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

Issuer: Kim Heng Limited

Stock code: 5G2

Meeting details:
Date: 26 Apr 2024
Time: 9.30 a.m.
Venue: The Chevrons, 48 Boon Lay Way, Level 3 Rose Room, Singapore 609961

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Q1. As disclosed in the Operations and financial review, the group's FY2023 revenue increased by $21.4 million, or 26.7%, to $101.2 million, mainly due to the trading of vessels ($16.6 million in FY2023, up from $1.5 million); the increase in revenue of $12.3 million from marine offshore support services; partially offset by decrease in revenue from equipment rental (from $7.6 million to $4.1 million) and a decrease in revenue of $2.6 million from chartering of vessels (from $28.6 million to $25.9 million).

(i) **What are the reasons behind the decline in equipment rental and vessel chartering despite signs of market recovery?**

(ii) **Specifically, are the vessels chartered out on short-term leases? What was the average lease as at the end of the reporting period?**

(iii) **What was the utilisation rate of the group's vessels?** As at 31 December 2023, the vessels categorised as "Property, plant and equipment" have a carrying value of $32.9 million.

(iv) The group incurred finance costs of $3.11 million, of which $2.6 million was interest expenses on bank overdrafts, term loans and trust receipts. **How does management plan to reduce/manage finance costs given that interest rates have remained high? What is the cost of capital and is the company/group consistently generating returns exceeding the cost of capital after risk adjustments?**

(v) **With regard to Bridgewater Offshore Pte Ltd (BWOPL), can management provide insights into the challenges faced by the 51%-owned subsidiary?** Net assets in BWOPL have decreased from $10.0 million in 2022 to $5.0 million as at the end of the reporting period. Loss for the year was $(4.9) million.

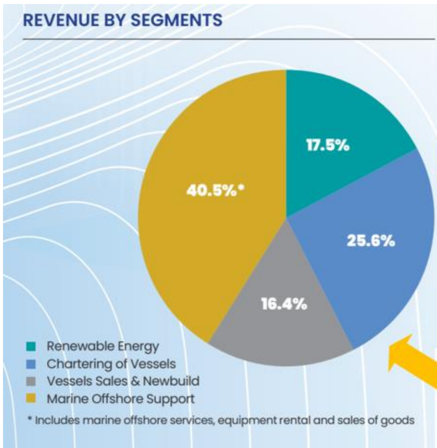
(vi) **When does management expect the new partnerships in South Korea with Soiltech Engineering Co Ltd Korea and KOMS CO. LTD to significantly contribute to the group's revenue and profits?**

Q2. The group has two reportable segments, namely "Offshore rig services and supply chain management" and "Vessel sales and newbuild". The activities in each segment are shown below:

Offshore rig services and supply chain management	Includes chartering, freight, servicing and repair of vessels, provision of services of marine engineers, consultants, sub-contractors, labour supply, fabrication services, trading in drill pipes and related drilling materials, provision of services and rental of marine equipment and cranes.
Vessel sales and newbuild	Includes trading of vessels and newbuild.

The financial highlights show the four operating segments contributing between 16.4% and 40.5% of total revenue. While the chairman has attributed the lower gross profit margin to lower profits from equipment rental segment, it is difficult for shareholders to follow through on the impact as there seems to be a lack of clarity regarding the performance of individual business lines beyond top-line revenue figures, as indicated in Note 18.

In fact, there appears to be inconsistency in the reporting of the group's revenue and financial performance across business lines, as observed throughout the financial statements and annual report.



18 Revenue

The Group	2023 $'000	2022 $'000
Marine offshore support services income, recognised over time	44,110	31,043
Chartering and towage income, recognised over time	25,920	28,553
Equipment rental income, recognised over time	4,140	7,632
Revenue recognised over time	74,170	67,228
Sale of goods, recognised at a point in time	10,413	11,113
Trading in vessels, recognised at a point in time	16,611	1,500
Revenue recognised at a point in time	27,024	12,613
	101,194	79,841

27 Operating segments (Cont'd)

	Offshore rig services and supply chain management $'000	Vessel sales and newbuild $'000	Total $'000	Adjustments and eliminations $'000	Total $'000
2023					
Revenue					
- External customers	84,583	16,611	101,194	–	101,194
- Inter-segment	25,348	–	25,348	(25,348)	–
Total segment revenue	109,931	16,611	126,542	(25,348)	101,194
Other income	2,966	–	2,966	–	2,966
Finance cost	(3,110)	–	(3,110)	–	(3,110)
Segment results	771	5,290	6,061	–	6,061
Income tax expense	(2,817)	(899)	(3,716)	–	(3,716)
Profit for the year	(2,046)	4,391	2,345	–	2,345

(Source: company annual report)

(i) **Will the audit & risk committee (ARC) assess ways to enhance the presentation (including consistency) of the annual report and financial statements to ensure that stakeholders and shareholders would be able to comprehensively understand the operational and financial performance across the various segments of the group?**

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Q3. On 11 April 2024, the company announced that there are material variances between the unaudited financial statements and the audited financial statements for the financial year ended 31 December 2023 following the finalisation of audit.

The announcement on the unaudited financial results was first released via SGXNet on 23 February 2024. The announcement of material differences came nearly 7 weeks after the company first announced the unaudited financial statements.

While there was no change in the group's P&L statement following the finalisation of audit, the material variances were as big as $4.75 million in the Statements of cash flow. The reasons given for the variances are:

Note A	The variance is due to reclassification of property plant and equipment to inventories.
Note B	The variance is due to reclassification of non-current portion of the lease liabilities to current liabilities previously wrongly classified.
Note C	The variances were due to reclassifications of cashflows used to (i) acquire certain property, plant and equipment under investing activities and (ii) proceeds from disbursement of term loan under financing activities, wrongly classified in changes in working capital included under cash flows from operating activities.

The company's announcement can be found here:
https://links.sgx.com/FileOpen/KHL%20-%20Material%20Variances%20FY2023.ashx?App=Announcement&FileID=795826

(i) **Can the ARC help shareholders better understand the underlying reasons for the material variances, such as the misclassification of inventories as PPE, etc?**

(ii) **What are the challenges faced by the company's finance and accounting staff in meeting the Singapore Financial Reporting Standards (International) (SFRS(I))?**

(iii) **How can shareholders be assured that the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?**

(iv) **How did the ARC review and evaluate the adequacy and integrity of the group's internal controls, compliance, risk management and financial reporting systems? What changes have been made/will be made to the group's financial reporting systems and processes?**

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

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