Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Kim Heng Offshore & Marine Holdings Limited

Security: Kim Heng Offshore & Marine Holdings Limited

Meeting details:
Date: 26 April 2019
Time: 9.30 a.m.
Venue: The Chevrons, Carnation 1, Level 3, 48 Boon Lay Way, Singapore 609961

Company Description

Kim Heng Offshore & Marine Holdings Limited is a Singapore-based investment holding company. The Company, through its subsidiaries, provides offshore and marine value chain services. The Company has two segments: Offshore Rig Services and Supply Chain Management, and Vessel Sales and Newbuild. The Company's Offshore Rig Services and Supply Chain Management segment includes chartering; freight servicing and repair of vessels; provision of services of marine engineers, consultants, sub-contractors, labor supply, fabrication services and trading in drill pipes and related drilling materials, and provision of services and rental of marine equipment and cranes. The Company's Vessel Sales and Newbuild segment includes trading of vessels and newbuild. The Company's operations are primarily located in Singapore, with approximately two shipyards. Its heavy equipment sale and rental business includes a range of equipment and machineries, including crawler, lorry and mobile cranes.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5G2)

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

(i) **Shipyard: What is the utilisation rate of the two shipyards at 9 Pandan Crescent and 48 Penjuru Road?**

(ii) **Order book: Would management consider disclosing the order book on a regular basis?**

(iii) **Cash flow management:** In the last two financial years, the group invested more than $10.5 million into the business as net cash used in operating activities. Cash and cash equivalents as at 31 December 2018 amounted to just $1.685 million. **How is management going to improve the cash flow of the group? Does it have the necessary working capital to support all its operations, especially the new marine civil engineering/marine and horizontal directional drilling projects?**

(iv) **New ventures:** The chairman has disclosed that the group is also looking to venture into the defense and renewable wind energy sectors. **Would the company clarify if the group intends to serve customers in these sectors or carry out proprietary investments, such as investing in renewable wind energy farms?**

(v) **Debt to equity ratio:** The gearing has increased to 0.62x as at 31 December 2018, up from 0.39x a year ago. **Has the board set an internal limit to its leverage?**

2. On 2 October 2018, the company announced that the group has completed the purchase of an oil product tanker vessel, named Angel Sun, for a consideration of $2.1 million from the High Court Sheriff of Singapore. The vessel has an estimated value of $4.77 million.

The company has said that it aims to sell the 2006-built 5,000 dwt Angel Sun for a profit "*as and when opportunities arise*".

(i) **Can management help shareholders understand if the group has the expertise and the network to deploy and charter out the oil product tanker before it finds a buyer?**

The group had also made opportunistic acquisitions, namely:

- Pacific 8, an Anchor Handling Tug / Supply ("AHTS") vessel (renamed Bridgewater 80)
- Lewek Lynx, an AHTS vessel (renamed Mazu 60)
- Swissco Summit, a chase boat (subsequently sold)
- Three 10,800 bhp AHTS vessels namely Swiber Anne-Christine, Swiber Else-Marie, and Swiber Mary-Ann (renamed Bridgewater 130, Bridgewater 131 and Bridgewater 132)

In Note 17 (page 120 – Revenue), Chartering and towage income was $6.99 million in FY2018, up from $4.346 million.

(ii) Can management confirm that the newly acquired vessels have contributed positively to the group's cash flow and earnings?

(iii) What were the utilisation rates for the fleet?

The group is also in the process of selling 10 cranes for $4.2 million. With operating cash outflow amounting to $10.5 million in the past two years, the group's cash and cash equivalents stood at just $1.685 million at the end of the year.

(iv) Can management elaborate further on the group's capital allocation decisions? The group is selling its crawler cranes and investing in the AHTS fleet.

(v) What is the projected return for its investments into the AHTS vessels?

(vi) In addition, what are the new plans for the 14 cranes and 2 luffing jibs that it failed to sell?

3. The remuneration of the executive directors is disclosed in the Corporate Governance report (page 32) and reproduced below for reference:

Details of the remuneration of the Directors and key management personnel of the Group for FY2017 are set out below:

	Breakdown of Remuneration in Percentage (%)					
Directors	Fees (%)	Salary (%)	Benefits-in-kind (%)	Variable Bonus* (%)	Total (%)	
Tan Keng Siong Thomas	–	91	2	7	100	Band C
Yeo Seh Hong[(1)]	–	88	5	7	100	Band B

(Source: Company annual report)

While the group has reported losses exceeding $28.8 million in the past two years, the executive directors still received variable bonuses that amounted to 7% of the total remuneration package.

In the footnote, it was stated that the variable bonus is a "one-off discretionary variable bonus".

(i) Would the remuneration committee (RC) help shareholders understand if it approved the "one-off discretionary variable bonus"?

(ii) What was the justification to award the executive directors a bonus given the financial performance of the group?

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(iii) With the group suffering losses of more than $(28.8) million in the past two year, can the RC justify how the remuneration framework is designed to align the interests of the executive director with those of the shareholders and link rewards to the group's financial performance?

In addition, the company has not disclosed the remuneration of the directors as recommended by the Code of Corporate Governance. For Mr Tan Keng Siong Thomas, the disclosure was "Compensation from S$500,001 and above per annum."

As disclosed in the offer document dated 14 January 2014, Mr Tan has a service agreement that entitled him to a monthly salary of $85,000, on top of an incentive bonus. Guideline 9.2 of the 2012 Code of Corporate Governance recommends that the company should fully disclose the remuneration of each individual director and the CEO on a named basis.

(iv) Would the company disclose Mr Tan's remuneration package as recommended by the 2012 CG Code? If not, would the company disclose it in bands of $250,000?

(v) Has the service agreement been renewed? Did the remuneration committee review the service agreement?

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

https://sias.org.sg/qa-on-annual-reports/?company=Kim%20Heng%20Offshore%20&%20Marine%20Holdings%20Ltd&cid=6404,4471

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