

Issuer: CosmoSteel Holdings Limited

Security: CosmoSteel Holdings Limited

Meeting details:

Date: 25 January 2018

Time: 10.00 a.m.

Venue: Raffles Country Club, 450 Jalan Ahmad Ibrahim, Singapore 639932

Company Description

CosmoSteel Holdings Limited, together with its subsidiaries, engages in sourcing, supplying, selling, and distributing piping system components. The company operates through Energy, Marine, Trading, and Others segments. Its products include pipes, flanges, tubings, forged and outlet fittings, and buttwelding fittings, as well as other structural products. The company also offers product customization services to modify the size and thread dimensions of its products for specific engineering and fabrication designs; validation and testing services; expedited delivery services; and project management services, as well as inventory management services. It serves the customers in energy, marine, manufacturing, and other industries, as well as traders. The company primarily operates in Singapore, the Middle East, Europe, Brunei, Vietnam, Indonesia, Malaysia, Thailand, Japan, Australia, China, and the Philippines. CosmoSteel Holdings Limited was founded in 1984 and is headquartered in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=B9S)

Q1. On 4 June 2017, the company announced that it was notified by the Singapore Exchange Securities Trading Limited (“SGX-ST”) that, with effect from 5 June 2017, the company would be placed on the watch-list pursuant to Rule 1311(2) of the Listing Manual of the SGX-ST (“MTP Watch-list”). It was also stated that the company is required to take active steps to meet the requirements of Rule 1314(2) of the Listing Manual within 36 months from 5 June 2017, failing which the SGX-ST may either delist the Company, or suspend trading of the listed securities of the Company with a view to delisting the Company.

- a) **Can the board help shareholders understand the deliberations it has had prior to the company being placed on the MTP watch-list? All things being considered, would it be better if the company has taken pro-active measures to meet the requirements of Rule 1311(2)?**
- b) **What are the plans of the company to meet the requirements of Rule 1314(2) of the Listing Manual?**

In addition, on 17 December 2017, the company gave notice that it has recorded pre-tax losses for the three most recently completed consecutive financial years and that its latest 6-month average daily market capitalisation has fallen below \$40 million. At the next quarterly review by SGX-ST on 1 March 2018, the company is expected to be placed on the watch-list based on the financial entry criteria.

- c) **Can management elaborate further on its “active steps” to improve on its performance and to restore profitability as to meet the requirements of Rule 1314(1) of the Listing Manual?**

There was no mention of the company being placed on the watch-list in the Joint Message from the Chairman & CEO (page 6-7). **Can shareholders get the assurance from the board and from the CEO that they are addressing the issue seriously and will provide shareholders with timely updates?**

Q2. Shareholders would like to better understand the operating performance of the group. In particular:

- a) **Gross profit:** While revenue has increased by 11.9% to \$76.9 million, gross profit dropped by 27.2% to \$10.9 million in 2017. **Can management provide better clarity to the drop in gross profit/gross profit margin and help shareholders reconcile the impact of the various factors (such as margin pressure) that led to such a significant drop in gross profit?**
- b) **Japan:** Revenue from Japan increased by more than 3-fold to account for over 30% of the group’s revenue in FY17. **Can management elaborate further on how it had achieved such a large top-line growth? Was the push for top-line growth in Japan achieved at the expense of margins?**
- c) **Inventory:** Inventory has dropped from \$93.9 million in 2015, to \$78.8 million in 2016 and to \$68.9 million in 2017. Following an impairment allowance on inventories of \$(5.8) million in 2016, the group recognised a further impairment of \$(2.6) million in 2017. **In view of the challenging market conditions, how has management adapted to the operating environment to reduce the obsolescence risks? How confident is management that the inventories being held as at 30 September 2017 (valued at \$68.9 million) would not be further impaired?**

Q3. Mr Jovenal R. Santiago will retire as a Director of the Company at the forthcoming Annual General Meeting (“AGM”) pursuant to Article 117 of the Company’s Constitution and he has indicated that he will not be standing for re-election at the forthcoming AGM. Mr Jovenal R. Santiago was first appointed to the board on 28 March 2007.

In fact, all three independent directors of the company have served on the board for more than nine years. Mr Low Beng Tin was first appointed to the board on 9 November 2005 and thus would have served for more than 12 years. Ms Tan Siok Chin was appointed to the board on 28 March 2007 and would have served for more than 10 years.

Notwithstanding that the board continues to regard the long tenured directors (namely Mr Low Beng Tin and Ms Tan Siok Chin) as independent, Guideline 2.4 calls for the board to “take into account the need for progressive refreshing of the board”.

- a) **Can the board disclose its near-term plans to effect the progressive refreshing of the board so as to ensure a smooth and non-disruptive renewal of the board?**
- b) **What is the company's search and nominating process for new directors, especially new independent directors?**

A copy of the questions for the Annual Report for the financial year ended 30 September 2017 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=CosmoSteel%20Holdings%20Ltd>

The company's response could be found here: -----