BENG KUANG MARINE LIMITED
(Incorporated in Singapore)
Registration No. 199400196M

RESPONSE TO THE QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023

The Board of Directors (the "**Board**") of Beng Kuang Marine Limited (the "**Company**" and together with its subsidiaries, collectively the "**Group**") refers to the questions raised by the Securities Investors Association (Singapore) ("**SIAS**") relating to the Company's annual report for the financial year ended 31 December 2023 ("**FY2023**"), and sets out the responses as follows:

Question 1

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?

ASOM has garnered market recognition as a trusted provider of repairs, service, maintenance and commissioning for Offshore Floating Assets (comprising FPSO, FSO, TLP and Semis Submersible) overlaid by the following key competencies and attributes:

- The unique solution offering of Sandwich Plate System Overlay ("SPS"), in which ASOM is the Preferred Licensee worldwide. SPS eliminates the need for dry-docking and permits the use of innovative cold-work repair methods. It is Class Approved Permanent Solution to maximize the period of up to 15 years on FPSO and FSO without returning to shipyards for drydock under the IMO 5-year mandatory drydocking survey. This no-hot-work repair keeps assets in service and personnel safe while offering unrivalled sustainability compared to traditional crop and renew repairs;

- As a "One-stop" Offshore In-situ Asset Integrity Solutions provider for a seamless array of services including extension, class recovery, shutdown support, voyage carry-over works, assistance to start-up installation, warranty repairs, upgrades & modifications, major repairs, periodical maintenances, etc;

- Extension of expertise to Onshore Support Services Solutions encompassing project management on newbuild and conversion, miscellaneous steel fabrication, carry-over works, topside completion & commissioning support, vessel inspection, etc. These offerings underscore ASOM's commitment to delivering value at every stage of the asset lifecycle; and

- Developed partnerships with overseas contractors which have been instrumental in promoting local content integration, improving operational efficiency and cost-effectiveness. These collaborations strengthen ASOM's market position and service quality, while fostering stronger ties within their key markets of China, South America, West Africa and Southeast Asia for sustainable growth.

(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.

The deficit position of IOE was primarily a result of various contracts and events spanning from the marine and oil and gas downturn in 2015 to the COVID-19 pandemic period up to June 2023. Notable contributing factors include:

- A contract dispute stemming from its maiden project with a local marine company in 2015;

- The Canadian naval project, which was awarded in 2015 with a delivery schedule spanning from 2016 to 2019, faced operational difficulties. The final shipset experienced a delay of over a year due to the disruptions caused by the Covid-19 pandemic. Additionally, the depreciation of the Canadian Dollar against the Singapore Dollar further exacerbated the challenges encountered; and

- An unsuccessful venture into the tin mining sector in 2022 due to poor market acceptance.

We have implemented the following to improve the financial performance of IOE:

- Focusing on core competencies in marine and offshore deck equipment, such as pedestal cranes, mooring winches, and spoolers;

- Targeting markets where we have proximity, knowledge, and competitive advantage, specifically in key regions in Asia, i.e. Middle East, India, Malaysia, China, and Indonesia. This strategic shift aims to bolster our control and responsiveness in addressing warranty or maintenance issues, ultimately positioning IOE for sustained growth and success;

- Implementing tighter project monitoring and corporate governance measures, particularly in project monitoring and costing;

- Reshaping key personnel and establishing partnerships with contractors to ensure quality control and on-time delivery, thus rebuilding the IOE brand;

- Leveraging marketing and OEM partnerships to gain better control over fixed overheads and capital expenditures; and

- The group have successfully renegotiated trade terms with both buyers and sellers to ease IOE operating cashflow.

These corporate actions aim to enhance efficiency and effectiveness in project execution while reinforcing our commitment to delivering value to clients. Consequently, IOE achieved marginal cash flow positivity in 2023, marking a turnaround in its financial performance. As a result, we assess that no fresh funds will be required

(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?

CP has been one of the core businesses of BKM Group since its inception, and we believe that we are among the key and lead market players in Singapore and Indonesia, Batam. The Group assesses that it is in a strong position to initiate the sales, leasing, and rental of CP equipment based on the following attributes:

- With over 30 years of experience, expertise, specialization, and knowledge in the field of corrosion prevention, we have established ourselves as industry leaders;

- Our operations require consistent equipment upgrades and enhancements to address evolving needs, enhance productivity and meet emerging ESG challenges and opportunities. This will create spares and fully depreciated machinery and equipment, which can be leveraged to penetrate new markets and engage in equipment rental. This business strategy offers low entry costs while capturing fresh income streams along the CP value chains and achieving high machinery utilization rates, ultimately resulting in value creation;

- No major capital expenditure is expected as we primarily utilize used or reconditioned equipment; and

- Key risks are identified as trade accounts receivable. In the event of customer defaults or non-payment, we have mechanisms in place to reclaim and recover machinery and equipment, along with implementing recovery plans.

(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?

The yard disposal is a crucial component of the Group's overarching business strategy aimed at executing a turnaround plan in response to the marine, oil, and gas industry downturn. This downturn resulted in yard utilization dropping below 20% on a per-month basis, leading to significant carrying costs related to maintenance, depreciation, and interest expenses, which were straining the Group's cash flow.

To address this challenge, the Group took decisive action by disposing of approximately 19 hectares of the Batam shipyard, effectively reducing fixed overhead burdens.

Additionally, the yard disposal presented a 2-prong strategy as follows :

1. Reducing debt burden stemming from the industry downturn and lowering interest costs, thereby facilitating a turnaround plan to bolster operating cash flow; and

2. Recognizing that the Batam yard no longer holds a competitive advantage for shipbuilding and repairs due to logistical constraints, lack of supply chain support, and cost-effectiveness issues compared to Chinese competitors.

Currently, the yard has been rightsized to 13.8 hectares, with a 211-meter waterfront and sheltered workshop to support CP and IE activities. Through rental arrangements with third parties, the utilization rate has increased to 81% on a per-month basis. These strategic initiatives have helped to transform the Batam yard into a positive contributor to the Group, enhancing both cash flow and operating income levels.

Question 2:

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?

The high allowance made in 2023 was due to allowances made for contract assets amounting to $1.24m in relation to berthing and repair undertaken by the Batam yard in 2018. With the cessation of these activities at the Batam yard and the non-recovery of contract assets (i.e. unbilled work-in-progress for Berthing and repair activities), the Group opted for a one-time write-off. This decision was made in tandem with the partial disposal of the yard in FY2023. Nevertheless, the Group remains committed to pursuing collection through legal avenues.

(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?

The recognition was due to partial disposal of Batam yard. Please see our response to Question (2)(i) above for details.

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).

The Group uses a provision matrix to measure the lifetime expected credit loss allowance for trade receivables and contract assets. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of customers and adjusts to reflect current and forward-looking macroeconomic factors affecting the ability of the customers to settle the receivables.

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group considers a financial asset as in default if the counterparty fails to make contractual payments within 180 days from due date, and considers to write off or provide credit loss allowance when a debtor fails to make contractual payments after more than 365 days past due.

The Group carries out credit risk assessments on its trade receivables. As and when trade receivables are deemed uncollectable, the Company will provide the necessary credit loss allowance. The credit loss allowances were primarily attributable to the deteriorating financial performance of our trade debtors.

(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?

The credit loss allowances were attributable to the deteriorating financial performance of specific trade debtors. Hence, the expected credit loss rate is not an accurate indicator of the general risk profiles of the customer in the CP and IE businesses.

Our rigorous assessment of trade receivables has led to improvements in the ageing profile over the years, as outlined below, specifically, the net ageing profile for receivables exceeding 150 days has substantially decreased, with over 80% now ageing less than 90 days.

Trade Receivables Ageing	31 December 2023 $'000	31 December 2022 $'000	31 December 2021 $'000	31 December 2020 $'000
Current	8,177	4,723	2,570	2,395
Less than 90 days	7,842	6,970	8,667	6,372
91 to 150 days	2,145	1,700	1,110	2,275
151 to 365 days	772	1,345	1,780	2,584
More than 365 days	571	560	2,133	2,207
	19,507	15,298	16,260	15,833

(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)?

Please refer to our response in Question (2)(iii).

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

The Group assesses customer creditworthiness by conducting financial analysis, which involves examining factors such as liquidity, solvency, and payment history. Additionally, credit histories are reviewed to understand past behaviour and reliability in meeting financial obligations.

Furthermore, the Group evaluates the stability and growth potential of customers' industries and markets to gain insights into broader economic factors that may impact credit risk. External data sources, such as credit bureaus and industry reports, are also utilized to supplement internal assessments and provide additional context.

Moreover, maintaining effective relationship management practices allows the Group to foster open communication with customers and gather feedback from sales teams or account managers. This collaborative approach ensures a comprehensive and informed evaluation of customer creditworthiness, enabling the Group to make prudent decisions and effectively manage credit risk.

Question 3:
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

* These fees are subject to approval of the shareholders at the forthcoming AGM.
# Salary is inclusive of fixed allowance and CPF contributions.

1 Mr. Goh Chee Wee retired as Independent Director of the Company on 27 April 2023.
2 Mr. Yee Chia Hsing was appointed as Independent Director of the Company on 10 July 2023.

(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?**

The RC has evaluated payouts and bonuses based on the following criteria:

- The leadership transition, led by the newly appointed Executive Chairman and CEO, has successfully transformed and turned around the Group's operations in alignment with the BKM 2.0 strategy;

- The refreshed executive team has demonstrated tangible results, including profitability improvements, enhanced cash flow positions, and strengthened balance sheets;

- Despite their significant contributions, the new Management did not receive bonuses or annual wage supplements following their appointments in 2021. Moreover, they voluntarily reduced their entitled profit-based incentives for FY2023;

- The percentage bonus awarded to executive directors and executives seems high due to their salaries not being fully re-instated in FY2023;

- The payouts aim to align key executives' total remunerations with market bands, with a substantial portion structured as bonuses rather than fixed salaries; and

- The compensation package is designed to attract talent, drive performance, and develop key competencies essential for the Group's continued success and sustainable growth.

(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?

The Group has defined the key performance indicators on Page 3 of the Annual Report 2023. To recap, prior to the transformation and restructuring led by the new executive team, the Group was saddled with debt as well as non-performing and heavily capex ladened operations as observed in the discontinued cattle liners, tug & barges, the Batam yard, steel fabrication and supply and distribution businesses. The marine shipbuilding and repairs segment no longer constitutes a strong value proposition in which the Group cannot achieve a dominant and lead market position. Hence, the following metrics were laid out as key measures of the key performance indicators to achieve sustained growth and value creation:

- Strategic market positioning: to get to a leading and dominant market position, with a commanding market share as observed in ASOM and CP;

- Value-led transformation: Transitioning to an asset-light and agile business model adaptable to the life cycle of industries. This involves exploring new opportunities across marine, energy, and oil and gas value chains while retaining key competencies;

- Financial resiliency: Implementing key financial indicators related to earnings, cost optimization, cash flows, leverage, and liquidity ratios. Utilizing data and analytics to measure financial goals and risk continuously;

- Robust risk management: Implementing stringent corporate governance practices in project and contract management, along with inventory and trade ageing monitoring; and

- Talent optimization: Fostering employee engagement, rebranding Beng Kuang Marine as an attractive employer, and rebuilding a strong organizational culture to drive performance, succession planning, and talent attraction.

The Group regularly evaluates talent requirements through workforce planning, forecasting future needs based on business growth, and anticipating changes within the industry.

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

The Group has successfully transitioned towards the energy, gas, and oil sector, which demonstrate a more stable outlook and reducing debt burdens amid a high-interest rate environment. Through strategic measures such as outsourcing support services and near-shoring to Batam, Indonesia, the Group has achieved cost-effectiveness. The shift has positioned the Group favourably to pursue new business opportunities and initiatives.

The RC has carefully considered shareholders' interests in determining current compensation strategies, focusing on the following key considerations:

- Compensation structures are predominantly tied to variable elements, aligned with earnings and earnings growth, and adjusted in accordance with growth percentages;

- Value creation is emphasized through the Group's pivot to the energy and oil & gas industry, which typically commands higher valuations compared to the marine segment;

- The energy, oil & gas value chain is perceived as robust, offering opportunities for scaling up and down streams;

- The Group's return to a net cash position and improvement in the ratio of net current liabilities to net current assets in FY 2023 reflect favorable financial progress; and

- Successful restructuring efforts and the implementation of various strategies to achieve sustainable earnings and growth, including the elimination of loss-making operations, transitioning to an asset-light model, and reducing interest burdens.

(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)?

The RC has considered shareholders' interests in determining current compensation strategies, focusing on the following key considerations:

- Compensation is predominantly tied to variable components, ensuring alignment with earnings and earnings growth;

- Emphasis is placed on value creation through the Group's pivot to the energy and oil & gas industry, known for commanding higher valuations compared to the marine segment;

- The energy, oil & gas value chain is recognized as more robust, offering significant business opportunities for scaling up and down the value chain;

- The Group returned to a net cash position and reversed out of net current liabilities to net current assets in FY2023, reflecting positive financial progress; and

- Successful restructuring efforts and the implementation of various strategies have contributed to sustaining earnings growth. These include the elimination of loss-making operations, transitioning to an asset-light model, and reducing interest burdens.

By Order of the Board

Chua Beng Yong
Executive Chairman
23 April 2024