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**Issuer:** ecoWise Holdings Limited

**Security:** ecoWise Holdings Limited

**Meeting details:**

Date: 28 February 2019

Time: 10.00 a.m.

Venue: 311 Neo Tiew Crescent Singapore 718818

**Company Description**

ecoWise Holdings Limited, an investment holding company, provides resource recovery, renewable energy, and integrated environmental solutions in Singapore, Malaysia, Australia, the People's Republic of China, and internationally. Its Renewable Energy segment designs, builds, maintains, and operates biomass co-generation systems; generates and sells power; and provides services related to the applications of heat. The company's Resource Recovery segment is involved in processing, recycling, and repurposing waste and salvageable materials into various products for industrial applications, such as washed copper slag, compost, and retreaded tires. Its Integrated Environmental Management Solutions segment offers resource management and integrated environmental engineering solutions for industrial waste and energy management comprising designing, optimizing, engineering, procuring, fabricating, commissioning, managing, and maintaining waste and energy management facilities. The company also provides general waste management services; processes, procures, deals in, and trades in rubberized related goods; researches and develops environmental and clean technologies; and develops and commercializes ecology solutions. In addition, it offers environmental consultancy solutions; and project and investment consultancy, and management services. Further, the company engages in generating and selling heat and steam; trading new and retread tires and related rubberized products; producing, trading, and consulting related to biomass products; and processing and recycling used copper slag, horticultural, and other waste, as well as operating a biomass co-generation plant. ecoWise Holdings Limited was founded in 1979 and is headquartered in Singapore.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=5CT](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5CT))

1. In the Directors' Statement (page 6 of the annual report), it was disclosed that the group had refined its business strategies to focus on high value-added technologies and businesses, gradually phased out less profitable projects, updated its product positioning and consolidated its operations strategy to meet overall business needs.

Despite the strategic and structural adjustments, and the higher sales recorded by the rubber compounds and retreaded tyres business, the group's gross profit margin slipped to 15.3% from 19.4% and the group reported a loss before tax of \$3.64 million in FY2018.

(Loss)/profit attributable to owners of the company since FY2013 is shown below:

FY2013 – \$1,899,000  
FY2014 – \$(6,736,000)  
FY2015 – \$610,000  
FY2016 – \$(1,867,000)  
FY2017 – \$(239,000)  
FY2018 – \$(4,795,000)

The cumulative losses amount to \$(11.1) million since 2013.

- (i) What are the key value drivers in the three core business segments of Resource recovery, Renewable energy and Integrated environmental solutions?**
- (ii) What are the core competencies and competitive advantage of the group and of its management team that would allow the operating businesses to deliver long-term sustainable value to all shareholders?**
- (iii) Can management elaborate further on its efforts to improve the profitability of its existing operations? Would management be overly-stretched by venturing into new business areas when the existing core operations are facing headwinds?**
- (iv) What guidance has the board given to management on improving its profitability?**
- (v) How are capital allocation decisions being made by management/board? What is the hurdle rate used by the company in its evaluation of investment opportunities?**

2. In the Independent Auditor's Report, the auditors have highlighted the following key audit matters ("KAMs"):

- Impairment of trade receivables
- Impairment of Jointly-Controlled Entity (Chongqing eco-CTIG Rubber Technology Co., Ltd ("CECRT"))
- Impairment assessment of intangible assets, property, plant and equipment and cost of investment in subsidiary companies relating to Sunrich Group

- Impairment assessment of property, plant and equipment and land use rights in relation to Hivern Group

In the estimation of the value in use (for the purpose of impairment testing for the goodwill allocated to the cash-generating units ("CGUs")), the growth rates used for Sunrich and Swee Chioh were 12% to 25% and 2 to 13% respectively.

In particular, for Sunrich, the company has stated the following (page 60):

*"Sunrich Group's revenue and profit have been in a declining trend for the past few years mainly due to the unfavourable economic condition as well as stiff competition."*

- (i) Can management justify the growth rates used in the calculation of the value-in-use of the CGUs? Specifically, what was the growth rate achieved by Sunrich in the past year and over the past 3 years? What is the basis to use a growth rate of 12% to 25%?**
- (ii) What are the estimated gross profit margin and net profit margin?**
- (iii) Has management/audit committee carried out a sensitivity analysis of the growth rate and the profit margin on the value-in-use?**

As noted in the KAM, as at 31 October 2018, the group has intangible assets of \$1.1 million comprising of goodwill, trademarks and customer relationships as well as property, plant and equipment of \$16.9 million in relation to the Sunrich Group. The company has investment in subsidiary companies amounting to \$12.2 million relating to the same cash-generating unit.

The segment results for the Resource recovery segment has been on a clear downward trend: \$(818,000) in FY2018, \$216,000 in FY2017, \$857,000 in FY2016 and \$2,435,000 in FY2015.

- (iv) Would the outlook for Sunrich and the declining performance in the past 4 years suggest that there might be impairment to the company's investment in Sunrich? Would the audit committee elaborate further on the deliberations it has had on the impairment testing of Sunrich?**

3. The group owns a 24 MW biomass co-generation power plant located in Changyi, Shandong Province in China through Changyi Enersave Biomass to Energy Co Ltd ("CEBEC"), which is wholly owned by the subsidiary of the Group, Hivern Investments Pte Ltd ("Hivern").

Since the acquisition of Hivern in the reporting year ended 2013, it has suffered losses and the plant has not commenced operations.

In 2016, the group (through CEBEC) commenced arbitration proceedings against its supplier, China Huadian Engineering Co., Ltd. ("Hua Dian"), in Shandong, China, for failure

to perform the engineering, procurement and construction contract between the two parties in relation to CEBEC plant and land use rights.

The arbitration concluded with Hui Dian required to, inter alia, deliver to CEBEC a plant in accordance with the technical specifications set out within 6 months from 23 December 2017.

The company disclosed that, as at 31 October 2018, Hua Dian did not abide by the decisions of the arbitral tribunal and CEBEC commenced a second legal suit against Hua Dian to enforce the court judgement. On 27 November 2018, CEBEC was awarded enforcement rights of the arbitration outcome as mentioned above. No resolution has been obtained since.

Based on a 2016 valuation report, the CEBEC plant and land use right were assessed to be RMB99.8 million (S\$19.9 million) and RMB18.9 million (S\$3.76 million) respectively based on the replacement cost method and market comparison approach.

- (i) What were the efforts by management and by the board to resolve the issue amicably and expeditiously with Hua Dian? Who is leading the negotiation with Hua Dian?**
- (ii) What are the options available to the group at this point, given that the group was awarded enforcement right in the second legal suit?**
- (iii) Can the board/management help shareholders understand how it would proceed with this issue? When can this matter be resolved?**
- (iv) What is the current state of the power plant?**
- (v) How strategic is the power plant in the group's long-term business plans?**

The 2016 valuation of the plant and the land use rights amount to approximately \$24 million (as compared to the group's total equity of \$38 million). This will likely have a material impact on the group's financial position.

- (vi) Did the audit committee consider it appropriate to commission a new valuation report by an independent valuer given the changes to the operating environment in China?**

A copy of the questions for the Annual Report for the financial year ended 31 October 2017 and 31 October 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=ecoWise%20Holdings%20Ltd&cid=4459,4142>

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