



Securities Investors Association (Singapore)

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UEN No: S99SS0111B

GST Reg No: M90367530Y

Issuer: BH Global Corporation Limited

Security: BH Global Corporation Limited

Meeting details:

Date: 18 April 2019

Time: 10.00 a.m.

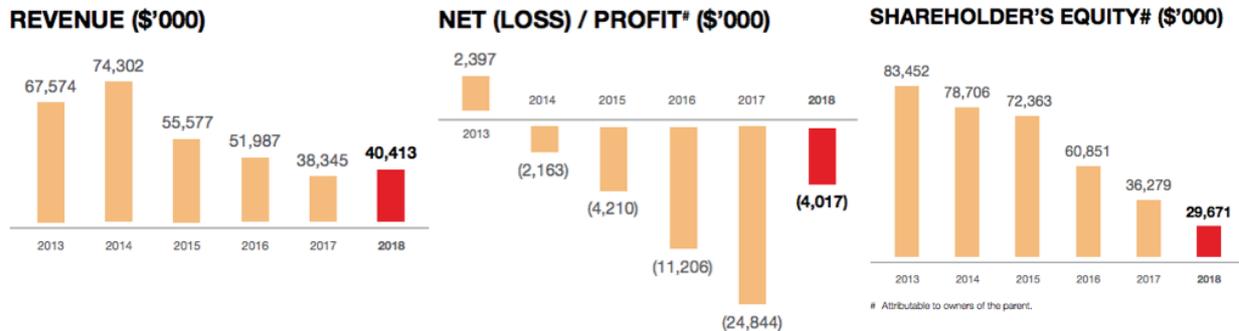
Venue: Boardroom, 8 Penjuru Lane, Singapore 609189

Company Description

BH Global Corporation Limited provides supply chain management, design, and manufacturing solutions to marine and offshore industries worldwide. It operates through four segments: Supply Chain Management, Manufacturing, Security, and Engineering Services. The company supplies marine, offshore, industrial, and marine data and coaxial cables, as well as cable accessories; marine and offshore, ATEX, and LED lighting solutions, as well as lighting accessories; and ATEX sounders and beacons, alarm and signaling equipment, ship horns, battery chargers and accessories, and switchboard control and automation products. It also offers inventory management, quality component integration, and support services. In addition, the company provides LED module, LED luminaire, floodlight, panel light, downlight, and industrial highway series products. Further, it provides design engineering services, including electrical, instrument, and control system HVAC/structure engineering design; engineering and fabrication of marine, oil, and gas equipment/systems; facilities, shipside, and value engineering; floating production storage offloading; offshore and onshore oil and gas platforms; refineries and petrochemical gas plants; and power plants. Additionally, the company offers critical infra-structure protection and cyber security products and services; and develops, manufactures, and markets remote sensing and motion control systems for industrial, commercial, and law enforcement applications. The company was formerly known as BH Global Marine Limited and changed its name to BH Global Corporation Limited in May 2013. BH Global Corporation Limited was founded in 1963 and is headquartered in Singapore. BH Global Corporation Limited is a subsidiary of Beng Hui Holding (S) Pte Ltd.

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

1. From the Financial highlights (page 9), revenue in the financial year increased for the first time in the past 4 years and net (loss) for the year was reduced as well.



(Source: Company annual report)

As noted in the Chairman statement, the group is ready to embrace growth following the disposal of non-performing entities.

However, the group reported a net cash used in operating activities of \$(1.08) million, net cash used in investing activities of \$(17.2) million and net cash from financial activities of \$18.1 million, mostly from a shareholder loan of \$11.5 million.

Cash and cash equivalents at the end of the financial year amounted to \$6.12 million. Since the financial year, the company had also carried out a rights issue in February 2019.

- (i) Has management evaluated the group's cash flow? What are the major capital expenditure planned for the group's four divisions?
- (ii) What are management's plans to improve the cash generative ability of the businesses?
- (iii) As disclosed in Note 29 (page 123 – Bank borrowings) a subsidiary is in breach of a covenant imposed by a bank for credit lines of \$7.2 million which required the subsidiary to maintain minimum net worth of \$45 million throughout the facilities validity period. Due to this breach of the covenant clause, the bank is contractually entitled to request for immediate repayment of the outstanding loan amount of \$6.14 million. Management has commenced renegotiation of the terms of the loan agreement with the bank subsequent to year end. **How does management intend to remedy the situation and does the breach affect the group's ability to obtain financing?**
- (iv) On 19 December 2018, the group announced two contract wins for the supply of cables for a floating production storage and offloading vessel (FPSO) and for the supply of LED lighting systems to an overseas customer. **Would management consider disclosing the order book of its 4 major divisions on a regular basis?**
- (v) **Does the group have sufficient working capital to support the operations?**

2. The security division contributed \$4.6 million in revenue in the financial year ended 31 December 2018, an increase from the \$2.7 million in the previous year.

- (i) Can management provide shareholders with better visibility of the revenue from Athena Dynamics Pte Ltd (“ADL”) and Omnisense Systems Pte Ltd (“OMS”) respectively?**
- (ii) Would the board consider reporting ADL and OMS separately to show their performance?**

ADL also formed strategic partnerships with Horangi Cyber Security and Sasa Software (Israel) in FY2018 in a bid to strengthen its suite of cyber security offerings. OMS set up an additional R&D facility in Taipei to accelerate the pace of R&D activities and the launch of a complete range of advanced sensing system products is expected in 2019.

The security division was a drag on the group’s performance, reporting a loss of \$(2.7) million in FY2018 although this was an improvement from the loss of \$(5.9) million in FY2017.

- (iii) Can management help shareholders understand the size of the addressable market of ADL and OMS separately?**
- (iv) How does the group acquire new customers?**
- (v) Has management estimated the breakeven level of the security division? How soon can the division break even?**

3. On 2 April 2019, the company announced that there are material differences between the unaudited results (first announced by the company on 1 March 2019) and the audited financial statements for FY2018 after the finalisation of audit. The variance was as large as \$11.5 million.

The reclassifications carried out included:

- Net impairment losses on financial assets from selling and distribution expense was to align with the presentation requirements of SFRS(I) 1-1
- Contract assets from trade receivables was to align with the presentation requirements of SFRS(I) 15
- Convertible loan notes from non-current liabilities to current liabilities
- Shareholder’s loan from non-current liabilities to current liabilities
- Contract liabilities from other payables was to align with the presentation requirements of SFRS(I) 15
- Share application money received of \$3,800,000 from cash flows from operating activities to cash flows from financing activities
- Repayment of purchase deposit from a supplier of \$1,501,000 from cash flows from operating activities to cash flows from investing activities
- Reversal of provisions of \$661,000 from cash flows from investing activities to cash flows from operating activities

- Restricted cash of \$2,550,000 from cash flows from investing activities to cash and cash equivalents
- Accruals of \$69,000 from cash flows from financing activities to cash flows from operating activities.

The reclassification included changes from the non-current period to the current period, and changes due to the adoption of SFRS(I).

In fact, in each of the past three years, i.e. FY2016, FY2017 and FY2018, the company has had to announce material discrepancies between unaudited and audited accounts.

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Companies Act, Chapter 50 and Singapore Financial Reporting Standards (International) ("SFRS(I)") and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

- (i) How can shareholders get assurance from management that the financial statements are prepared in accordance with the Act and SFRS(I)?**
- (ii) Has the audit committee evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?**
- (iii) Would the members of the audit committee (AC) help shareholders understand their personal recent and relevant accounting or related financial management expertise or experience that would make them appropriately qualified to discharge their responsibilities? In the board's self evaluation (page 35) only one director is said to have competency in "Accounting or finance".**
- (iv) Can the AC update shareholders on the improvement made/to be made to the group's financial reporting systems and processes?**

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

<https://sias.org.sg/qa-on-annual-reports/?company=BH%20Global%20Corporation%20Ltd&cid=6477,4517,4254>

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