Securities Investors Association (Singapore)
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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: 28 March 2019
Time: 2.30 p.m.
Venue: Evergreen Room 1 & 2, Safra Jurong, 333 Boon Lay Way, Singapore 649848

Company Description

CH Offshore Ltd, an investment holding company, provides marine support services to the oil and gas industry in South East Asia and internationally. It is involved in the ownership and chartering of vessels. The company provides various services to the, 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)

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1. As noted in the chairman's message (pages 3 and 4 of the annual report), while the offshore oil and gas industry is showing early signs of stabilisation, charter rates are likely to stay low due to the oversupply of vessels. One bright spark for the group is its high quality Japanese-built 12,240 horse-power Anchor Handling Tug Supply (AHTS) fleet which is known in the market for its high reliability.

For FY Dec 2018, the group managed to achieve a vessel utilisation rate of 60% (page 7). As shown in the Statements of profit or loss, the group still suffered a gross loss of US$(1.84) million after depreciation.

(i) **Given the current charter rates, what level of utilisation rate would allow the group to achieve break even (i.e. gross profit after direct depreciation)?**

(ii) Administrative expenses have declined to 32% of revenue in FY Dec 2018, from 40% of revenue in FY Jun 2018. **How much more cost savings can be expected from the group's cost rationalisation and business streamlining initiatives?**

(iii) In the year, the group also ventured into Nigeria for the first time with an International Oil Major and reactivated a few laid up vessels. **Given the ample supply of vessels in the market, what were the factors that helped the group secure the Nigerian charter from the International Oil Major? Would this new charter be expected to contribute positive cash flow to the group?**

(iv) The group reported an improved cash position of US$5.7 million at FY Dec 2018, partly due to a US$0.8 million operating cash inflow. **Would the board/management elaborate further on the group's liquidity risks and update shareholders if the group has any other major capital expenditure or investments in the near term?**

2. In Note 3.2(a) (page 85 – Key sources of estimation uncertainty: Impairment of vessels), it was disclosed that the carrying amounts of the group's vessels are reviewed at the end of the reporting period to determine whether there is any indication that those vessels have suffered an impairment loss. In determining the impairment loss to be recorded for the group's vessels, management has computed the value-in-use and considered the respective cash generating units ("CGU") of the group in deriving the recoverable amount of the group's vessels.

In addition, the "carrying value of vessels" is a key audit matter highlighted by the independent auditor. As noted in the KAM, as at 31 December 2018, the group owned 12 vessels with an aggregate carrying value of US$81.5 million which represent 89% of the group's total non-current assets.

The value-in-use was estimated by using the future cash flows expected to be generated by the vessels based on the pre-tax discount rate of 9.50% per annum. Management has disclosed that the discount rate of 9.50% reflects the "current market assessment of the time value of money and the risk specific to the group".

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(i) **Can management/audit committee show shareholders how the discount rate of 9.50% was derived? How was the risk premium determined/calculated?**

(ii) **How sensitive is the estimated value-in-use to the discount rate used? Can the company show a sensitivity analysis of the value-in-use based on the discount rate?**

(iii) **What were the other key variables/assumptions used in the estimation of the value-in-use?**

3. On pages 10 to 28 in the annual report, the company shared its Sustainability Report for the period commencing 1 Jan 2018 to 31 Dec 2018. The company has been an early adopter of sustainability reporting and having commenced its sustainability reporting journey in 2016, this is the third sustainability report (due to the change in financial year).

(i) **Can the company/board help shareholders understand the size of its Sustainability Committee? What is the composition of the Sustainability Committee?** The company has only identified the key personnel to drive its sustainability agenda, namely the chief executive officer, chief financial officer and the managing director of CHO Ship Management Pte. Ltd. ("CHOSM MD").

As disclosed on page 14 of the annual report, following a materiality assessment in 2016, the group identified 8 material topics, namely Environmental (Compliance, Energy and emissions, and Waste management and disposal), Social (Diversity and equal opportunity, Talent attraction and retention, Training and education, and Occupational health and safety) and Governance/economic (Ethics and anti-corruption).

(i) **Would the company be carrying out another materiality assessment given that the identification and prioritisation of material topics was first carried out in 2016?**

Under Chapter 7 of the Listing Manual on Continuing Listing Obligations, Rule 711B states that the sustainability report must describe the issuer's sustainability practices with reference to the following primary components: (a) material environmental, social and governance factors; (b) policies, practices and performance; (c) targets; (d) sustainability reporting framework; and (e) board statement.

(ii) **Would the board be looking at how the group will be setting targets (as required in Rule 711B) and establishing a performance scoreboard/indicator to monitor the group's progress?**

(iii) **Since the group started on its Sustainability reporting journey, can management cite any examples where the reporting of its sustainability practices led to better policies and processes that further raised the group's sustainability efforts?**

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A copy of the questions for the Annual Report for the financial year ended 30 June 2018 and 30 June 2017 could be found here:

https://sias.org.sg/qa-on-annual-reports/?company=CH%20Offshore%20Ltd&cid=6260,5284,4408

The company's response could be found here:

2017:
https://sias.org.sg/media/qareport/CH%20Offshore%20-%20Response%20to%20SIAS%20Queries%20in%20Relation%20to%20the%202018%20Annual%20Report.pdf

2016:
