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Issuer: Koyo International Limited

Stock code: 50C

Meeting details:

Date: 25 Apr 2024

Time: 2.00 p.m.

Venue: Lifelong Learning Institute, Room 01-02 at 11 Eunos Road 8, Singapore 408601

Q1. As noted in the chairman and CEO's message, revenue for financial year ended 31 December 2023 increased by 57.6% to \$61.0 million. The increase in revenue was mainly due to progression of ongoing projects from the mechanical engineering segment and a change of its accounting policy for contract revenue recognition from output method to input method for a project.

In addition, the improvement in the gross profit margin was also attributed to the change in accounting policy for contract recognition from output method to input method for certain contracts in the mechanical engineering segment.

- (i) **Can the audit committee explain, in layman terms, the reasons for the change in accounting policy from output method to input method and quantify the impact on revenue and profit?**
- (ii) **What was the project that had undergone the change in accounting policy from output method to input method that led to the significant increase in revenue recognised? What were the characteristics of the project that made the input method more appropriate?**
- (iii) **Does the AC view the input method for contract revenue recognition as more aggressive compared to the output method?**
- (iv) **Does the adoption of the input method for contract revenue recognition entail a greater reliance on estimations and assumptions pertaining to costs, thereby rendering it more susceptible to the subjective judgment and potential biases of management?**

Q2. For the financial year, the group reported a net profit of \$1.5 million despite recognising a \$(3.1) million in allowance for expected credit losses due to the liquidation of Tiong Aik Construction Pte. Ltd.

The allowance for expected credit losses was made to provide for trade receivables, contract assets and retention sums owing by the Tiong Aik who went into liquidation. All amounts owed by the Tiong Aik have been fully provided for in FY2023.

As disclosed in Note 25(b) Financial risk management: Financial risk factors: Credit risk, the group adopts the policy of dealing only with customers and counterparties of appropriate credit history to mitigate credit risk. The group manages credit risk by monitoring creditworthiness and limiting the aggregate risk to any individual counterparty.

- (i) **Can the company/audit committee (AC) provide shareholders with insights into how they assessed Tiong Aik's creditworthiness before July 2023? In particular, when was the last review conducted and what was the company's risk revaluation of Tiong Aik, who served in a main contractor role to the group?**
- (ii) **What was the assigned credit limit for Tiong Aik?**
- (iii) **Is management anticipating any potential recovery from Tiong Aik's liquidation?**
- (iv) **Did the AC monitor the group's compliance with its credit risk management framework and if so, were any deficiencies identified?**
- (v) **Has the group implemented any additional measures to enhance its credit risk management framework?**

Q3. On 1 February 2023, the group's wholly owned subsidiary, Koyo Engineering (S.E. Asia) Pte. Ltd. received a notice from its insurance agent in relation to a customer call on the performance bond amounting to \$620,000.

After deducting an amount owed by the customer of \$154,000 which was previously recognised as trade payable to this customer, the group made a provision for the balance amount of \$466,000 as at 31 December 2022.

- (i) **Can the board, especially the independent directors, provide an overview of the circumstances leading to the call on the performance bond of \$620,000?**
- (ii) **What was the project and what specific challenges or issues were encountered during the project execution?**
- (iii) **Were there any contractual obligations that were not met or areas where performance fell short of expectations? Did management contest the call on its performance bond by the customer?**
- (iv) **Has there been any internal review or assessment conducted to identify the root causes of the problems encountered?**

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

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