company has received questions from the Securities Investors Association (Singapore) ("SIAS") in relation to the Annual Report. Please refer to Annex A hereto for the questions and our responses to the questions. These questions and responses are also available at the [SIAS website](#).

The Company would like to thank SIAS for submitting their questions which will enable us to improve the quality of our annual general meeting and our engagement with shareholders.

By order of the Board

Chew Choon Tee  
Managing Director

12 April 2023

**ANNEX A**  
**RESPONSES TO QUESTIONS FROM SIAS**

Q1. For the financial year ended 31 December 2022, the group achieved record sales of \$143.7 million although net profit after tax slipped by 24% to \$6.1 million. The gross profit margin and net profit margin were lower at 23.9% and 4.2% (2021: 24.6% and 5.8%) respectively.

As disclosed by management, business confidence weakened towards the end of 2022. In the first half of the year, concerns about supply continuity caused some build-up in inventories, but this shifted to fears of a recession in the second half, leading to customers reducing inventory.

- (i) Distribution: In the distribution business, the average revenue was around \$137 million over the past two years, which is significantly higher than the average of \$102 million in 2019 and 2020. In 2021, the group, through the Thai associated company, acquired a 55% stake in Green Leaf Chemical Co., Ltd ("GLC") in Thailand to expand its distribution of chemical materials for manufacturing personal care products such as cosmetics and nutraceuticals. How does the group identify such expansion opportunities, and what are the efforts by management to organically expand its product portfolio in the distribution business?

Company's Response

The Group seeks to develop untapped market segments which are in line with our overall strategy of building a diversified and resilient business model, leveraging on our strong footprint in Asia.

The acquisition of GLC by Megachem Thailand fits into our overall strategy as it will enhance our product portfolio and deepen our coverage of the personal care industry thereby strengthening our market position. We will also seek to derive synergistic value to deliver better customer propositions.

- (ii) Integration of GLC: Has the integration of GLC been completed? Are there anticipated synergies with Megachem Thailand? To what extent does the management team in Singapore exert influence on Megachem Thailand's strategy and operations?

Company's Response

Synchronization of policies and systems as well as integration of business activities are on-going. We aim to derive business synergy through a wider range of product offerings to our customers. By sharing resources and adopting common policies and system, we also hope to achieve cost synergy going forward.

Megachem Thailand is listed in the stock of exchange of Thailand. It is therefore subject to the governance framework set by their regulators. Even though Megachem Thailand's board has 2 representatives from Megachem Singapore, it is independent and separate from that of Megachem Singapore. Nevertheless, their business is, to a large extent, aligned with the Group's overall strategy and business model.

- (iii) Manufacturing: Revenue generated from manufacturing accounted for less than 3% of total revenue. What emphasis is the board placing on growing the manufacturing business? Are there any physical or capacity constraints?

### Company's Response

Our manufacturing activity is essentially producing products based on customers formulation. Much of its revenue is fee-based service income. It is therefore not so meaningful to compare its revenue contribution as a percentage of the Group's revenue.

There is further capacity in our existing manufacturing facility to grow this business. It will remain an integral part of our one-stop integrated solution provider strategy.

- (iv) Geographic segments: The sales breakdown indicates that the Middle East region and Australia have experienced significant growth in recent years, although from a small base. What factors have contributed to this growth, and how is management planning to capitalise on it going forward?

### Company's Response

Our operations in Middle East and Australia started slow during its infant stage of its development but have since progressed to a growth phase, having developed a wider customer base across a broader spectrum of industries. Going forward we will seek to develop new growth segments to deepen our penetration into these markets.

Q2. Finance costs increased from \$0.80 million to \$1.38 million due to higher interest rates and higher borrowings utilised to fund inventory. Inventories were increased to \$49.3 million to ensure continuity of supply although management has indicated that this will be brought back to normal levels. Inventory turnover was 158 days in 2022 compared to 120 days in 2021.

- (i) What is the group's targeted inventory turnover? Is the group making progress to achieve its target in the new financial year (i.e., 2023)?

### Company's Response

From our observation, the industry as a whole suffered from inventory overhang in the second half of 2022. We will work towards normalising our inventory level as business sentiment improves. If market condition permits, we look towards reducing the inventory turnover days to about 120 days.

- (ii) In FY2022, the group wrote down inventories with carrying value of \$1.17 million. Can management provide a breakdown of the inventories written down, including whether they are related to cleaning chemicals/COVID-related inventories?

### Company's Response

The write-down of inventory spreads across various products. Although these products have been written down, they are not obsolete and remain saleable. We are making all efforts to sell them as market conditions improve.

- (iii) Although cash and cash equivalents had amounted to approximately \$10.9 million at the end of the reporting period, borrowings had increased from \$28.9 million to \$36.3 million. Is it possible for management to improve its working capital management to reduce borrowings and lower financing costs? Specifically, would management be looking into deploying its cash holdings to pay off high-interest loans?

### Company's Response

If we are able to reduce our inventory turnover days and inventory level normalises, the trade cycle should improve which will in turn enable us to strengthen our cash position and reduce our borrowings.

- (iv) Net foreign exchange loss increased from \$160,957 to \$871,658. What guidance has the board provided to management regarding managing foreign exchange exposure?

### Company's Response

More than half of the foreign exchange loss in the financial year ended 31 December 2022 ("FY 2022") are unrealized, arising from translation of USD liabilities to its entity's reporting currency. Given that USD strengthened against most currencies in FY 2022, we suffered foreign exchange losses.

Our foreign exchange exposure is being monitored monthly by management and quarterly by the board of directors. Hedging policies are in place to manage our foreign exposure but hedging of some of these exposures is constrained by non-availability of hedging facilities and high premium cost in some countries.

Q3. The group achieved a gold rating under the EcoVadis sustainability rating. The overall score of 74 put it in the 98th percentile. In particular, the group scored 80 for environment, and 70 for labour & human rights, ethics and sustainable procurement.

- (i) Could management help shareholders better understand how the weights for each of the four themes were determined?

### Company's Response

The weightage of each theme in EcoVadis's assessment methodology depends on the company's industry, size and its location. This approach takes into account the characteristics and activities of a company as well as the level of importance of each theme for the industry in which the company operates. Hence the weightage of each theme will differ across industries.

- (ii) How did the group decide on the EcoVadis sustainability rating? What are its advantages? How relevant is the sustainability rating to the group's operations?

### Company's Response

Participating in the Ecovadis program has brought us several benefits:-

- EcoVadis has provided us a collaborative platform for us to share and learn from sustainability practices of like-minded businesses in the industry,
- Customers and suppliers are also increasingly setting sustainability performance as a pre-requisite for us to commence business with them,
- EcoVadis provides insights into our sustainability performance and enables us to use our ratings to measure, benchmark and track improvement on our sustainability practices.

All in all, it has opened doors to business opportunities as well as facilitated our sustainability program.

- (iii) What are some of the near-term plans to further improve its sustainability efforts, especially in labour & human rights, ethics and sustainable procurement?

#### Company's Response

Over the years, Megachem has made incremental progress in its sustainability journey. Some of the highlights of our sustainability program in FY 2022 were:

- tapping on solar as a source of renewable energy, we have installed solar panels in our plant in Singapore. It will not only reduce carbon emission but also reduce our energy cost,
- in a Sustainability assessment in 2022 conducted by independent rating firm, EcoVadis, Megachem attained Gold status with an improved overall score of 74 and was ranked in the top 3% among the companies in our industry assessed by them.
- Megachem secured its first Sustainability-linked Financing of USD10 million from United Overseas Bank. This sustainability-linked financing is a key step in our sustainability journey and a clear demonstration of our commitment to be a responsible member of the community

Guided by Ecovadis sustainability assessment, GRI framework as well as SGX ESG metrics, Megachem aims to achieve continuous improvements in our sustainability performance.

Areas where we can improve going forward includes onboarding other entities within the Group on the Sustainability journey and exploring further ways to reduce carbon emission. We also intend to undertake measures to address some of the areas of weaknesses highlighted in the EcoVadis assessment report.

In terms of the governance structure for sustainability:

- (iv) What is the role of the directors in the governance framework to drive, govern and manage the sustainability function within the group?

#### Company's Response

Our board of directors sits at the apex of our sustainability management structure. It sets the tone for management to drive our sustainability initiatives and for all employees to adopt a positive mindset towards sustainability.

- (v) How frequently and to what extent does the board review the group's sustainability strategies and progress?

#### Company's Response

Sustainability data were shared with the board semi-annually for FY 2022. Board also discussed regulatory updates on sustainability reporting such as the need to adopt climate reporting as well as changes to the GRI reporting standard. A review of our sustainability reporting was also conducted by our internal auditor and the findings were discussed at board meeting.

- (vi) Are material ESG risks integrated into the group's overall risk management framework, monitored and reported to the board?

Company's Response

Annually the management reports to the board on our risk management framework in which ESG risk factors are incorporated. In the risk management review for FY 2022, climate risk has been included as a key risk. Details of how we manage climate risk are disclosed in our sustainability report for FY 2022. (<http://megachem.listedcompany.com/sustainability.html>).

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This announcement has been reviewed by the Company's sponsor, SAC Capital Private Limited (the "Sponsor"). This announcement has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "Exchange") and the Exchange assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made, or reports contained in this announcement.

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