



Securities Investors Association (Singapore)

7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111

Tel: (65) 6227 2683 Fax: (65) 6220 6614

Email: admin@sias.org.sg www.sias.org.sg

UEN No: S99SS0111B

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Issuer: Koh Brothers Group Limited

Security: Koh Brothers Group Limited

Meeting details:

Date: 17 April 2019

Time: 2.00 p.m.

Venue: Dunearn Ballroom 1, Raffles Town Club, 1 Plymouth Avenue, Singapore 297753

Company Description

Koh Brothers Group Limited, an investment holding company, engages in the construction and building materials, real estate, and leisure and hospitality businesses in Singapore, the People's Republic of China, Malaysia, the rest of Asia, and internationally. The company engages in the construction activities for building and civil engineering, and water and wastewater treatment, as well as hydro-engineering, and bio-refinery and bio-energy engineering projects. It also provides building materials, such as cement, ready-mix concrete, and pre-cast elements, as well as equipment rental services. In addition, the company is involved in the real estate development activities; and the rental of properties. Further, it owns and operates Oxford Hotel with approximately 130 hotel rooms; and Alocassia Apartments in Singapore. Additionally, the company offers construction and project management, logistic, and commission agent services. Koh Brothers Group Limited was founded in 1966 and is based in Singapore. (Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=K75)

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

- (i) **Holland Road:** The group won the tender for the freehold Holland Road site (en-bloc sale of Toho Mansion) with a bid of \$120.4 million or \$1,805 psf per plot ratio, before a 10 per cent bonus balcony area in March 2018. The group also has a 20% stake in joint venture development sites, Hollandia and Estoril. Soon after, in July 2018, the government moved to cool the property market, raising the Additional Buyer's Stamp Duty (ABSD) rates and tightening loan-to-value (LTV) limits on residential property purchases. **Have the development plans for the three sites been further fine-tuned following the additional cooling measures?** In the statement by the executive chairman and managing director & Group CEO, it was disclosed that the group will be prepared to launch the projects when "the opportunity to ride on the market's upwards trend arises". **Are the projects put on hold for the time being? During management's budgeting and planning, what is the group's minimum/required developer's margin?**
- (ii) **Leisure and hospitality:** The segment reported losses of \$(475,000) in FY2018. The segment results in the past 5 financial years are as follows:

\$(647,000) in FY2014
 \$35,000 in FY2015
 \$(760,000) in FY2016
 \$(636,000) in FY2017
 \$(475,000) in FY2018

Can management elaborate further on the strategies for the group's leisure and hospitality business? With a single 'no-frills' 130-room Oxford Hotel, does the group have the sufficient scale to operate the hotel profitably?

2. The adoption of Singapore Financial Reporting Standards (International) ("SFRS(I)", in particular SFRS(I) 9 Financial Instruments, resulted in the reclassification of the group's financial assets as shown in the table below (page 71):

	Note	Financial assets			
		Amortised cost	FVPL	AFS	FVOCI
		S\$'000	S\$'000	S\$'000	S\$'000
Balance at 31 December 2017 - before adoption of SFRS(I) 9		307,730	37	3,690	-
Reclassify listed debt securities from AFS to FVOCI	(i)	-	-	(765)	765
Reclassify listed equity securities from AFS to FVOCI	(ii)	-	-	(2,925)	2,925
Reclassify unquoted short-term notes receivables from amortised cost to FVPL	(iii)	(56,671)	56,671	-	-
Balance at 1 January 2018 - after adoption of SFRS(I) 9		<u>251,059</u>	<u>56,708</u>	-	<u>3,690</u>

(Source: Company annual report)

With the adoption of SFRS(I) 9 Financial Instruments, unquoted short-term notes receivables were reclassified to “Financial assets at fair value through profit or loss” from amortised cost as at 1 January 2018 upon the adoption of SFRS(I) 9.

As seen in the unaudited third quarter and 9 months financial statements (dated 5 November 2018), the carrying amount of “Financial assets at fair value through profit or loss/short-term notes receivables” increased to \$60.08 million, after the purchase of addition \$4.18 million in financial assets at fair value through profit or loss.

For the 12 months ended 31 December 2018, the group recognised a fair value loss on financial assets through profit or loss of \$(2.9) million. This can be seen from Note 13a (page 93 – Investment securities: Financial assets, at fair value through profit or loss):

(a) Financial assets, at fair value through profit or loss

	Group		Company	
	2018	2017	2018	2017
	S\$'000	S\$'000	S\$'000	S\$'000
Balance at 1 January	37	40	3,090	-
Reclassification at 1 January 2018*	56,671	-	-	-
Net acquisition	127	-	1,693	1,603
Fair value (loss)/gain during the financial year (Note 6)	(2,902)	(3)	(870)	1,487
Reclassification upon conversion of notes into quoted equity securities [Note 13(c)]	(49,933)	-	-	-
Balance at 31 December	<u>4,000</u>	<u>37</u>	<u>3,913</u>	<u>3,090</u>

* See Note 2.2 for details of reclassification as at 1 January 2018 on adoption of SFRS(I) 9.

(Source: Company annual report, emphasis added)

As at 31 December 2018, the group’s “Financial assets at fair value through profit or loss/Short-term notes receivables” dropped from \$60.08 million to \$4.0 million with a corresponding increase in “Financial assets at FVOCI/available-for-sale financial assets” from \$799,000 (as at 30 September 2018) to \$43.95 million as at 31 December 2018.

Financial assets, at FVOCI

	Group 2018 S\$'000
Balance at 1 January	-
Reclassification at 1 January 2018*	3,690
Additions	1,000
Reclassification upon conversion of notes into quoted equity securities [Note 13(a)]	49,933
Disposal	(518)
Fair value losses recognised in other comprehensive income [Note 30(b)(i)]	<u>(7,779)</u>
Balance at 31 December	<u>46,326</u>
Less: Current portion	<u>(43,953)</u>
Non-current portion	<u>2,373</u>

* See Note 2.2 for details of reclassification as at 1 January 2018 on adoption of SFRS(I) 9.

Financial assets, at FVOCI are analysed as follows:

Listed securities

- SGD corporate fixed rate notes of 4.00% to 6.35% per annum due between July 2021 to June 2022	1,752
- Equity securities - Singapore	1,384
- Equity securities - USA	<u>43,190</u>
	<u>46,326</u>

The group recognised a Fair value loss on equity financial assets at FVOCI of \$(7.78) million for the financial year ended 31 December 2018, with \$(6.7) million being recognised in the last quarter.

The reclassification was the result of redemption of the short-term notes receivables upon maturity and the financial asset was reclassified from “financial assets at FVOCI upon conversion to other financial assets class.”

- (i) Can management help shareholders understand the significant increase in short-term notes receivables?**
- (ii) Is the “investment” in short-term notes receivables part of the group’s core operations?** As seen from the above, the bulk of the FVOCI financial assets amounting to \$43.2 million relates to “Equity securities – USA”.
- (iii) Can management elaborate further on the reasons for investing in the short-term notes receivables? How is the investment aligned with the group’s corporate strategy?**
- (iv) Did the Audit and risk committee (ARC) approved the investment in the short-term notes receivables? What is the level of oversight provided by**

ARC on the group's non-core "investment" activities, such as investments in financial assets?

- (v) Please disclose in greater detail the underlying assets so that shareholders have a better understanding of the risks involved.**
- (vi) Given the fair value losses on the "investment", what are management's strategies to maximise the value of this investment?**

3. The attendance of directors at board and board meetings in the past three financial years is shown below:

FY2018:

A record of the directors' attendance at Board and its committee meetings in 2018 is disclosed below¹.

	BOARD	EC	ARC	NC	RC	SPC
No. of meetings held in 2018	4	4	4	1	1	2
Name of Directors	No. of meetings attended					
Koh Tiat Meng	2/4	3/4	-	-	-	-
Koh Teak Huat	4/4	4/4	-	-	-	-
Koh Keng Siang	4/4	4/4	-	1/1	-	-
Koh Keng Hiong	4/4	4/4	-	-	-	-
Lee Sok Khian John	4/4	-	-	-	-	-
Quek Chee Nee	4/4	-	-	-	-	-
Er Dr Lee Bee Wah	4/4	-	4/4	-	-	-
Lai Mun Onn	4/4	-	4/4	1/1	1/1	2/2
Gn Hiang Meng	4/4	-	4/4	1/1	1/1	2/2
Ow Yong Thian Soo	4/4	-	-	-	-	-
Ling Teck Luke ²	0/4	-	1/4	1/1	1/1	1/2

Note:

¹ Low Yee Khim was appointed an Independent Director of the Company with effect from 1 January 2019.

² Ling Teck Luke has retired as Independent Director of the Company with effect from 31 December 2018.

2017 –

A record of the directors' attendance at Board and its committee meetings in 2017 is disclosed below.

	BOARD	EC	ARC	NC	RC	SPC
No. of meetings held in 2017	4	5	4	1	1	4
Koh Tiat Meng	2/4	5/5	-	-	-	-
Koh Teak Huat	3/4	4/5	-	-	-	-
Koh Keng Siang	4/4	5/5	-	1/1	-	-
Koh Keng Hiong	4/4	5/5	-	-	-	-
Lee Sok Khian John	3/4	-	-	-	-	-
Quek Chee Nee	3/4	-	-	-	-	-
Er Dr Le Bee Wah	4/4	-	4/4	-	-	-
Ling Teck Luke	3/4	-	3/4	1/1	1/1	3/4
Lai Mun Onn	4/4	-	4/4	1/1	1/1	4/4
Gn Hiang Meng	4/4	-	4/4	1/1	1/1	4/4
Ow Yong Thian Soo	4/4	-	-	-	-	-

2016–

	BOARD	EC	ARC	NC	RC	SPC
No. of meetings held in 2016	5	6	4	1	1	4
Koh Tiat Meng	3/5	5/6	-	-	-	-
Koh Teak Huat	3/5	4/6	-	-	-	-
Koh Keng Siang	5/5	6/6	-	1/1	-	-
Koh Keng Hiong	5/5	6/6	-	-	-	-
Quek Chee Nee	5/5	-	-	-	-	-
Ling Teck Luke	5/5	-	4/4	1/1	1/1	4/4
Lai Mun Onn	5/5	-	4/4	1/1	1/1	4/4
Gn Hiang Meng	5/5	-	4/4	1/1	1/1	4/4
Er Dr Lee Bee Wah ¹	5/5	-	2/2	-	-	-
Lee Sok Khian John ²	4/4	-	-	-	-	-
Ow Yong Thian Soo ³	3/3	-	-	-	-	-

¹ Er Dr Lee Bee Wah was appointed a member and the chairperson of the ARC on 20 June 2016.

² Mr Lee Sok Khian John was appointed a director of the Company on 9 May 2016.

³ Mr Ow Yong Thian Soo was appointed a director of the Company on 20 June 2016.

- (i) As the company's constitution allows directors to participate in a board meeting via telephonic and video-conference meetings, can the company help shareholders understand if this was an option for directors who had missed the board meetings?
- (ii) Can the company help shareholders understand if there were extenuating circumstances that led the directors to be absent for the board meetings?

How far in advance are board meeting scheduled? What are the reasons directors fail to make it to all the board meetings?

- (iii) How can the company and the company secretary work together with the directors to schedule the board and board committee meetings so that all the directors are able to attend the meetings and contribute to the effectiveness of the board?**

4. In addition, Er Dr Lee Bee Wah is an independent director of the company. Er Dr Lee also serves as the lead independent director and is the chairperson of the Audit and Risk Committee.

As noted in the director's profile (page 26), Er Dr Lee is also the non-executive chairman of TEE Land Limited, an integrated real estate group with operations in Singapore and the region.

- (i) Would Er Dr Lee be frequently put in a position where she would have conflicts of interests between TEE Land Limited (where she is the chairman) and the company?**
- (ii) How does the company ensure that its interests are protected? For instance, what safeguards are put in place to ensure that sensitive commercial information, such as participation in land tenders, private treaty opportunities, is well protected?**
- (iii) Even if a conflicted director recuse herself from certain sensitive discussion either in the company or on the board of the other company, the act of recusing oneself would still provide competitive information. How does the company mitigate such risks?**
- (iv) As the lead independent director, would Er Dr Lee be holding herself to an even high standard of corporate governance and avoid all potential/perceived conflicts of interest?**
- (v) Would the nominating committee and Er Dr Lee be re-evaluating the conflicting appointments on other boards?**

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%20Group%20Ltd&cid=6407,4261>

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