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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Koh Brothers Eco Engineering Limited

Security: Koh Brothers Eco Engineering Limited

Meeting details:
Date: 17 April 2019
Time: 11.00 a.m.
Venue: Dunearn Ballroom 1, Raffles Town Club, 1 Plymouth Avenue, Singapore 297753

Company Description

Koh Brothers Eco Engineering Limited provides engineering, procurement, and construction services for water and wastewater treatment, hydro-engineering, bio-refinery, and bio-energy projects. The company operates in two segments, Engineering and Construction; and Bio-Refinery and Bio-Energy. It undertakes various civil engineering and building construction projects. The company also offers water and wastewater treatment solutions, such as engineering, manufacturing, and procurement services for infrastructure, specialist equipment, and turnkey systems, as well as project management, installation, performance trial, commissioning, training, and operations and maintenance services. It also provides hydro-engineering services, including the design and supply of hydro-engineering equipment and systems; and acts as a system integrator for the mechanical and electrical power, as well as instrumentation and control systems. Further, the company offers refining solutions, such as edible oil and nonedible oil refining plants, and renewable energy and biofuel plants, as well as system and process enhancements for the existing refining operations; provides consultancy, design, engineering, procurement, and construction services for palm oil mills that are seeking to recover and utilize methane as a source of renewable energy for power generation; and distributes machinery and components, as well as assists in designing, reviewing, submitting, and supporting palm oil mill effluent biogas recovery projects to achieve carbon credits. It serves government, and public and private sectors in Singapore, Malaysia, Indonesia, rest of Asia, South America, Africa, and internationally. The company was formerly known as Metax Engineering Corporation Limited and changed its name to Koh Brothers Eco Engineering Limited in April 2014. The company was founded in 1975 and is based in Singapore. Koh Brothers Eco Engineering Limited is a subsidiary of Koh Brothers Group Limited.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5HV)

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1. As noted in the Statement by Chairman and CEO (page 10 of the annual report), the group's revenue was largely flat at $328.8 million for FY2018 while gross profit slipped by 28% from $20.3 million in FY2017 to $14.6 million in FY2018 as a result of lower gross profit margins.

For the financial year, net profit attributable to shareholders decreased by 31% to $5.6 million in FY2018.

The group achieved gross profit margin of 4.4% in FY2018 and 6.1% in FY2017.

(i) Can management help shareholders understand the reason for the drop in profit margin? Did the group bid for projects more competitively?

(ii) How can the group maintain/increase its gross profit margin so that the group captures its fair share of value for the benefit of shareholders?

Specifically, as seen in Note 8 (page 73 – Employee compensation), salaries and bonuses increased by 8.7% despite revenue being flat for the year.

(iii) What are management's plans to control its manpower costs and to improve the efficiency of its labour force?

(iv) Has the group explored the use of technology to increase its productivity?

2. On 29 June 2018, the company announced a renounceable non-underwritten rights cum warrants issue of up to 523,317,944 new ordinary shares in the capital of the company on the basis of one rights share for every two ordinary shares in the capital of the company (with one free warrant for every one (new) rights share subscribed).

While the rights cum warrants issue had a valid acceptance rate of 76.42%, this was achieved as the undertaking shareholder (Koh Brothers Group Limited, also the controlling shareholder) took up 338,217,553 rights shares with warrants, representing approximately 64.63% of the total number of rights shares with warrants available for subscription.

In other words, minority shareholders took up 61.7 million out of a possible 185 million rights share with warrant. The acceptance rate of minority shareholders was just 33%.

The company had just carried out another rights cum warrants exercise in November 2017 which garnered valid acceptances of 95.97%.

(i) Did the board consider if the market has the capacity to absorb a second rights cum warrants issue just 6 months after the conclusion of the 2017 rights cum warrants issue?

(ii) Given that the intention was to use the proceeds for general working capital (70%) and business expansion (30%), did the board/management consider other forms of financing?

(iii) **Would the board help shareholders understand if the current balance sheet is sufficient to support the group's near term (2-3 years) growth plans? If not, what are the other avenues for the group to raise capital? Has the company evaluated if it could obtain project financing?**

(iv) **Given the low acceptance rate by minority shareholders, would the board consider another rights issue only if there are concrete investment/growth opportunities so that shareholders have better visibility of the use of proceeds?**

3. As noted in the company's Report on Corporate Governance, the board comprises 5 directors, as follows:

- Mr Koh Keng Siang (as non-executive and non-independent chairman)
- Mr Shin Yong Seub (executive director and chief executive officer (the "CEO"))
- Mr Tan Hwa Peng (independent director)
- Mr Koh Choon Leng (independent director)
- Mr Lee Sok Khian John (Non-executive and non-independent director)

Guideline 2.2 of the 2012 Code of Corporate Governance (2012 CG Code) recommends that independent directors to make up at least half of the Board where the chairman is not an independent director.

As Mr Koh Keng Siang is the non-executive non-independent chairman, under Guideline 2.2 of the 2012 CG Code, independent directors should make up at least half of the board.

(i) **Is the company aware of Guideline 2.2 requiring independent directors make up at least half the board if the chairman is not independent? What deliberations did the nominating committee (NC) have over Guideline 2.2?**

(ii) **Under the "Comply or explain" approach, would the board explain its deviation from the Guideline?** The board can also consider appointing an independent chairman to meet the recommendations of Guideline 2.1.

A copy of the questions for the Annual Report for the financial year ended 31 December 2016 could be found here:

https://sias.org.sg/qa-on-annual-reports/?company=Koh%20Brothers%20Eco%20Engineering%20Ltd&cid=6406,4233

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