Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: KTMG Ltd (formerly Lereno Bio-Chem Ltd)

Security: KTMG Ltd

Meeting details:
Date: 29 April 2019
Time: 10.00 a.m.
Venue: Vibrant Theatre, 51 Cuppage Road, #03-03, Singapore 229469

Company Description

KTMG Ltd, formerly Lereno Bio-Chem Ltd, is a Singapore-based investment holding company. The Company's segments include Biofuel and related business, and Others. The Biofuel and related business segment covers biodiesel and bioethanol manufacturing, oleo chemical production, plantations, and other upstream and downstream businesses. The Company's subsidiary, LBC Estate Holdings Sdn Bhd, is engaged in investment holding.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=XCF)

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Q1. At the Extraordinary general meeting that was held on 18 January 2019, shareholders approved the proposed acquisition of Knit Textile and Apparel Pte. Ltd. which constituted a "reverse takeover" pursuant to Chapter 10 of the Catalist rules.

The name of the company was changed to "KTMG Limited" with effect from 18 February 2019.

The target group has an operating track record of around thirty years and is engaged primarily in the business of contract manufacturing of apparels, specialising in manufacturing of nightwear, lounge wear, casual wear and plus sizes apparels in Malaysia and Cambodia and is currently expanding upstream into the knitting, dyeing, printing and finishing of fabric.

The business valuer, using an income approach, valued Knit Textile and Apparel Pte. Ltd. at $30.4 million for 100% of the equity interest. The assumptions used, based on information provided to the valuer, included:

- Revenue growth rate of 23% in year 2018
- Revenue growth rate of 6% to 12% from 2019 to 2022
- Revenue growth rate of 3% thereafter
- Gross margin at 16% to 18%
- Profit margin at 2% to 4%
- Discount rate of 11.4%
- Discount for lack of marketability of 14.7%

(i) Even though the acquisition has been approved by shareholders, would the board help shareholders understand the experience of the board in valuing (textile) companies?

(ii) Has the current board evaluated the assumptions used in the valuation? Is the revenue growth rate of 23% in year 2018 and 6% to 12% from 2019 to 2022 overly aggressive?

(iii) Can management confirm the actual growth rate achieved by the acquired company in 2018?

The target group's gross profit margin in 1H2017 and 1H2018 were 16.6% and 13.8% respectively. For FY2017, the gross profit margin was 16.4%.

(iv) What are management's plans to maintain/increase the gross profit margin at 16% to 18%? Given that the gross profit margin has been on a downtrend (FY2015: 20.0%; FY2016: 19.0%), is it justified to use an estimation of 16% to 18% in the valuation?

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Q2. In the circular dated 21 December 2018, the service agreements with the new executive directors were disclosed with the following terms:

- Mr Lim Siau Hing and Mr Lim Vhe Kai will be appointed as Executive Chairman, and Executive Director and CEO, of the Company respectively
- The Service Agreements will take effect on the Completion Date
- Each term is fixed for 3 years and automatically renewed on a year to year basis
- Mr Lim Siau Hing would be receiving RM75,000 per month, and Mr Lim Vhe Kai RM60,000 per month
- They will also receive fixed annual bonus of three month's salary, private vehicles and an annual variable bonus.

The company noted the following:

> *Had the Service Agreements been in existence since the beginning of FY2017, the aggregate remuneration paid to the New Directors would have been approximately RM3.0 million instead of RM0.6 million and the PBT and net profit after tax would have been approximately RM10.3 million (instead of RM12.7 million) and RM7.2 million (instead of RM8.8 million), respectively.*

(i) Can the remuneration committee (RC) elaborate further on how it has benchmarked the base/fixed salary component and the total package of the executive directors with that of other comparable listed companies?

(ii) Did the roles and responsibilities of the executive directors change so much such that the "fair" remuneration of the executive directors should be RM3.0 million instead of RM0.6 million?

With the service agreements in place, the earnings of the group going forward would be affected. The business that was acquired could be thought of as only earning a net profit after tax of RM7.2 million (instead of RM8.8 million).

(iii) Can the directors confirm that all planning, budgeting and valuation carried out so far are based on the adjusted earnings (taking into account the service agreements)?

(iv) Can the board also help shareholders understand how it will be monitoring the performance of management (including the key performance indicators to be used)?

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Q3. Would the board/management help shareholders better understand its growth plans and prospects given that the company has just completed its RTO? Specifically:

(i) Co-Creation Business Model: How fast is each product cycle? It was disclosed in the EGM circular dated 21 December 2018 that the sales and marketing team comprises three members and the 3 merchandising teams comprises a total of thirty-six members. **How does management ensure that the sales and marketing team and the merchandising teams remain fairly stable to support the group's continued growth?**

(ii) **Niche market segments: How will the shift to seniors and plus-sized market segment help with the group's growth rate and profit margin?**

(iii) **Gross profit margin:** As noted above (in Q1), gross profit margin has been on a downward trend. **Can management elaborate further on its action plans to improve the profit margin? Can the operations be further streamlined to improve on its cost efficiency?**