

**Issuer:** CH Offshore Ltd

**Security:** CH Offshore Ltd

**Meeting details:**

Date: 27 September 2017

Time: 2.30 p.m.

Venue: TRN Centre, 10, Anson Road #19-14, International Plaza, Singapore 079903

**Company Description**

CH Offshore Ltd, an investment holding company, provides marine support services in South East Asia and internationally. It is involved in the ownership and chartering of vessels. The company provides various services to the offshore oil and gas industry, including offshore construction support; support services to offshore drilling rigs and installations, such as towing, anchor-handling, and supply of dangerous goods, as well as supply of deck, liquid, and dry bulk cargoes; and field support services comprising emergency response, rescue, fire-fighting, anti-pollution, etc. It operates through a fleet of 15 anchor handling tug supply vessels and 1 offshore support vessel. The company was formerly known as Mico Line Pte Ltd and changed its name to CH Offshore Ltd in September 1990. The company was founded in 1976 and is based in Singapore. CH Offshore Ltd. is a subsidiary of Energian Pte. Ltd. (Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=C13](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=C13))

**Q1.** Given a prolonged slump in offshore oilfield support services, revenue for the group dipped 34% to US\$16.4 million for the financial year ended 30 June 2017. The offshore support vessel (“OSV”) industry is still inundated with overcapacity, leading to downward pressure on vessel utilisation and charter rates.

The group’s fleet of fifteen AHTS vessels and one OSV vessel (average age of ten years old as at 30 June 2017) achieved an average utilisation rate of 63% in FY2017 (page 4), down from 76% a year ago.

- a) **Can management provide more visibility of the characteristics and competitiveness of the different geographical markets? What are the current opportunities in the South East Asia, Mexico and the Middle East markets?**
- b) **Can management also provide greater visibility into the lease maturity of each vessel and the overall charter expiry profile of the fleet?**
- c) **Which vessels in the fleet are on time charters and which vessels are on long-term bareboat charters?**
- d) **Can management elaborate further on the group’s pro-active plans to improve vessel utilisation and charter rates?**

**Q2.** In Note 14 (page 103 - Borrowings), the group has disclosed that it had obtained a US\$3.631 million bank loan under an initiative by SPRING Singapore (an agency under the Ministry of Trade and Industry) for working capital assistance for companies in the offshore industry. The effective interest rate for the loan is 5.5%.

Based on SRPING Singapore’s website, the goal of the Bridging Loan is “to provide access to working capital to help Singapore-based M&OE companies finance their operations and bridge short-term cash flow gaps”.

- a) **What are the key covenants of the Bridging Loan?**

As reported in the Executive Chairman’s Message (page 4), the group’s liquidity remained healthy with a current ratio of 2.3x, The group was in a net cash position of US\$2.3 million as at 30 June 2016. For FY2017, the cash and cash equivalent at the end of the year was US\$4.7 million while total borrowings increased to US\$9.1 million as at 30 June 2017.

- b) **As shown in Note 8 (page 96 - Aging of receivables that are past due but not impaired), the total amount of trade receivables past due but not impaired has increased from US\$1.98 million in FY2016 to US\$3.58 million in FY2017. How is management working with the customers to ensure that trade receivables past due are collected in a timely manner?**
- c) **The company has also recognised an allowance for doubtful debts of US\$2.38 million in FY2017. Can management elaborate further on the impairment? What is the profile of the debtor and how does management intend to collect the debt?**
- d) **Given the challenges in the industry, has the group considered tightening its credit evaluation?**

**Q3.** On 9 May 2017, in an announcement titled “Interested Persons Transactions between CHO Group and FEG Group”), the company disclosed that it had, inter alia, (a) granted a loan of S\$1 million to FEG on 6 October 2016, (b) granted a loan of US\$3 million to FEG on 10 October 2016 and (c) granted a loan of US\$0.5 million to FEG on 17 March 2017. The interest charge on all the loans is 4.3% p.a..

- a) **Can the board help shareholders understand the rationale of loaning FEG a total of US\$4.3 million when the company’s own financial position is weakening due to the prolonged slump in the operating conditions of the offshore oil and gas (O&G) sector?**

- b) The audit committee has stated that it has *“reviewed the terms of the Relevant Transactions.... are of the view that the Relevant Transactions were entered into on an arm's length basis and on normal commercial terms that were not prejudicial to the interests of the Company as well as its minority shareholders”*.
- c) **Can the audit committee inform shareholders the amount of commercial due diligence carried out to satisfy itself that the “Relevant Transactions were entered into on an arm's length basis and on normal commercial terms”?**
- d) **Can the audit committee justify why it had approved the IPTs and stated that the transactions were “not prejudicial to the interests of the Company as well as its minority shareholders” when the cost of capital to the company is at least 4.5% to 5.5% p.a. (page 103 – Borrowings) while the interest charged on the loans is 4.3%?**