

Issuer: Sin Heng Heavy Machinery Limited

Security: Sin Heng Heavy Machinery Limited

Meeting details:

Date: 27 April 2018

Time: 10.00 a.m.

Venue: Raffles Marina, No 10, Tuas West Drive, Singapore 638404

Company Description

Sin Heng Heavy Machinery Limited, together with its subsidiaries, operates as a lifting service provider primarily in Singapore. It operates through Equipment Rental and Trading segments. The company rents crawler, all terrain, truck, rough terrain, and self-erecting cranes; and aerial lifts, including boom and scissor lifts, as well as the provision of turnkey project engineering services. It also trades in new and used cranes and aerial lifts; and sells and distributes spare parts for cranes and aerial lifts. In addition, the company provides facilities and custody services. It serves infrastructure and geotechnic, construction, offshore and marine, and oil and gas industries in Singapore, Indonesia, Myanmar, Malaysia, Vietnam, Brunei, Thailand, and other countries. Sin Heng Heavy Machinery Limited was founded in 1969 and is headquartered in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=BKA)

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

- (i) **Utilisation rate:** As shown in the Financial Highlights (page 4 of the annual report), the group's aggregate crane lifting capacity has increased by 10% while the number of crane is at the highest level in the last 5 years. The number of aerial lifts though has dropped back to the FY2013 levels. **Can management help shareholders understand the utilisation rate of the equipment rental fleet? What are the recent trends in the rental rate of the group's fleet?**
- (ii) **Trading:** With a more favourable product mix, profit margin improved even though revenue dropped. **Can management elaborate further on the factors that determine the product mix? Which of the brands/products contributed to the better profit margin?**
- (iii) **Regional operations:** The jump in revenue in FY2017 was mainly contributed by revenue generated from outside Singapore. **Can management help shareholders understand the progress made in the regional countries, especially Malaysia, Indonesia and Myanmar as revenue increased sharply (page 105 – Note 31 Segment information).**
- (iv) **Sector exposure:** **How much of the revenue was generated from customers in infrastructure/construction and how much was from oil and gas customers?**

2. The “recoverability of trade receivables” is a key audit matter (KAM) highlighted by the Independent Auditor in their Report on the Audit of the Financial Statements (page 49). Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As mentioned in the KAM, the group has exposure to the marine and oil and gas industries, where weak market sentiments may result in collectability issues from the relevant debtors. As at 31 December 2017, the trade receivables of the Group amounted to \$24,513,000.

- (i) **Can management provide a breakdown to show the industry exposure related from the trade receivables of \$24.5 million?**

In addition, the group has trade receivables balances of \$7.22 million as at 31 December 2017 that were past due but not impaired, as disclosed in Note 8 (page 85 – Trade receivables):

8 TRADE RECEIVABLES (cont'd)

The table below is an analysis of trade receivables as at the end of the reporting period:

	Group		Company	
	31 December 2017 \$'000	30 June 2016 \$'000	31 December 2017 \$'000	30 June 2016 \$'000
Not past due and not impaired	17,291	20,836	13,752	19,877
Past due but not impaired:				
Less than 3 months	2,161	2,333	657	3,663
More than 3 months and less than 12 months	1,349	1,143	5,025	4,180
More than 12 months	3,712	1,983	17,480	17,920
	24,513	26,295	36,914	45,640
Impaired receivables - individually assessed	-	73	-	-
Less: Allowance for doubtful debts	-	(73)	-	-
	-	-	-	-
Total trade receivables, net	24,513	26,295	36,914	45,640

(Source: Company annual report)

- (i) Can the company provide an upper limit to the trade receivables that are past due more than 12 months but not impaired?
- (ii) Please also provide the breakdown to show the number of debtors, the individual amounts owed, the industry, the country of operations, and the financial status of the debtor.
- (iii) What was management's basis that "there has not been a significant change in credit quality and the amounts are still considered recoverable"?
- (iv) As the group scales up its overseas business, has the audit and risk committee (ARC) evaluated the robustness of the group's credit risk policy? How does the group evaluate the creditworthiness of its counterparty?

3. Other than the board reshuffle, the group has experienced changes in its key management team, including:

- CFO: Resignation of Mr. Goh Chin Wah Johnny with effect from 31 March 2018 (from 1 November 2016) "to pursue other interests"
 - Senior Head, Business Development: Resignation of Mr. Teo Thiam Chuan William with effect from 15 November 2017 (from 1 July 2016) "to pursue other interest"
 - Financial controller: Resignation of Mr. Yang Yung Kang with effect from 31 Oct 2016 (from 28 September 2012) "to pursue other personal interests"
- (i) Has the ARC considered the need to review the frequent changes in the CFO/FC role in the past 2 years?
 - (ii) What is the progress made in the search for a Senior Head, Business Development?

In addition, the board presently comprises four executive directors, two non-executive Directors and four independent directors. The nominating committee (NC) has reviewed the size and composition of the board and is satisfied that the current board size is appropriate and effective.

- (iii) Has the NC also evaluated how the size and composition of the board has facilitated effective decision-making?**