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

Issuer: CosmoSteel Holdings Limited

Security: CosmoSteel Holdings Limited

Meeting details:
Date: 28 January 2019
Time: 9.30 a.m.
Venue: 90 Second Lok Yang Road, Singapore 628166

Company Description

CosmoSteel Holdings Limited, an investment holding company, engages in sourcing and distributing piping system components. It operates through Energy, Marine, Trading, and Others segments. The company's products include steel pipes, flanges, and fittings; and structural beams, channels, plates, flats, and hollow sections. It also offers electrical cables, switching and distributing systems, terminal and junction boxes and switches, light fittings, and isolators; and carbon, low temp carbon, stainless, duplex, and low alloys steel. In addition, the company provides customization, validation, testing, expedited delivery, and project management services. It serves companies in oil and gas, engineering and construction, petrochemical, power, shipbuilding and repair, manufacturing, and pharmaceutical industries, as well as traders. The company primarily operates in Brunei, Europe, Indonesia, Japan, Malaysia, the Middle East, Singapore, Thailand, Vietnam, 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)

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1. Would the board/management provide shareholders with better clarity on the following operational matters? Specifically:

(i) **Product range:** In the annual report, the group has highlighted that it carries an extensive inventory of steel pipes, fittings, flanges, cables and structural, totaling more than 25,000 line items across five main product categories. **Has the board/management considered if the strategy of carrying an extensive inventory generates sufficient profits for shareholders over an entire business cycle after accounting for inventory write-down and impairment? With technological advances such as ERP systems, RFID asset-tracking solutions and better supply chain management, is the "stockist" business model outdated?**

(ii) **90 Second Lok Yang Road: With the new facility at 90 Second Lok Yang Road completed, what cost savings can be achieved when the group's operations are streamlined to 90 Second Lok Yang Road (a 5-storey office, warehouse and dormitory) and 14 Lok Yang Way (a 111,363 sq ft office and warehouse) once the leases expire at 21A Neythal Road and 36 Tuas Crescent?**

(iii) **Vietnam:** Revenue derived from Vietnam increased from $11.3 million in FY2017 to $18.4 million in FY2018, an increase of over 60%. **Can management help shareholders understand the reasons for the growth? How sustainable is the growth? How is the group pro-actively leveraging on this positive momentum in Vietnam?**

2. The "Assessment of net realisable value of inventories" is a key audit matter (KAM) highlighted by the Independent Auditor in their Report on the Audit of the Financial Statements (page 76). Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM, as at 30 September 2018, the group made a write-down of inventories amounting to $30,763,000 and, as at that date, the carrying amount was $41,317,000, representing 37% of the group's total assets.

As noted in the Joint message from the chairman & CEO (page 6), the $30.8 million inventories write-down was due to a comprehensive review of the inventory provisioning estimates to reflect current market prices.

In the preceding financial year, the group only recognised an allowance on inventory and write down of inventories to net realisable value amounting to $2,540,000 and $52,000 respectively.

(i) **Can management elaborate further on the changes in the market conditions in the oil and gas industry in the past year?**

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(ii) **What were the changes in the groups' inventory provisioning estimates that led to the $30.8 million write-down of inventories?**

(iii) **How does the group stay close to its customers to ensure that it is kept abreast of market conditions so that it can stock inventory that is relevant and in demand to its existing and potential customers?**

(iv) **What is the average age of inventory that was written off?**

(v) **What are the improvements that management has made to the group's inventory stocking policies and practices?**

3. Mr Hor Siew Fu was appointed as an independent director on 26 October 2018.

In the Corporate Governance statement (page 51), it was stated that Mr Hor has previously served as the company's Chief Financial Officer from 2007 to 2013.

The nominating committee and the board consider Mr Hor independent as there has been "*sufficient lapse of time from his historical relationship with the company*".

(i) **No doubt that the length of time since Mr Hor's departure from the company exceeds the three-year timeframe as stipulated in Listing Rule 210(5), would Mr Hor be frequently be put in a position where he has to self-review policies and practices that he previously put in place when he was the CFO?**

(ii) In addition, Mr Hor has been appointed the chairman of the audit committee. **Has the nominating committee and the board considered the potential for any conflict of interests and risk of self-review? How does the board mitigate such risks?**

In August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance ("2018 CG Code"). As a consequence of the revised 2018 CG Code, the Singapore Exchange has made amendments to its Listing Rules which came into effect on 1 January 2019, except for the rules on the 9-year tenure for independent directors and the requirement for independent directors to comprise one-third of the board which come into effect on 1 January 2022. Under the revised Listing Rules, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier vote by shareholders.

Mr Low Beng Tin and Ms Tan Siok Chin were each first appointed to the board on 9 November 2005 and 28 March 2007 respectively. The directors have each served on the board for more than 13 years and 11 years respectively.

(iii) **Has the company evaluated the impact of the 2018 CG Code and the amendments to the Listing Rules on the board?**

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(iv) **Has the nominating committee reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in future director appointments?**

(v) **What is the search and nominating process for directors, especially independent directors?**

(vi) **What are the company's near term plans to refresh the membership of the board to comply with the new 2018 Code in good time?** This would avoid undue disruption and maintain institutional knowledge and continuity in the board.

4. [*The following question on the company's inclusion on the watch-list and the risk of delisting was posted to the company following the review of the 2017 annual report. As the company has not responded nor improved its disclosure, the question is updated and reposted.*]

On 4 June **2018**, the company announced that Singapore Exchange Securities Trading Limited (the "SGX-ST") has notified the company that it will be placed on the watch-list pursuant to Rule 1311(1) of the Listing Manual with effect from 5 June 2018.

As disclosed in the announcement, Rule 1311(1) of the Listing Manual provides that an issuer will be placed on the watch-list (Financial Entry Criteria) if it records pre-tax losses for the three most recently completed consecutive financial years (based on audited full year consolidated accounts) and an average daily market capitalisation of less than S$40 million over the last 6 months ("Financial Entry Criteria").

On 4 June **2017**, the company announced that SGX-ST would place the company on the watch-list pursuant to Rule 1311(2) of the Listing Manual of the SGX-ST ("MTP Watch-list") with effect from 5 June 2017.

(i) **Would the board consider it appropriate to address the issue of the company's inclusion into both watch-lists in the annual report?**

(ii) **Did the board evaluate the indirect costs to the company and its shareholders following its inclusion into the watch-lists? For example, would the company be limited in its fund-raising activities following the inclusion?**

(iii) **What are the active steps taken by the board and management to restore its financial health and to meet the requirements of Listing Rule 1314(1) and 1314(2)?** SGX-ST may either delist the company, or suspend trading of the listed securities of the company with a view to delisting the company if the company fails to meet the requirements within the stipulated timeframe given by SGX-ST.

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A copy of the questions for the Annual Report for the financial year ended 30 September 2017 and 30 September 2016 could be found here:

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

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