



Global Brands, Local Favourites

## **MEWAH INTERNATIONAL INC.**

(Company Registration No.: CR-166055)

---

### **ANNUAL GENERAL MEETING TO BE HELD ON 19 JUNE 2020 RESPONSES TO QUESTIONS**

---

The Board of Directors of Mewah International Inc (the “**Company**” and together with its subsidiaries, the “**Group**”) refers to the announcement of 4 June 2020 relating to Participation in Annual General Meeting 2020 (“AGM”), the invitation to the shareholders to submit questions in advance of the AGM.

The Company would like to thank all shareholders for the questions submitted.

The Appendix sets out the Company’s responses to the questions received from the shareholders and the Securities Investors Association (Singapore) (“SIAS”).

Submitted by Michelle Cheo Hui Ning, Executive Directors and Chief Executive Officer, on 18 June 2020 to the SGX.

## **APPENDIX**

<b>No.</b>	<b>Question</b>	<b>Company Response</b>
1.	<b>How is the impact of Covid-19 to the business?</b>	The strong control measures implemented in key countries where the Group operates has enabled our operations to run efficiently. The supply chain was disrupted very briefly at the onset of the lockdown in various countries where people were unsure of the lockdown extent under their countries' policies. However very soon the issues were resolved, and the supply chain found ways to resume steadily through the pandemic. This is mainly because food products are categorised as essential items in all countries where the supply should be ensured with least disruption possible. There has been some decrease in our volumes but a recovery in demand is expected with easing out of lockdown in major destination markets such as China, India, Europe and America.
2.	<b>It has been many years since the Company share price not rewarding to investor, when is the Company business going to improve?</b>	The Company's business has been progressing aligned to our strategy of rewarding the long-term shareholders. After our listing on SGX-ST, the Company has aggregately distributed more than 50% of its profits as dividends. However, the share price is also influenced by various factors including demand & supply, market sentiments, trade cycle etc which are not controllable by the Company.
3.	<b>What is the dividend policy of the company?</b>	The Company's detailed dividend policy is available on our corporate website. In brief, it aims to pay a sustainable and growing dividend to our shareholders but at the same time it also provides flexibility to the Company towards retaining appropriate portion of the earnings to support our growth plans.

No.	Question	Company Response																				
4.	<p>As shown in the Corporate Profile (pages 2 and 3 of the annual report), the group is an integrated agri-business focused on edible oils and fats, with operations throughout the value chain from sourcing of raw materials, refining, processing, packing, branding to marketing and distribution to end customers under our own brands.</p> <p>In 2019, the group achieved record sales of 4.57 million metric tonne (MT), with volume growth coming from a 11.9% jump in the Bulk segment. As seen below, the operating margin has dropped from US\$33.1 per MT in FY2017 to US\$22.7 per MT in FY2018 to justUS\$13.2 per MT in FY2019.</p> <table border="1" data-bbox="184 678 1056 873"> <thead> <tr> <th></th> <th>FY 2017</th> <th>FY 2018</th> <th>FY 2019</th> </tr> </thead> <tbody> <tr> <td><b>Operating margin per MT (US\$)</b></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Bulk</td> <td>33.1</td> <td>22.7</td> <td><b>13.2</b></td> </tr> <tr> <td>Consumer Pack</td> <td>59.5</td> <td>47.4</td> <td><b>53.7</b></td> </tr> <tr> <td><b>Total</b></td> <td>40.9</td> <td>29.3</td> <td><b>23.1</b></td> </tr> </tbody> </table> <p>(Source: company annual report)</p> <p>Despite the increase in volume, profit after tax slipped by 22% from US\$14.8 million in 2018 to US\$11.6 million in FY2019. The FY2019 profit is approximately a third of the profit achieved in FY2017.</p> <p><b>(i) Would management help shareholders understand the key value drivers in its business model? How does management capture a fair share of value for shareholders? Specifically, what can management do to maintain/increase its operating margin?</b></p>		FY 2017	FY 2018	FY 2019	<b>Operating margin per MT (US\$)</b>				Bulk	33.1	22.7	<b>13.2</b>	Consumer Pack	59.5	47.4	<b>53.7</b>	<b>Total</b>	40.9	29.3	<b>23.1</b>	<p>The Group is amongst the leading producers in the edible oils and fats industry with an integrated supply chain from midstream to downstream, comprising large integrated refineries, global distribution capabilities and a wide range of consumer products sold under own brands.</p> <p>We continue to build a strong platform by investing in manufacturing facilities within or adjacent to our value chain and adding new products to our portfolio. These initiatives have their own gestation periods.</p> <p>To de-risk our portfolio, along with our Bulk segment, we have been increasingly focusing on our consumer pack segment by developing and offering specialised applications and customer solutions for different industries such as confectionaries, bakeries, food ingredients and the infant nutrition businesses. Investing in our own brands remains of paramount importance to us.</p> <p>We continue to make efforts to improve our customer reach across the globe by increasing our presence in key geographies, supported by our subsidiaries for local distribution in locations such as Africa, Australia &amp; USA.</p> <p>We believe all the above initiatives will strengthen and increase our value chain to satisfy our long-term continuing shareholders.</p>
	FY 2017	FY 2018	FY 2019																			
<b>Operating margin per MT (US\$)</b>																						
Bulk	33.1	22.7	<b>13.2</b>																			
Consumer Pack	59.5	47.4	<b>53.7</b>																			
<b>Total</b>	40.9	29.3	<b>23.1</b>																			

No.	Question	Company Response
4.	<b>(ii) Can management elaborate further on the impact of CPO prices on its profit margin?</b>	As the Group is primarily in the palm oil refining sector therefore CPO price volatility on its own does not have a singularly large standalone impact on our margins. However, if the price difference between our finished products versus other competitive oils is low, it creates pressure on our refining margins.
4.	<b>(iii) What are the group's growth plans in the area of biodiesel? How dependent is the growth of the biodiesel segment on government policies?</b>	As part of spreading out the Group's product portfolio risk and to capture margins from our existing product adjacencies we have built our biodiesel manufacturing facility. Biodiesel industry will grow only if there are mandated markets with or without subsidy and if vegetable oil prices have price arbitrage versus fossil crude oil. Therefore, our future investments in this sector will depend on our assessment of demand in end markets such as Europe together with Malaysia's progress towards B20 biodiesel program combined with the already mandated B30 biodiesel program of Indonesia government. At this moment due to the Covid-19 environment we do not have any capacity addition plans unless there is a rapid recovery in the market conditions.
4.	<b>(iv) In FY2018, the group acquired upstream assets (palm oil plantation and milling businesses) in Indonesia. Can the board help shareholders understand if the group will be allocating more capital to upstream assets?</b>	The plantation business which the Group acquired in the year 2018 in Indonesia was a baby step we took to develop insights in this sector. As part of our investment thesis there were asset improvement plans and we have been progressing on them. Presently in the Covid-19 environment we are investing in the existing plantation assets to the extent necessary towards sustaining our plants as well as to increase utilisation of our existing acreage.

No.	Question	Company Response
5.	<p>In the consumer segment, the group has been strategically positioning itself to become a global consumer products business by expanding the range of consumer products, offering specialised applications and customer solutions.</p> <p>Currently, the range of consumer products includes cooking oils, margarine, rice, sweetened condensed creamer, evaporated milk, cheese, soap, detergent and premix powder.</p> <p><b>(i) How does the group decide on the new products to launch?</b></p>	<p>The Group assesses the viability of the new products to be launched from multiple aspects such as:</p> <ul style="list-style-type: none"> <li>(1) Market/customer adjacency</li> <li>(2) Product adjacency</li> <li>(3) Distribution Channel adjacency</li> <li>(4) Diversification to other food products that can build up our presence and brands &amp;</li> <li>(5) Maximising the strength of our existing set up at the destination market.</li> </ul>
5.	<p><b>(ii) What is the revenue breakdown by product categories in the consumer segment?</b></p>	<p>In the consumer pack segment, more than 50% of the revenue comes from cooking oil &amp; fats product-lines.</p>
5.	<p><b>(iii) Does the group have a leadership position in any consumer products in its key markets?</b></p>	<p>The Group is selling consumer products to more than 100 countries and is among the major players in either cooking oil, or bakery fats, or confectionery fats, or sweetened / evaporated condensed milk in markets such as Singapore, Australia as well as in many Africa and Middle East countries. Market for our products are quite widespread with large competition and it is difficult for any single player to dominate the market.</p>

No.	Question	Company Response																										
6.	<p>As disclosed in Note 3 (page 87 – Critical accounting estimates, assumptions and judgements), the group is exposed to fluctuations in the prices of agri-commodities it deals in, including crude palm oil and palm oil products. The group has stated that it minimises the risk arising from such fluctuations by entering commodities forward contracts and futures contracts. As the group has not adopted hedge accounting, the fair value changes on these derivative financial instruments are recognised in the profit or loss when the changes arise.</p> <p>In Note 16 (page 97 – Derivative financial instruments), the current portion of the forward contracts and futures contracts are shown (reproduced below):</p> <p><b>(a) Current portion</b></p> <table border="1" data-bbox="178 743 1018 998"> <thead> <tr> <th rowspan="2"></th> <th rowspan="2">Contract notional amount US\$'000</th> <th colspan="2">Group Fair values</th> </tr> <tr> <th>Asset US\$'000</th> <th>Liability US\$'000</th> </tr> </thead> <tbody> <tr> <td colspan="4"><b>31 December 2019</b></td> </tr> <tr> <td>Currency forward contracts [Note 34(e)]</td> <td>560,431</td> <td>3,457</td> <td>(5,023)</td> </tr> <tr> <td>Commodities forward contracts [Note 34(e)]</td> <td>869,993</td> <td>68,340</td> <td>(93,705)</td> </tr> <tr> <td>Futures contracts on commodity exchange [Note 34(e)]</td> <td>855,772</td> <td>-</td> <td>(20,056)</td> </tr> <tr> <td><b>Total</b></td> <td></td> <td><b>71,797</b></td> <td><b>(118,784)</b></td> </tr> </tbody> </table> <p>(Source: company annual report)</p> <p>The group's risk management approach on commodity price risk is further explained on pages 19 and 20 of the annual report.</p> <p><b>(i) Under its risk management framework, on average, what is the net exposure, if any, to commodity prices?</b></p>		Contract notional amount US\$'000	Group Fair values		Asset US\$'000	Liability US\$'000	<b>31 December 2019</b>				Currency forward contracts [Note 34(e)]	560,431	3,457	(5,023)	Commodities forward contracts [Note 34(e)]	869,993	68,340	(93,705)	Futures contracts on commodity exchange [Note 34(e)]	855,772	-	(20,056)	<b>Total</b>		<b>71,797</b>	<b>(118,784)</b>	<p>The Group primarily sells &amp; distributes its own manufactured products and accordingly enters derivatives contracts to ensure there is minimal exposure to commodity and currency price risks. Due to our wide product baskets as well as timing mismatches we will still have some exposure to price volatility.</p>
	Contract notional amount US\$'000			Group Fair values																								
		Asset US\$'000	Liability US\$'000																									
<b>31 December 2019</b>																												
Currency forward contracts [Note 34(e)]	560,431	3,457	(5,023)																									
Commodities forward contracts [Note 34(e)]	869,993	68,340	(93,705)																									
Futures contracts on commodity exchange [Note 34(e)]	855,772	-	(20,056)																									
<b>Total</b>		<b>71,797</b>	<b>(118,784)</b>																									

No.	Question	Company Response																								
6.	<b>(ii) Over the last 3-5 years, how effective was the group's hedging? What is the net financial impact of the group's hedging efforts over a 3-5-year period?</b>	<p>As stated earlier, the Group primarily sells &amp; distributes its own manufactured products and uses derivatives for hedging the commodity and currency price risks. The (loss) / gains from derivative financial instruments for last five years are as under:</p> <table border="1" data-bbox="821 443 1982 581"> <thead> <tr> <th data-bbox="821 443 1346 475"><i>Figures in US\$'mil</i></th> <th data-bbox="1346 443 1472 475">FY 2019</th> <th data-bbox="1472 443 1598 475">FY 2018</th> <th data-bbox="1598 443 1724 475">FY 2017</th> <th data-bbox="1724 443 1850 475">FY 2016</th> <th data-bbox="1850 443 1982 475">FY 2015</th> </tr> </thead> <tbody> <tr> <td data-bbox="821 475 1346 508">Operating margin</td> <td data-bbox="1346 475 1472 508">202.8</td> <td data-bbox="1472 475 1598 508">125.7</td> <td data-bbox="1598 475 1724 508">142.0</td> <td data-bbox="1724 475 1850 508">111.3</td> <td data-bbox="1850 475 1982 508">114.4</td> </tr> <tr> <td data-bbox="821 508 1346 540">(Losses)/Gains from derivative financial instruments</td> <td data-bbox="1346 508 1472 540">(97.4)</td> <td data-bbox="1472 508 1598 540">(2.9)</td> <td data-bbox="1598 508 1724 540">9.0</td> <td data-bbox="1724 508 1850 540">23.1</td> <td data-bbox="1850 508 1982 540">(20.2)</td> </tr> <tr> <td data-bbox="821 540 1346 573">Net Operating margin</td> <td data-bbox="1346 540 1472 573">105.4</td> <td data-bbox="1472 540 1598 573">122.8</td> <td data-bbox="1598 540 1724 573">151.0</td> <td data-bbox="1724 540 1850 573">134.4</td> <td data-bbox="1850 540 1982 573">94.2</td> </tr> </tbody> </table> <p>These derivative gains/losses being of hedging in nature have corresponding impact on physical operating margins and therefore should be read together and not in isolation. The higher net loss from derivative financial instruments in FY 2019 have been explained in Page 16 of our Fourth Quarter and Full year ended 31 December 2019 Financial Statements forming part of our SGX announcement made earlier on 28 February 2020.</p>	<i>Figures in US\$'mil</i>	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015	Operating margin	202.8	125.7	142.0	111.3	114.4	(Losses)/Gains from derivative financial instruments	(97.4)	(2.9)	9.0	23.1	(20.2)	Net Operating margin	105.4	122.8	151.0	134.4	94.2
<i>Figures in US\$'mil</i>	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015																					
Operating margin	202.8	125.7	142.0	111.3	114.4																					
(Losses)/Gains from derivative financial instruments	(97.4)	(2.9)	9.0	23.1	(20.2)																					
Net Operating margin	105.4	122.8	151.0	134.4	94.2																					
6.	<b>(iii) What is the level of oversight by the board/audit committee on the group's hedging practices?</b>	<p>The Group's Risk Governance Structure has been elaborately disclosed on page 21 of our Annual Report 2019. Our Board Audit Committee annually approves the Group's Value-At-Risk ("VAR") limits. The Board Audit Committee also reviews the existing exposures in relation to the approved VAR limits multiple times during the year.</p>																								