Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: CH Offshore Ltd

Security: CH Offshore Ltd

Meeting details:
Date: 21 September 2018
Time: 2.30 p.m.
Venue: 137 Cecil Street, #04-01, Singapore 069537

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. As of July 26, 2018, CH Offshore Ltd. operates as a subsidiary of BT Investment Pte. Ltd.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=C13)

Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

1. As noted in the Chairman's Message, Baker Technology Limited, through its direct wholly-owned subsidiary, bought a 52.72% stake in the company, resulting in a change in the control of the company and triggering a mandatory unconditional cash offer. At the close of the offer on 7 September 2018, the new controlling shareholder holds 54.98% of the total number of shares issued.

Four new directors, namely Dr Benety Chang, Ms Jeanette Chang, Mr Heath McIntyre and Mr Tan Kiang Kherng, joined the board on 27 August 2018 as non-executive directors.

In addition, Mr Thia Peng Heok, George was redesignated as chairman of the board on 8 August 2018 and Ms Tan Sooh Whye, as non-executive director, will retire at the conclusion of the 42nd Annual General Meeting of the company on 21 September.

(i) **Would the board help shareholders understand the level and scope of discussion, if any, it has had with the new controlling shareholder on the strategic direction of the group?**

(ii) **For the benefit of both new and old shareholders, would the board (re)state the group's strategic direction in greater detail, given the new controlling shareholder and the changes in the board?**

(iii) **Has the company evaluated the potential synergies with the new controlling shareholder and explored how it could achieve greater cost savings and operational efficiencies?**

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

(i) **Utilisation rate:** As noted in the Review of results (page 7), the group achieved an overall fleet utilisation rate of 53% in FY2018, a decline of 10% from a year ago. **Would management be able to further breakdown the utilisation rates by vessel types/class, such as the smaller (5,000 horse-power) AHTS vessels, the larger (12,240 horse-power) AHTS vessels and the OSV?**

(ii) **Growth prospects:** Revenue in FY2018 has fallen to just US$9.9 million, or approximately a quarter of the revenue earned in FY2014 (US$35.1 million) as charter rates and utilisation rates have fallen. **With three vessels currently in the Middle East, two in Mexico, one in Africa and the balance in South East Asia, what are management's strategies to increase the charter hire income of the fleet?**

(iii) **Value proposition:** As mentioned in the Chairman's message, the over-supply of vessels is expected to persist in the near-term given that scrapping of old vessels is relatively low. **What is the value proposition of the group that allows it to stand out from its competitors in the crowded marketplace that is awash in unused vessels?**

Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

3. The "Recoverability of trade and other receivables" is a key audit matter (KAM) highlighted by the Independent Auditor in their Report on the Audit of the Financial Statements (page 62). 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 noted in the KAM, the group has trade and other receivables of US$9,800,000 (2017: US$18,040,000), which represents 55% (2017: 79%) of its current assets. In the past two financial years, the group recognised allowance for doubtful debts of US$(8.66) million and US$(2.38) million in FY2018 and FY2017 respectively.

The aging of receivables that are past due but not impaired, from outside parties, is shown below:

(i) Aging of receivables that are past due but not impaired:

	Group		Company	
	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000
< 3 months	1,572	1,696	731	922
3 to 6 months	1,362	833	391	833
More than 6 months	3,732	1,052	3,565	1,049
	6,666	3,581	4,687	2,804

(Source: Company annual report)

(i) Can management show a more meaningful analysis by providing an upper limit to the aging (with the appropriate breakdown)? Specifically, what is the amount that is past due by more than a year and by 2 years?

(ii) Can management help shareholders understand the specific reasons for the increase in trade receivables past due over 6 months but not impaired?

(iii) What was the process by management to evaluate the collectability of these long outstanding debts?

(iv) Given that the group has recognised more than US$(11.0) million in doubtful debts in the past 2 financial years, and that many companies in the sector remain financially weak, does the audit committee consider it opportune to review how the group assesses the credit quality and creditworthiness of its customers?

In addition, as disclosed on page 93, the group and company have made an allowance for doubtful debts for the trade and other receivables due from its [then-]ultimate holding company and related companies amounting to US$4,480,000 (2017: US$ nil) and US$4,177,000 (2017: US$ nil) respectively.

Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

The following questions that were sent to the company based on the 2017 Annual Report have been updated and reposted below:

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.

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*".

(v) Would the audit committee and the independent directors clarify if the company has now provided an allowance for the loans given to FEG in the past year?

(vi) Can the audit committee update shareholders on 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"?

(vii) 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 (2017 AR) – Borrowings) while the interest charged on the loans is 4.3%?

(viii) What are the efforts by the group to collect the doubtful debts from FEG?

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

https://sias.org.sg/qa-on-annual-reports/?company=CH%20Offshore%20Ltd

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