MULTI-CHEM LIMITED
(Company Registration No. 198500318Z)
(Incorporated in the Republic of Singapore)

RESPONSE TO QUESTIONS RECEIVED FROM (1) SHAREHOLDERS AND (2) SECURITIES INVESTORS ASSOCIATION (SINGAPORE) PRIOR TO THE AGM SCHEDULED ON 21 APRIL 2023

The Board of Directors of Multi-Chem Limited (the "**Company**" or together with its subsidiaries, the "**Group**"), refers to the questions raised by shareholders and Securities Investors Association (Singapore) ("**SIAS**") prior to the Annual General Meeting ("**AGM**") scheduled to be held on 21 April 2023 at 11.30 a.m..

RESPONSE TO QUESTIONS RAISED BY SHAREHOLDERS

The Company's response to the relevant and substantial questions submitted by shareholders before 13 April 2023 is set out below:

QUESTION 1

Why has the gross profit margin for FY2022 weaken from FY2021? Has the vendors rise the prices of their products and the Group not being able to pass fully the rise in price to its customers?

COMPANY'S RESPONSE

The global IT security market is highly competitive, comprising several international and regional players. The increasing competition has resulted in the increased pricing pressure which affected gross profit margin of the Group.

The decrease in gross profit margin was also due to the increase in allowance for inventory obsolescence as part of cost of sales based on the review of inventory obsolescence performed in FY2022. Excluding allowance for inventory obsolescence, the Group reported a gross profit margin of 14.0% for the financial year ended 31 December 2022 as compared to 14.5% for the financial year ended 31 December 2021.

QUESTION 2

With 44% of the Group's revenue contributed by Singapore, is there still room for growth in Singapore?

COMPANY'S RESPONSE

Singapore's Cybersecurity Strategy aims to build a trusted cyber environment, to realise the benefits of technology and secure a better future for Singaporeans.

With the increasing demand for IT security solutions, we are optimistic of growth in Singapore.

QUESTION 3

Revenue from China has dropped significantly by about 22% in FY 2022 year-on-year. Do management expect a sharp rebound in the revenue contribution from China in the next financial year with China drastically easing the COVID-19 policy?

COMPANY'S RESPONSE

Although China has eased its zero-Covid policy, the effects of the years-long zero-Covid policy continue to affect the China economy. Market activities and market confidence will take time to pick up and resume.

The China economy still faces the challenges posed by US-China tensions as well as US$ appreciating against RMB. Revenue from China should pick up gradually if the geopolitical situation does not worsen.

QUESTION 4

Could management also comment on the growth prospects in other key overseas markets of Australia and India?

COMPANY'S RESPONSE

The growth prospect for the Australian economy is expected to be slow down for the next 12/18 months. Managing costs and overheads will be very important.

According to IMF's latest April 2023 outlook, with a projected growth of 5.9% for 2023, India is one of the fastest growing economy in the world. With the increasing demand for IT security solutions, we are expecting our IT business in India to grow continously.

RESPONSE TO QUESTIONS RAISED BY SIAS

QUESTION 1

2022 marks the 20-year anniversary of the group's entry into IT distribution. Today, the group is a leading regional value-added distributor of cyber security and network performance products. It carries the best-of-breed products from industry-leading vendors and has a presence in 28 cities across 15 countries.

For the financial year ended 31 December 2022, the group's revenue increased to $617 million, marking a 2% rise from the $604 million generated in 2021. The primary catalyst for this growth was the IT business, as the ongoing COVID-19 pandemic accelerated the dependence on digital technologies and fueled an increase in customer demand for the group's products and services.

FINANCIAL HIGHLIGHTS

GROUP PROFIT & LOSS

Year Ended ($'000)	2022	2021	2020	2019	2018
Turnover	616,980	[illegible]	479,714	455,795	[illegible]
Gross profit	81,863	85,510	71,642	65,907	60,736
Other income	3,160	4,989	7,153		
Earnings before interest, tax, depreciation & amortisation (EBITA)	28,668	38,893	28,988		
Depreciation & amortisation	(2,615)	(2,615)	(2,776)		
Interest expense	(457)	(327)	(388)		
Profit before income tax (PBT)	25,596	35,951	25,824		
Income tax expense	(5,599)	(8,617)	(6,256)		
Net profit	19,997	27,334	19,568		
Non-controlling interests	-	(2,375)	(1,792)	(1,916)	(1,108)
Equity holders of the Company	19,997	24,959	17,776	7,838	5,565

ANALYSIS (%)

Year	2022	2021	2020	2019	2018
Gross profit margin	13.3	14.2	14.9	14.5	14.1
PBT margin	4.1	6.0	5.4	3.2	2.8
Turnover increase	2.2	25.8	5.2	5.7	3.7
PBT increase/(decrease)	(28.8)	39.2	77.4	22.4	(24.2)
Net profit increase/(decrease)	(26.8)	39.7	100.7	46.1	(43.6)

(Adapted from company's annual report (page 51))

As shown in the diagram above, gross profit was lower at $81.86 million despite revenue increasing by 2%.

(i) In addition to the explanation provided in the financial review on page 55, could management provide further clarification on the underlying reasons behind the compression of gross profit margins? For instance, did the group lower its selling price, and if so, why?

As at 31 December 2022, inventories at the group level increased by $17.9 million from $51.4 million to $69.3 million mainly due to increased purchases to cater for contracts not yet fulfilled. Allowance for inventory obsolescence has more than doubled from $2.29 million to $4.59 million.

(ii) What are the underlying reasons for the significant increase in inventory obsolescence? To put things in perspective, the $4.59 million in inventory obsolescence is nearly a quarter of the full year profit for the group. Based on Note 32 (Segment information), the allowance made for inventory obsolescence came from the IT business. Were the inventories under-provided for in the past, or were there significant changes that led to inaccurate demand forecast, among other factors?

(iii) After two years of strong growth, does management see a significant risk that demand for the group's IT business will normalise? If so, how is the group positioning itself for the next stage of growth?

COMPANY'S RESPONSE

(i) Please refer to above *RESPONSE TO QUESTIONS RAISED BY SHAREHOLDERS* under QUESTION 1.

(ii) Based on the Group's policy, allowance for inventory obsolescence is recognised based on the Group's inventory ageing. There is no change in the policy, hence, there are no inventories under-provided in the past year.

(iii) Cyber security is a journey, not a destination. Because cyber threats abound, cyber security is not static. The Group foresees continued and increase in spending by corporations and government on cyber security products. To that end, the Group will continue to adjust and position itself to focus on distributing top names and leading products in IT security.

The Group's current footprint spans 28 cities in 15 countries in Asia Pacific Region and Europe. The M.Tech regional offices are expected to contribute positively to the Group's business.

QUESTION 2

In FY2022, the net foreign exchange loss was $(3.96) million (page 182; Note 27 Profit before income tax) compared to a net exchange gain of $1.48 million in 2021.

The group's foreign currency risks are shown in Note 34.2 (Market risk: Foreign exchange,risk management) and reproduced below:

The carrying amounts of the Group's and the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period were as follows:

	Assets		Liabilities	
	2022	2021	**2022**	2021
	$'000	$'000	**$'000**	$'000
Group				
United States dollar	**50,120**	45,878	**156,500**	138,685
Singapore dollar	**10,594**	12,548	**24,717**	31,416
Chinese renminbi	**1,610**	-	**-**	-
Indonesian rupiah	**9,832**	8,801	**2,332**	1,633
Others	**110**	130	**174**	472
Company				
United States dollar	**19,861**	18,854	**56**	68
Others	**28**	45	**-**	3

(Source: company annual report)

The sensitivity analysis is shown on page 202 of the annual report.

(i) Can management elaborate further on the group's foreign currency exposure to the United States dollar?

(ii) How did the group recognise a net loss of $(3.96) million in net foreign exchange loss?

(iii) Considering the relatively large exposure, has the board provided management with any guidance to manage the risks associated with USD:SGD rates? While the group and the company do not speculate on exchange rates, does the board believe that it is necessary to establish an appropriate framework using financial instruments such as swaps, forward contracts, etc., to minimise the impact of currency fluctuations and protect the interests of shareholders?

COMPANY'S RESPONSE

(i) The U.S. Federal Reserve had been raising interest rates to tamp down rapid inflation during the financial year ended 31 December 2022. As a result of interest rates rising throughout the financial year ended 31 December 2022, the value of the United States dollar also appreciated against other currencies. With United States dollar strengthening against other currencies, the Group was exposed to foreign exchange loss during the financial year ended 31 December 2022 for the liabilities denominated in United States dollar.

(ii) The net foreign exchange loss $3.96m was mainly due to United States dollar strengthening against Singapore dollar and other regional currencies which the Group operates in during the financial year ended 31 December2022.

(iii) Given the currencies that the Group deals in, foreign exchange has been and continues to be a very present issue for both board and management. In deliberations, options are considered and weighed in the light of changing requirements, changing sale demographics and changing risk profiles. Foreign exchange considerations therefore have to be dynamic and the framework is defined by the above parameters. Management is keenly aware of the impact of adverse rate movements (which is not new to the Group) and monitors this closely so as not to lose margin unnecessarily.

QUESTION 3

On 11 January 2023, Singapore Exchange Regulation (SGX RegCo) announced that it will limit the tenure of Independent Directors (IDs) serving on the boards of listed issuers to nine years. This stemmed from recommendations by the Corporate Governance Advisory Committee (CGAC). There was broad market support for this change during the public consultation carried out by SGX RegCo.

Mr Tan Boon Gin, CEO of SGX RegCo, also noted that the limit on tenure of IDs provides an opportunity for companies to inject new skills, experience and knowledge into their boards, all of which will be invaluable in guiding the business for the long term.

(i) Has the Nominating Committee (NC) reviewed the current competency matrix of the board and identified any gaps in skills or competencies that need to be addressed in future director appointments?

The Independent Directors are Mr Lim Keng Jin (appointed in April 2005), Mr Wong Meng Yeng (appointed in January 2000), Mr Neo Mok Choon (appointed in August 2012) and Mr Foo Maw Shen (appointed in July 2014).

All four directors would have served on the board for more than 9 years by July 2023. The tenures of the Independent Directors are as long as 23 years.

The board/NC has made the following statements in the corporate governance report:

… Their appointment as Independent Director continues until the conclusion of the Company's AGM for the financial year ending on 31 December 2023… and remain as Independent Directors during the transitional period between 11 January 2023 and the Company's AGM for the financial year ending 31 December 2023. The Board will review the composition of the Board and Board Committees to ensure compliance with the Listing Manual…. Succession planning at the Board level takes this critical factor into account. Board renewal is carried out progressively with the addition of carefully selected new members. The Board, with guidance of the NC, continues to review the succession plan of the Board.

At the Annual General Meeting scheduled to be held on 21 April 2023, the company is proposing to re-elect Mr Lim Keng Jin and Mr Wong Meng Yeng. In addition, Mr Lim Keng Jin is the Independent Chairman of the board and Mr Wong Meng Yeng is the Chairman of the Nominating Committee. Mr Lim Keng Jin and Mr Wong Meng Yeng have each served on the board for 18 years and 23 years respectively.

(ii) Can the NC elaborate further on the succession plan for the Chairman and Independent Directors? What is the progress made in identifying and appointing new directors? Can the NC provide shareholders with more detailed information on the search and nomination process?

(iii) Would the re-election of the two long-tenured Directors go against the guideline and intention of SGX RegCo in ensuring the progressive renewal of the board?

(iv) As the Independent Chairman and the Chairman of the NC respectively, would Mr Lim Keng Jin and Mr Wong Meng Yeng be each holding himself to higher governance standards and lead by example with regard to capping the tenure of Independent Directors so as to facilitate the progressive renewal of the board?

COMPANY'S RESPONSE

(i) As mentioned in the Company's Corporate Governance Report, the Board's effectiveness and the Company's success is the relative stability of the Board's composition with longer-serving Board members bringing valuable knowledge of the Group's businesses, contributing to value creation by their skillsets and experiences and are able to provide strategic direction and oversee management's performance in the medium to long-term. Succession planning at the Board level takes this critical factor into account.

The NC and the Board have reviewed the size and composition of the Board and the Board Committees, including the skills and core competencies of its members on an annual basis to ensure that the Board and the Board Committees are of an appropriate size, an appropriate balance and mix of skillset, knowledge, experience, expertise and gender, with a strong element of independent, which facilitates effective decision-making taking into account the scope and nature of operations of the Company. The Board has reviewed the competencies of the Board. In the review of the competencies, the Board has also identified skills for future director appointments.

(ii) The NC has commenced the process of identifying potential candidates to be independent directors. Aware that while skillsets are important (and in the case of the audit committee, the requirement of at least 2 members having recent and relevant accounting or related financial management expertise or experience), what is equally important is to have diversity of experience so as to enhance board competency. The NC has adopted a process for selection and appointment of new Directors which provides the procedure for identification of potential candidates, evaluation of candidates' skills, knowledge and experience, assessment of candidates' suitability. The curriculum vitae and other particulars/documents of the nominee or candidate will be reviewed and evaluated by the NC based on his/her qualifications, business and related experience, commitment, ability to contribute to the Board process, such qualities and attributes that may be required by the Board, before making its recommendation to the Board. The criteria for identifying candidates and reviewing nominations for appointments shall include diversity of gender, skills and experience in the pool of candidates evaluated for new appointment to the Board.

(iii) Transitional Practice Note 4 was published in the Listing Manual to establish transitional arrangements for the application of the prescribed nine-year tenure limit for independent directors between 11 January 2023 and the date of the issuer's annual general meeting for the financial year ending on or after 31 December 2023 (the "Transitional Period"). During the Transitional Period, directors who have served for more than nine years can remain as independent directors so long as they meet the requirements in Rules 210(5)(d)(i) and 210(5)(d)(ii). As mentioned in the Company's Corporate Governance Report, Mr Wong Meng Yeng, Mr Lim Keng Jin, Mr Neo Mok Choon and Mr Foo Maw Shen met the requirements set out in Rule 210(5)(d)(i) and (ii) of the Listing Manual. Neither Mr Wong Meng Yeng, Mr Lim Keng Jin, Mr Neo Mok Choon and Mr Foo Maw Shen is employed or has been employed by the Company or any of its related corporations in the current or any of the past three financial years (Rule 210(5)(d)(i)) and none of them has an immediate family member who is employed or has been employed by the Company or any of its related corporations in the current or any of the past three financial years, and whose remuneration is or was determined by the remuneration committee of the Company (Rule 210(5)(d)(ii)).

Re-election of directors is governed under the Company's Constitution and Rule 720(5) of the Listing Manual. In accordance with Regulation of 106 of the Company's Constitution and based on the rotation list of directors due for retirement, Mr Lim Keng Jin and Mr Wong Meng Yeng are due for retirement as a director at the forthcoming AGM.

Based on the aforementioned Transitional Practice Note 4 and Regulation 106 of the Company's Constitution, the re-eletion of Mr Lim Keng Jin and Mr Wong Meng Yeng does not go against the guideline and intention of SGX RegCo.

The Company noted that a director (whether independent, executive or non-executive) who has served on the board for an aggregate period of nine years will no longer be eligible to be designated as an independent director of the issuer, as set out in Rule 210(5)(d)(iv), as of the date of the Company's annual general meeting for the financial year ending on or after 31 December 2023. The re-election of the two long-tenured directors complies with the Company's Constitution in respect of the financial year ended 31 December 2022.

(iv) Each Mr Lim Keng Jin and Mr Wong Meng Yeng will step down at the conclusion of the annual general meeting in 2024. Their continued presence till then is to facilitate a smooth transition with the on-boarding of new independent directors and minimal disruption to the business. The Board targets to appoint new Directors who can contribute to the core competencies and enhance the diversity of the Board by 30 April 2024.

By Order of the Board

Han Juat Hoon
Director
15 April 2023