

Issuer: Colex Holdings Limited

Security: Colex Holdings Limited

Meeting details:

Date: 18 April 2018

Time: 3.00 p.m.

Venue: Conference Room, Level 1, 8 Tuas South Street 13, Singapore 637083

Company Description

Colex Holdings Limited, an investment holding company, provides waste management services in Singapore. The company primarily engages in the provision of waste disposal services for domestic, commercial, and industrial waste; the sale and rental of equipment; and the repair of waste compactors. It also offers recycling, refuse disposal, and contract and general cleaning services. Colex Holdings Limited provides its waste disposal and recycling services for various clients, including commercial offices, shopping complexes, food courts, cineplexes, residential buildings, and warehouses. The company was incorporated in 1971 and is based in Singapore. Colex Holdings Limited is a subsidiary of Bonvests Holdings Limited.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=567)

1. The group's total revenue of \$70.0 million is split almost evenly between waste disposal (\$36.0 million) and contract cleaning (\$34.1 million).

In the Operations Review, the company disclosed that it had participated in the fourth cycle for the public waste collection tender for Paris Ris-Bedok sector but was unsuccessful (page 4 of the annual report).

The next tender by the National Environment Agency ("NEA") will be for the Jurong sector. The group currently is responsible for the Jurong sector after being awarded a second term 7-year contract that commenced on 1 April 2013, with a total contract value over the 7-year period of \$139,764,072.

- (i) **While the group will be participating in the tender with a goal of retaining the contract, how does management ensure that it can generate value for shareholders by not bidding too aggressively?**
- (ii) **Is the group faced with a "win-at-all-cost" situation?**
- (iii) **How badly impacted will the group be if it is not successful in the tender?**
- (iv) **In the tender for the recent Pasir Ris-Bedok sector, the group's bid was 15% higher than the successful tenderer. Has management evaluated the group's cost efficiency and cost structure? How much overcapacity, if any, is there in the local market for waste collection? Is the tender purely evaluated on a price basis?**
- (v) **What are the opportunities for the group in the collection of e-waste?**

In addition, in the Operations Review, the group has disclosed that the Progressive Wave Model for the cleaning industry will add more cost pressure to the group. Cleaners' basic salaries are set to rise by \$200 in the 3 years from year 2017 to year 2019. The group has stated that this will have a significant impact on the overall profitability of the group.

- (vi) **What is the overall strength of the group's work force? Can management quantify the impact so that shareholders can get better visibility?**
- (vii) **What are management's plans to increase productivity of its work force so that some of the cost pressure can be mitigated with improved efficiency and productivity?**

2. During the financial year, the group had tried to acquire a business involved in the repair and maintenance of refrigerating, air-conditioning and ventilating machinery and equipment as the target company can complement the group's existing business and help the group to expand its service offerings in property management. The agreement lapsed and the acquisition did not materialise.

- (i) **Is the group still looking to acquire complementary businesses to expand its service offerings in property management? If so, what are the types of business that the group is evaluating and exploring?**
- (ii) **Given the "demonstrated leadership strength and a high calibre management team", would the group be able to start a new segment organically since the team already has the local network and is familiar with property management?**
- (iii) **Has the board evaluated the group's optimal capital structure given the scale of the business, the capital needs and the growth potential? With the gearing ratio at 0.56%, the group is nearly debt-free. Net cash generated from operating activities was a healthy \$7.3 million while cash and cash equivalent at the end of the financial year stood at \$16.7 million.**

- (iv) For FY2016, the group had declared a tax-exempt first and final dividend of S\$0.0055 per share and a tax-exempt (one-tier) special dividend of S\$0.0055 per share. For FY2017, the board has recommend a tax-exempt first and final dividend of S\$0.0055 per share. In terms of payout ratio, the ratio has dropped from 23% for FY2016 to 15% in FY2017. **Would the board help shareholders understand the considerations it took when it was deliberating on dividends? Would the positive cash flow and the strong financial position of the group support a higher level of dividends?**

3. Guideline 4.2 of the 2012 Code of Corporate Governance (CG Code) by the Monetary Authority of Singapore states that the nominating committee (NC) should, inter alia, make recommendations to the board on “the review of board succession plans for directors, in particular, the Chairman and for the CEO”.

- (i) **Can the NC help shareholders understand the succession planning of the board and especially the executive chairman?**

In addition, Guideline 2.4 of the CG Code calls for the particularly rigorous review of the independence of any director who has served on the Board beyond nine years from the date of his first appointment. Mr Fong Heng Boo and Mr Lim Hock Beng have each been an Independent Director of Colex since March 1999. As such, Mr Fong and Mr Lim have each served on the board for 19 years.

- (ii) **Can the NC confirm that particularly rigorous review of the independence of Mr Lim and Mr Fong had been carried out?**

- (iii) **If so, please help shareholders understand how the particularly rigorous review was carried out.**

As disclosed in the company’s Corporate Governance statement, the NC comprises Mr Fong Heng Boo (as chairman), Mr Lim Hock Beng and Mr Henry Ngo (page 17).

Given that Mr Fong and Mr Lim are chairman and member of the NC respectively, and they are subject to the particularly rigorous review of their independence, the company has disclosed that “Mr Lim and Mr Fong have abstained from the NC’s and Board’s review of their independence (page 15).

- (iv) **If so, was the review led by the other member of the NC, Mr Henry Ngo, who is the executive chairman?**

The Board has also stated that it is concurrently taking progressive steps to review and consider opportunities to refresh the Board as and when deemed required.

- (v) **Can the board let shareholders know the company’s near-term plans to progressively refresh the board?**