Securities Investors Association (Singapore)
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www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y0Y

Issuer: Beng Kuang Marine Limited

Stock code: BEZ

Meeting details:
Date: 26 Apr 2024
Time: 3.00 p.m.
Venue: 2 Venture Drive #09-22, Vision Exchange, Singapore 608526

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Q1. The group now operates two core business divisions: Infrastructure Engineering (IE) and Corrosion Prevention (CP). In the IE division, the group is focusing on growth opportunities within the marine and offshore energy market, as well as pursuing geographical diversification. In the CP segment, aside from the recurring CP services, the company has ventured into sales, leasing, and rental activities of CP equipment across Southeast Asia to generate new revenue streams.

The group's net debt has decreased from $18.2 million in 2021, to $15.5 million in 2022 and to $2.0 million in 2023. Net gearing ratio has also declined to 16% as at 31 December 2023.

In the IE division, revenue increased significantly from $38.8 million to $57.0 million. Management attributes this growth to the successful expansion and penetration into the onshore and offshore energy value chain, particularly the buoyant market for Floating Production Storage and Offloading (FPSO) and Floating Storage and Offloading (FSO) services.

(i) **How does the 51%-owned subsidiary, Asian Sealand Offshore and Marine Pte Ltd ("ASOM"), secure new contracts and customers?** ASOM currently serves 24 FPSOs out of 186 FPSOs and is looking to expand into China, South America and Southeast Asia. **How does its value proposition differentiate from competitors in these regions?**

(ii) **Can the company provide greater clarity on financial position and potential of International Offshore Equipments Pte Ltd ("IOE")? Does IOE require further capital injection?** Despite being marginally cash flow positive in 2023, IOE remains in a net deficit position exceeding $12.3 million and is still reporting losses.

(iii) **In the new CP business line, does management possess the capacity and experience to initiate a new venture in the sale, leasing and rental of corrosion prevention equipment across Southeast Asia? What are the associated risks with this new business line, and would it require substantial capital investment?**

(iv) **What portion of the remaining Batam shipyard property, approximately 137,986 square meters in size, is currently utilized by the group in its operations?**

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Q2. The "credit loss allowance on trade receivables and contract assets" is a key audit matter (KAM) highlighted by the independent auditors in their report on the audit of the financial statements. 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 at 31 December 2023, the group's gross trade receivables (Note 13) and contract assets (Note 4(b)) amounted to $20.1 million (2022: $17.8 million) and $10.0 million (2022: $7.3 million) respectively, arising from the group's different revenue segments – infrastructure engineering and corrosion prevention.

	TRADE RECEIVABLES $	CONTRACT ASSETS $	TOTAL $
Group			
31 December 2023			
Beginning of financial year	2,479,475	–	2,479,475
Allowance made (Note 5 and 7)	874,169	1,239,882	2,114,051
Allowance written back (Note 5)	(48,068)	–	(48,068)
Allowance written off	(2,662,288)	(1,239,882)	(3,902,170)
Currency translation differences	(13,970)	–	(13,970)
End of the financial year (Note 13)	629,318	–	629,318

(Source: company annual report)

As highlighted in the diagram above, the loss allowance made in 2023 for trade receivables and contract assets amounted to $0.87 million and $1.24 million respectively.

(i) **What were the reasons for the relatively high allowance made in 2023?**

(ii) **Specifically, what factors led to the recognition of the $1.24 million allowance for contract assets which were then written off in the same financial year?**

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The Group's and the Company's credit risk exposure in relation to trade receivables and contract assets under SFRS(I) 9 as at 31 December 2023 are set out in the provision matrix as follows:

	NOT PAST DUE NOR IMPAIRED	PAST DUE 0 TO 30 DAYS	PAST DUE 31 TO 180 DAYS	PAST DUE 181 TO 365 DAYS	MORE THAN ONE YEAR	TOTAL
	$	$	$	$	$	$
Group						
Infrastructure engineering						
Expected loss rate	0%	0%	0%	16%	20%	
Trade receivables	5,963,909	3,262,464	3,733,004	610,025	653,256	14,222,658
Contract assets	8,351,934	–	–	–	–	8,351,934
Loss allowance	–	–	–	(99,693)	(133,390)	(233,083)
Corrosion prevention						
Expected loss rate	0%	0%	1%	30%	96%	
Trade receivables	2,211,359	1,440,174	1,645,550	195,715	256,359	5,749,157
Contract assets	1,717,747	–	–	–	–	1,717,747
Loss allowance	(579)	(288)	(13,101)	(58,905)	(247,232)	(320,105)
Others						
Expected loss rate	0%	0%	0%	0%	65%	
Trade receivables	1,319	869	30,680	14,428	117,236	164,532
Loss allowance	–	–	–	–	(76,130)	(76,130)

(Source: company annual report)

The provision matrix can be found in Note 31(b)(i) Financial risk management: Credit risk: Trade receivables and contracts assets (page 126).

(iii) **Could the audit committee (AC) shed light on why the group employs a higher expected loss rate for the CP business compared to the IE business? How do the risk profiles of customers differ?**

(iv) **In addition, for the IE division for trade receivables that are past due by more than a year, what rationale underpins the decision to apply an expected loss rate of 20% in 2023, especially considering that a loss rate of 77% was applied in the previous year (2022)?**

(v) **Separately, can the AC provide shareholders with insights into the group's methodologies for evaluating the creditworthiness of customers?**

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Q3. The remuneration of the directors, CEO and key executives is disclosed in bands on pages 29 and 30 of the annual report.

A summary compensation table of the directors' remuneration for the financial year ended 31 December 2023 is set out below:

NAME OF DIRECTORS AND CEO	SALARY# (%)	BONUS (%)	FEES* (%)	BENEFITS (%)	TOTAL (%)
Directors					
$500,001 to $750,000					
Chua Beng Yong	42.44	57.56	–	–	100
Chua Meng Hua	49.27	44.68	1.76	4.29	100
Up to $250,000					
Low Wee Siong	–	–	100	–	100
Goh Chee Wee[1]	–	–	100	–	100
Lum Kin Wah	–	–	100	–	100
Yee Chia Hsing[2]	–	–	100	–	100
CEO					
$500,001 to $750,000					
Yong Jiunn Run	41.69	58.31	–	–	100

NAME OF TOP 5 EXECUTIVE OFFICERS	SALARY (%)	BONUS (%)	FEES (%)	BENEFITS (%)	TOTAL (%)
$250,001 to $500,000					
Chua Beng Hock	50.37	49.19	0.44	–	100
Up to $250,000					
Lee Wei Liang	83.53	12.53	–	3.94	100
Elaine Wong Chiu Ling	87.03	12.59	–	0.38	100
Suri	84.80	14.46	0.74	–	100
Tan Cheng Kang	96.48	3.52	–	–	100

(Source: company annual report)

In light of the group's profit in the financial year 2023, it appears that executive directors and select key executives were given substantial bonuses.

(i) **Would the remuneration committee (RC) help shareholders better understand the justification(s) for the significant bonuses paid to the executive directors and key executives especially considering the company's accumulated losses are as high as $(51.68) million?**

(ii) **What key performance indicators are used to measure the performance of executive directors, and do these metrics incorporate a high water mark to ensure alignment with sustained growth and value creation? Specifically, did the RC consider the impact of past years' losses?**

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(iii) **Did the RC give due regard to prevailing market conditions as well as the financial and commercial health of the group?**

(iv) **Can the RC elaborate further on how the current compensation practices align with shareholders' interests? Specifically, can the RC help shareholders understand if the level and structure of remuneration are appropriate and proportionate to the sustained performance and value creation (Principle 7 of the Code of Corporate Governance 2018)?**

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

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