



ONLINE Q&A

Megachem Limited Management Online Q&A With Investors & Stakeholders For the half year ended 30 June 2018

Dear Investors & Stakeholders,

Thank you very much for your questions and the opportunity to respond to them. We hope you have a better understanding of our business and operations through this online exchange.

Your questions are reposted in blue followed by our replies in black.

Best Regards,

The Management Team
Megachem Limited

Question

The company has taken more debt to finance inventory, leading to a much higher level of debt than in previous years. This is even higher than when capex was increased a few years ago. Is it possible to elaborate if inventory is built up in anticipation of demand or in response to actual orders from customers?

Answer

As a distributor, our customers expect us to keep sufficient inventory to meet their requirement. Failure to do so can lead to loss of business. Hence it is in the nature of our business that inventory level increases in tandem with sales. However, our gearing level remains at a comfortable level even though borrowing has increased to fund inventory.

Question

Megachem is a publicly listed firm. However, the liquidity of its shares has fallen for some time. While its free float is still within SGX guidelines, the reality is that its liquidity has fallen as even the top shareholders occasionally buy back the company shares leading to even a lower float. Megachem has been highly rated for some for its corporate governance. As a long time shareholder I believe that too low a float could prevent a larger and broader investor base and also dissuades genuine investors from buying into the company (among other reasons) Are there any plans to increase the actual liquidity of the company?

One final word to staff and management of the company, do continue to good work you are doing.

Answer

The Company has always focused on enhancing long term shareholders value. While we have no control over market activity, we have provided shareholders with consistent dividend payment. Over a period of 10 years from 2008 to 2017, we have paid dividends totalling 10.6 cents per share and our share price has appreciated from 25 cents per share as at 2 January 2008 to 41 cents per share as at 29 December 2017. We will continue to work hard to preserve and enhance our shareholders value within our means.

Question

Your business expansion in Myanmar don't seem to be related to your core business. What's the rationale in expanding to a new country with a new trading business?

Answer

Myanmar's regulation places certain restrictions on the type of products we can deal in. Our business objective and strategy is to put our foothold in this market to gain some experience and insights so that when the regulation allows us to deal in chemicals, we are ready to take full advantage of it.

Question

Has the US-China trade war affected your business yet?

Answer

Our China subsidiary imports chemicals from the United States of America ("US") but the quantum is very minimal. One of the key features of our business strategy is in having a diversified pool of suppliers. Hence, if US products become too expensive to import into China due to imposition of tariffs, we can easily switch to European, Japanese or other sources.

Dear Investors & Stakeholders,

Thank you for all your questions and your interest in Megachem Limited. We have come to the end of this Q&A session.

We have enjoyed the session and have learnt much from your questions. We hope that through this Q&A, you have gained better insights to our Company and our operations.

Best Regards,

The Management Team
Megachem Limited