



(Company Registration No. 201804996H)
(Incorporated in the Republic of Singapore)

RESPONSE TO QUESTIONS RAISED BY THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

The board of directors (the “**Board**”) of MeGroup Ltd. (the “**Company**”) wishes to announce the following in response to the questions raised by Securities Investors Association (Singapore) in respect of the Company’s Annual Report for the financial year ended 31 March 2021. The Company did not receive any questions from the shareholders as at the deadline stated in the Notice of Annual General Meeting.

Q1. Since the company was listed on the Singapore Exchange on 31 October 2018, it has achieved several corporate milestones, which includes:

- Securing dealerships with Peugeot, Hyundai, Ford, Mitsubishi and Proton
- Secured new manufacturing projects with several carmakers including Mitsubishi, Peugeot and Toyota
- Completed construction of sound test lab

Details of the group’s manufacturing operations, dealership business and corporate milestones can be seen on pages 4-5, pages 6-7 and page 9 of the annual report respectively. The group now operates 11 dealerships under seven brands – Ford, Honda, Hyundai, Mazda, Mitsubishi, Peugeot, and Proton.

For FY2021, total revenue decreased by 15 % to RM208.9 million as compared to the preceding year, mainly due to the implementation of the Movement Control Orders in Malaysia during which manufacturing processes were halted and dealership showrooms and service centres were closed.

(i) Can management clarify if the service centres have been allowed to remain open for repair services during the MCOs?

Company’s response:

The service centres have been allowed to remain open for repair services only in non-EMCO (Enhanced Movement Control Order) areas.

(ii) Has the group explored alternate means, such as online car showrooms, social media marketing, to market the cars during the MCOs?

Company’s response:

Yes, brand principals have been active in e-commerce while the Group has a very active online presence through social media.

(iii) How does the group juggle the (conflicting) demands and needs of the different brand owners (seven at the moment) given that they are close competitors in the automotive sector?

Company’s response:

The Group handles all the brands professionally. By managing different brands, the Group is able to minimise potential loss of customers as the chances of the customers picking a brand that is managed by the Group is much higher.

- (iv) Does management expect any structural changes (such as the level of demand, brand preference, purchasing habits etc) to the automotive industry in Malaysia? How has the group adjusted its hurdle rate/investment criteria and the pace of its expansion?

Company's response:

As of current situation, it is still too early to opine on any changes in market sentiment and habits. The Group intends to continue to invest in a sustainably manner moving forward.

- (v) The company has also stated that the gestation period of a new dealership is around 2 years. Given the uncertainties in the economy, does management expect the gestation period to increase significantly? If so, have the long- term prospects of the dealership business been impaired?

Company's response:

Given the current situation where the crisis has affected most industries, the Group believes that with the support and encouragement from the government, the impact will be minimal, especially for the automotive industry.

It is also noted that the group ventured into the production and supply of mattress protection to a major mattress maker, which showcases the group's technical capabilities and expansion of product offerings and customer base beyond the automotive sector.

- (vi) How did management acquire this new customer (which is from a non- automotive industry)?

Company's response:

The materials used are common base materials for many applications, and the Group has been exploring outside its core industry for further expansion. This is the result of the effort of the Group from continuous exploration to improve value of its capabilities.

- (vii) What are the technical capabilities that allowed the group to meet the requirements of the major mattress maker? What are the other potential applications of the group's technologies/capabilities in other industries?

Company's response:

As a result of the Group's investment in its in-house testing facility, the Group is able to explore, identify and tailor-made according to customer's requirement. The Group is currently exploring and identifying more industries that have applications in which it can design and manufacture for.

- Q2.** As shown in the consolidated statement of cash flows (page 54), there was a substantial increase in the group's trade and other receivables – for FY2021, a cash outflow of RM(4.81) million was recognised while a cash inflow of RM8.69 million was recognised in FY2020. Cash and cash equivalents amount RM6.55 million as at 31 March 2021, down from RM11.33 million a year ago.

Trade and other receivables amounted to RM17.94 million at the end of the financial year, up from RM14.04 million at the end of the previous financial year. The increase is due to a significant jump in the outstanding trade receivables as at 31 March 2021 (Note 13 – Trade and other receivables; shown below).

13. Trade and other receivables

	Group		Company	
	2021 RM	2020 RM	2021 RM	2020 RM
Trade receivables – non-related parties	13,480,037	7,358,986	-	-
Other receivables:				
- Non-related parties	984,723	2,175,588	-	-
- Related party	574,638	450,886	-	-
- Holding corporation	15,020	-	15,020	-
- Subsidiary corporations	-	-	5,399,838	4,352,732
- GST receivable	48,379	952,842	17,069	208,656
- Staff loans	245,623	84,804	-	-
	1,868,383	3,664,120	5,431,927	4,561,388
Advance payments to suppliers	470,290	769,339	-	-
Deposits	1,699,822	1,506,512	-	45,058
Prepayments	424,346	737,608	46,584	47,900
	17,942,878	14,036,565	5,478,511	4,654,346

(Source: company annual report)

- (i) Can management help shareholders understand the reasons for the significant increase in trade receivables to RM13.5 million as at 31 March 2021?

Company's response:

The increase in trade receivables were mainly due to the sales made towards the end of March 2021 where payment will be received subsequent to the reporting date particularly in the dealership business with big ticket item per transaction. As the Group continues to grow, newly set up entities have started generating revenue for the Group, hence contributed to the increase in trade receivables.

The trade receivables of the group include 3 debtors that individually represented 8% to 11% of trade receivables. On page 104, it was disclosed that RM11.52 million of the RM13.48 million in trade receivables are current.

- (ii) What is the profile of the debtors with more significant outstanding trade receivables? Are these outstanding receivables due from customers in the manufacturing business?

Company's response:

Debtors with significant outstanding trade receivables consist of customers with good credit standing and payment track records with the Group. These customers are mainly from the manufacturing business.

- (iii) As the group diversifies its customer base in the manufacturing business, is the group's credit framework robust enough to factor in the distress in the economy and the uncertainties caused by COVID-19?

Company's response:

The Group has its internal credit due diligence procedures to assess the credit-worthiness of new customers and continues with its effort to diversify its customer base in order to minimise the impact of distress in the economy and the uncertainties caused by COVID-19.

Q3. From the corporate governance report, it can be seen that the company has outsourced its internal audit function to an external professional firm, Wensen Consulting (M) Sdn Bhd, a suitably qualified firm of accountants which meets the standards set by internationally recognised professional bodies including the Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors.

As disclosed on page 35, the audit committee (AC) is of the view that the internal audit function has adequate resources to perform its functions, is independent from the activities that it audits and has appropriate standing within the group, and has been effective.

(i) Can the AC elaborate further on the scope of the internal audit plans carried out in FY2021?

Company's response:

AC had received two (2) internal audit reports from Wensen Consulting (M) Sdn Bhd in FY2021 according to the internal audit plan covering the manufacturing business covering key business processes such as research and development management, production management, quality assurance and quality control management, fixed asset and machinery maintenance management, tender, sales and collection management, procurement and payment management, and inventory and warehouse management.

(ii) What were the key findings and recommendations by the internal auditor?

Company's response:

Some of the findings and recommendations by the internal auditor including the implementation of the existing Oracle Netsuite ERP system to be extended to additional modules such as inventory management and production management, enhancement of the existing inventory standard operating procedure, and standardisation of spare part requisition form to document request for spare parts usage.

(iii) Given that Wensen has been engaged to implement an enterprise risk management ("ERM") framework as well, did the AC consider if there would be any threat of self-review by Wensen who is engaged as the internal auditor?

Company's response:

Wensen was engaged as a consultant to facilitate the implementation of the ERM framework (leveraging on Wensen's expertise in risk management and control), which includes facilitating the identification and evaluation of risks, assisting in documentation of controls procedures, coaching Management, acting as the central point for coordination and monitoring and reporting the risks identified by Management to the AC and BOD. However, Wensen is not setting the risk appetite for Management nor taking any decision on risk responses. Wensen is also not involve in the implementation of risk responses on behalf of the Management and did not provide Management assurance on risks identified. In view of the above, the AC is of the opinion that the threat of self-review is minimal.

By Order of the Board

Wong Cheong Chee
Executive Chairman and Chief Executive Officer
26 July 2021

*This announcement has been prepared by the Company and its contents have been reviewed by the Company's Sponsor, UOB Kay Hian Private Limited (the "**Sponsor**"), for compliance with the relevant rules of the SGX-ST Listing Manual Section B: Rules of Catalist.*

This announcement has not been examined or approved by the SGX-ST and the SGX-ST 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.

The contact person for the Sponsor is Mr. Lance Tan, Senior Vice President. The contact particulars are 8 Anthony Road, #01-01, Singapore 229957, telephone: (65) 6590 6881.