



ANNUAL GENERAL MEETING TO BE HELD ON 17 JUNE 2020
- RESPONSES TO QUERIES BY THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

The following questions were received from Securities Investors Association (Singapore) (“SIAS”) in relation to Colex Holdings Limited (the “Company”, and together with its subsidiaries, the “Group”) Annual Report for the Financial Year Ended 31 December 2019 (“FY2019”). Response from the Company is appended below:

Question 1

On 23 October 2019, the company announced that the group had participated in the NEA tender for the licence to provide refuse collection services to domestic and trade premises in the Jurong sector in Singapore for a period of 7 years commencing 1 April 2020. The group was the incumbent for the past 14 years since 2006. It was disclosed that the group was not awarded the aforesaid refuse collection licence.

The company further added that the result of the tender is not expected to have any material impact on the consolidated net tangible assets per share and/or earnings per share of the Group for the financial year ending 31 December 2019.

- (i) Given that the group’s licence ends on 30 March 2020, was it meaningful for the company to disclose that the loss of the license was not expected to have any material impact on the group for the financial year ending 31 December 2019?
- (ii) In November 2012, when the company announced the award by NEA, the company made a detailed announcement of the impact over the length of the licence period, as follows:

The award of the License is expected to have a material positive impact on the earnings per share and the net tangible assets per share of the Group for the next financial year ending 31 December 2013. The provision of waste collection services for the Jurong sector is expected to contribute positively to the revenue of the Group over the 7-year period of the Licence.

Did the board, especially the independent directors, review the announcement by the company dated 23 October 2019?

In the opinion of the board, would it be appropriate, or even expected of a listed company, to make announcements that would be balanced and fair and provide sufficient quantitative information to allow investors to evaluate its relative importance to the activities of the issuer? This would allow for a fair, orderly and transparent market. The requirements are set out as Appendix 7A Corporate Disclosure Policy in the listing manual.

In the chairman's statement, for the year in review, it was mentioned that "the contribution from Jurong sector remains fairly constant and has helped to bolster the overall financial performance" (page 3 of the annual report). In the outlook section of the chairman's statement, the non-renewal of the NEA licence for Jurong was not mentioned.

- (iii) In the opinion of the directors, would it be appropriate for the chairman himself to update shareholders on the major developments (good or bad), so that shareholders can be assured that the chairman and the board have their focus on the significant issues?

Company's Response to Question 1

The loss of the license for the refuse collection services for the Jurong sector has been announced on 23 October 2019. It is meaningful to disclose that the loss of the license was not expected to have any material impact on the Group for the financial year ending 31 December 2019 because the Group was still benefiting from the contractual obligation as the license only ends on 31 March 2020. This is supported by the audited results for the financial year ended 31 December 2019.

In the Chairman's Statement, the Chairman focused on the financial review and operation highlights of the year under review ended 31 December 2019. He has highlighted the contribution from the Jurong sector for the year under review. He also gave his take on the outlook of the Company at a macro level.

It has been specifically referred to under the segment on Operations Review following the Chairman's Statement, on page 4 and page 5 of the Annual Report as follows:

On page 4:

"The renewal of the Jurong sector contract for public waste collection and recycling which will expire on 31 March 2020 was unsuccessful."

On page 5:

"With the non-renewal of the Jurong sector contract, we will intensify our sales effort with the excess equipment and resources from the Jurong sector to capture more market shares for the industrial and commercial business. The next four sectors for the public waste collection and recycling will be tendered out by the National Environment Agency in Year 2020 and their commencement dates will be in Years 2021 and 2022. We will participate in all these four tenders."

Shareholders have been updated on the loss of the license for the Jurong sector through the Company's announcement and such update is also covered under "Operations Review" in the Annual Report.

All announcements of the Company are approved by the Board before their release to the Singapore Exchange Securities Trading Limited.

The Board strives to make announcements that are balanced and fair and provide sufficient quantitative information to allow investors to evaluate its relative importance to the activities of the Group.

Question 2

In the operations review, the group stated that it will divert "excess equipment and resources from the Jurong sector to capture more market shares (sic) for the industrial and commercial business" given the non-renewal of the Jurong sector contract.

As at 31 December 2019, the group has \$20.26 million in property, plant and equipment, up from \$18.9 million a year ago partly due to the adoption of SFRS(I) 16. The group added \$2.14 million in PPE in 2019. The main components of PPE are:

- Leasehold land, building, site improvement and properties: \$7.3 million
- Plant, equipment and containers: \$5.3 million
- Motor vehicles: \$7.7 million

- (i) How much of the group's PPE was used to support the Jurong sector contract?
- (ii) What would be the utilisation rate of the group's PPE without the Jurong sector contract?
- (iii) How successful is management at scaling up its private sector business in the industrial and commercial segment?
- (iv) Would the group's PPE be tested for impairment? What would the objective evidence or indication that these assets may be impaired?
- (v) Can management elaborate further on the efforts to scale up its Material Recovery business?
- (vi) With the current COVID-19 outbreak, is the group receiving more enquires and getting more jobs for its contract cleaning?
- (vii) How has the group been housing its foreign workers? How badly affected, if at all, is the group in its manpower during the pandemic?

Company's Response to Question 2

- (i) \$4.32 million or 21% of the Group's PPE was used to support the Jurong sector contract. Out of which approximately \$3.0 million can be readily deployed to support the industrial and commercial business.
- (ii) Since April 2020, most of the Jurong sector PPE has been transferred to support the industrial and commercial business. The utilization rate of the Group's PPE without Jurong contract is close to 90%.
- (iii) The private sector business in the industrial and commercial segments offer vast business opportunities since these segments are open to all waste industries players. Colex has constantly been intensifying its sales effort to secure new sales which is evident in the increase in revenue over the past years for this segment. Colex will continue to compete aggressively to further increase its revenue over the coming years.
- (iv) The Group's has carried out an impairment assessment on its PPE as at 31 December 2019, which are dedicated to Jurong Sector. These PPE comprise mainly of motor vehicles and compactors. In accordance with SFRS(I) 1-36 Impairment of Assets, an impairment loss is recognised to the extent that the carrying amount ("CA") is more than its recoverable amount ("RA"). The management has obtained sale quotes from external vendors to determine the fair value and also computed the value-in-use for the PPE. Management has assessed the recoverable amount and concluded that the recoverable amount is higher than the carrying amount of the PPE. Hence, no impairment loss is recognised for the PPE as at 31 December 2019.

- (v) The Material Recovery Facilities (MRF) business goes in tandem with the waste business. Recycling culture has gradually nurtured over the past years and many premises and private condominiums are implementing recycling activities. Recycling has become mandatory for some large shopping complexes, commercial buildings etc. and hence recovery of recyclables formed an integral part of the waste stream. Colex has been constantly promoting recycling and bundle in the recycling as part of the total waste contract. Therefore, as the waste business grow, the recovery of recyclables will follow suit.
- (vi) The current COVID-19 outbreak has impacted our cleaning contracts for hospitality and retail sectors. A few of our contracts in these sectors were suspended since the implementation of the Circuit Breaker (“CB”). The subsequent measures to impose manpower quota allowed to work on-site to reduce human movement also affected our cleaning contracts in other sectors until CB was lifted.

The cleaning segment did not get more enquiries for cleaning contracts during the COVID-19 outbreak because most customers were cautious and reluctant to change contractors as visitations were not allowed during CB period.

- (vii) The foreign workers for the waste segment were originally housed in a dormitory with the rest of the workers from other industries segments. Subsequently, the Ministry of Manpower has moved them out of the dormitory and segregated them from the construction workers as Colex’s workers are classified under essential services. There are no manpower shortages so far as all of the workers are allowed to work daily.

For the cleaning segment, the foreign workers are Malaysians and China nationals. They are housed in rented private and HDB apartments on a long-term lease. Therefore, there is sufficient manpower to service our contracts during the pandemic.

Question 3

Provision 2.2 of the Code of Corporate Governance 2018 requires independent directors make up a majority of the board where the chairman is not independent.

In addition, Provision 2.3 provides that non-executive directors make up a majority of the board.

With regard to the two Provisions mentioned above, the company has stated the following:

All the Non-Executive Directors are Independent Directors who make up half the Board. Given the Board size of four, the two Independent Directors Director provide a good balance of authority and power within the Board. In addition, the NC, AC and RC which assist the Board in its functions is each chaired by an Independent Director. The Board is of the view that there is a strong independence element within the Board to justify the departure of the Board composition from the Code.

The board comprises four members, two of whom are deemed independent (page 15). The independent directors, Mr Fong Heng Boo and Mr Lim Hock Beng, were both appointed on 26 March 1999. The NC, comprising of the two long-tenured non-executive directors and the executive chairman, conducted the review of the independence of Mr Fong and Mr Lim. On page 16, the company disclosed that “Mr Lim and Mr Fong have abstained from the NC and Board review of their independence”.

Pursuant to Rule 710 of the SGX Listing Manual, where there are variations from the Provisions of the CG Code, the issuer must explicitly state the provision from which it has varied, explain the reason for variation, and explain how the practices it had adopted are consistent with the intent of the relevant principle.

- (i) Would the board elaborate with greater clarity how the deviations from Provisions 2.2 and 2.3 are consistent with the intent of the Principle? Principle 2 states that the board has an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the company.
- (ii) As the company has declared its commitment to “ensuring and maintaining a high standard of corporate governance within the Company and its subsidiary companies” (page 12), would the board be reviewing its current practices, especially the deviations from the Code, and make changes to its practices to better comply with the Code of Corporate Governance 2018?

Company’s Response to Question 3

The Independent Directors, Mr Lim Hock Beng (“Mr Lim”) and Mr Fong Heng Boo (“Mr Fong”) each has confirmed their independence in accordance with the Code and Catalist Rules.

Notwithstanding that Mr Lim and Mr Fong have served on the Board for many years, the Board is of the view that they have engaged the Board in constructive discussions, and have demonstrated their exercise of independent judgement without dominating the Board discussions.

The Board is of the view that with the Independent Directors forming half of the Board, and with the NC, AC and RC chaired by an Independent Director, there is a strong independent element within the Board.

Mr Henry Ngo, the Chairman has considerable business experience. Mr Desmond Chan, Executive Director joined the Company as General Manager in 1999 and is a veteran in the waste management industry, Mr Fong has over 45 years of experience in auditing, finance, business development and corporate governance. Mr Lim has more than 30 years of experience and knowledge in corporate secretarial work, which included advising listed companies on compliance with the Listing Rules of the SGX-ST. Collectively they provide an appropriate balance of varied background, experience and skills contributing to diversity within the Board.

Notwithstanding the aforementioned, the composition of the Board will be reviewed on an annual basis by the NC to ensure that the Board has the appropriate mix of expertise and experience, and collectively possess the necessary core competencies for effective functioning and informed decision-making.

The independence element and diversity within the Board are consistent with Principle 2 of the Code. The Company remains committed to a high standard of governance within the Company and its subsidiaries.

By Order of the Board
Foo Soon Soo
Company Secretary

12 June 2020

This announcement has been prepared by Colex Holdings Limited (the “Company”) and its contents have been reviewed by the Company’s sponsor, PrimePartners Corporate Finance Pte. Ltd. (the “Sponsor”) in accordance with Rules 226(2)(b) and 753(2) of the Singapore Exchange Securities Trading Limited (the “SGX-ST”) Listing Manual Section B: Rules of Catalist.

This announcement has not been examined or approved by the SGX-ST. The SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

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