Securities Investors Association (Singapore)
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Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: CosmoSteel Holdings Limited

Stock code: B9S

Meeting details:
Date: 27 January 2021
Time: 9.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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Q1. Would the board/management provide shareholders with better clarity on the group's operations? Specifically:

(i) **Revenue:** Revenue for the financial year slipped marginally by 5.3% in FY2020 due to lower demand from customers in the energy and trading sectors. This was offset by a 245% increase in revenue from the marine segment and a 16x increase in revenue from $0.8 million to $12.9 million from the manufacturing sub-segment (recognised as "Other sector") (page 12 of the annual report). **Can management help shareholders understand the reasons for the strength in the marine and manufacturing segments? How sustainable are the increases?**

(ii) **Vietnam:** On the other hand, revenue from Vietnam dropped to $8,000 in FY2020. The group generated $5.37 million from Vietnam in FY2019. Revenue from Vietnam was as high as $18.4 million in FY2018. **What is management's strategy to maintain its growth momentum to build up recurring income streams in its key regional markets over time?**

(iii) **COVID-19: Does management see any silver lining during this challenging period?**

(iv) **Overseas expansion:** Management has identified the Middle East, North and Central Asia, and Russia as new markets for its geographical expansion. Agents have been appointed in FY2020 and the group will be looking to appoint more agents in FY2021. The group also intends to foray into other new markets such as South Korea and the Asia Pacific. **Can management elaborate further on its rationale to enter Russia and North and Central Asia? What is the group's competitive strengths in these markets especially as the group itself sources from Japan and probably China?**

(v) **Watch-list:** The company was placed on the watch-list under the financial entry criteria pursuant to Rule 1311 of the Listing Manual on 5 June 2018. The company remains on the watch-list as it has not met the exit criteria pursuant to Rule 1314 of the Listing Manual. While the group has achieved profitability in the past two years, it is still unable to meet the requisite market capitalisation of S$40 million. **Would the board provide shareholders with greater clarity on the options available to the company to meet the exit criteria pursuant to Rule 1314?**

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Q2. As disclosed in the corporate governance report, in Principle 7: Level and mix of remuneration, the remuneration for the CEO of the company includes an incentive bonus made available under a profit-sharing scheme. For the first $5 million of audited net profit before tax, the CEO will be entitled to receive 2% of incentive bonus. The incentive bonus increases to 2.5% and up to 5%, for higher levels of profits, as shown below (page 60).

For the Profit Sharing Scheme to be applicable, the Group must achieve an audited net profit before tax on a consolidated basis attributable directly to the Group's operations ("**NPBT**") of not less than S$5 million and in the event that the incentive bonus has been paid under the Profit Sharing Scheme, no annual discretionary performance bonus will be payable to the CEO of the Company.

	NPBT Attained	**Incentive Bonus (on a cumulative basis)**
(i)	For the first S$5 million	2.0% of the S$5 million
(ii)	Greater than S$5 million but up to and including S$7 million	2.5% for the additional NPBT above S$5 million
(iii)	Greater than S$7 million but up to and including S$10 million	3.0% for the additional NPBT above S$7 million
(iv)	Greater than S$10 million but up to and including S$15 million	4.0% for the additional NPBT above S$10 million
(v)	Greater than S$15 million	5.0% for the additional NPBT above S$15 million

(Source: company annual report)

In FY2020, the group posted a profit before tax of $5.2 million (page 86). Included in "Other gains" is the write-back of inventories amounting to $3.425 million. In FY2018, the group wrote down its inventories by $(30.76) million and reported a loss before tax of $(34.0) million.

(i) **Can the remuneration committee (RC) clarify if it had excluded the write-back of inventories amounting to $3.425 million in the calculation of the profit share for the CEO?**

(ii) **Does the profit sharing scheme include a claw-back component when the company makes losses before tax?**

(iii) **If reversals of impairment allowance on inventories/receivables are included in the profit-share and that there is no claw-back when the group makes losses, would the RC be reviewing its executive remuneration policies to make it more robust and to better align its profit sharing scheme with the interests of shareholders?**

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Q3. In the group's Sustainability report 2020, the group has stated that it has a zero-tolerance policy against fraud, corruption and bribery. The group requires all employees to abide by the Employee Code of Conduct and to ensure high standards of ethics and integrity. In the group's risk management process, the group regards an ethical breach as a material risk to its business operations. To maintain its integrity, governance, and responsible business practices, the group has stated that it prohibits corrupt practices (page 27).

(i) **What is the board's risk assessment procedures for corruption?**

(ii) **What is the extent to which communication and training on anti-corruption is tailored for directors, employees, business partners and other persons that have been identified as having a high risk of incidents of corruption?**

(iii) **Would the board and senior management help shareholders understand their level of involvement in ensuring the group's compliance to its zero-tolerance policy against fraud, corruption and bribery?**

The group has further stated that there were no incidents of corruption in FY2019 (page 29; AR2019) and FY2020 (page 27; AR2020).

However, in February 2019, it was reported in the news that Neo Kian Siong, a former senior procurement officer at Keppel Shipyard, obtained kickbacks for helping suppliers win orders with Keppel[1]. It was further disclosed that court documents showed Mr Ong Chin Sum gave Neo Kian Siong S$56,000 on 10 occasions from 2000 to 2009 and Mr Ong Tong Yang gave Neo S$97,500 on six occasions from 2011 to 2014. According to the article, the Deputy Public Prosecutor (DPP) Eugene Sng noted that in 2000, it was Mr Ong of Kim Seng Huat who first approached Neo, asking for his help to expand his firm's business with Keppel Shipyard. Mr Ong promised him a share of the company's profits from sales to Keppel. Neo has pleaded guilty to 26 corruption charges, amongst others, and was sentenced to 21 months jail.

Mr Ong Tong Yang stepped down as executive director on 31 March 2019 due to "health reasons" and Mr Ong Chin Sum, then CEO and executive director, announced his intention to retire on 19 June 2019. The effective date of cessation of Mr Ong Chin Sum was 12 July 2019.

(iv) **Has the board reviewed the effectiveness of the group's anti-corruption training and employee's adherence to the code of conduct?**

(v) **What changes/improvement has the board made to further strengthen the group's tone at the top against corruption, fraud and bribery?**

[1] https://www.todayonline.com/singapore/ex-keppel-shipyard-officer-took-more-s700000-bribes-over-14-years

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^Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer's website, through "live" webcast and on SGXNet.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

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^ Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings)