



BENG KUANG MARINE LIMITED

(Incorporated in Singapore)

Registration No. 199400196M

RESPONSE TO SGX QUERIES ON THE SECOND QUARTER FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018

The Board of Directors of Beng Kuang Marine Limited (the “Company”) refers to the queries (“Queries”) raised by Singapore Exchange Securities Trading Limited (“SGX-ST”) in respect of the Company’s second quarter financial statements for the financial period ended 30 June 2018 (“2Q2018”) and wishes to respond to the Queries as follows:-

SGX-ST’s Query 1:

Please provide an explanation for the material decrease in gross profit margin on page 1 of the Financial Statements.

Company’s response:

For 2Q2018

The Group’s gross profit margin decreased from 29.51% in 2Q2017 to 4.43% in 2Q2018. This was mainly due to (i) continuing weak business for corrosion prevention and infrastructure engineering divisions which resulted in under-utilisation of the Group’s yards, machinery and equipment and (ii) continuing direct fixed costs which cannot be significantly reduced despite the under-utilisation; i.e. while direct fixed costs were reduced, the reduction did not directly correspond to the decrease in revenue. In addition, (i) the shipping division incurred a loss of S\$0.2 million on sale of four sets of tugs and barges in June 2018 which was reclassified as inventory and hence impacted the cost of sales. This reclassification was set out in full year result announcement for FY2017 and accordingly reflected in Note 18 to the audited financial statements for the financial year ended 31 December 2017; and (ii) two sets of tugs and barges underwent repairs in 2Q2018 which resulted in downtime and correspondingly a loss in revenue.

For 1H2018

The Group’s decrease in gross profit margin from 25.41% in 1H2017 to 11.87% in 1H2018 was due primarily to the reasons stated above.

SGX-ST’s Query 2:

- (i) A breakdown of the “trade and other receivables” as at 30 June 2018 and 31 December 2017;
- (ii) The ageing of the trade receivables;
- (iii) With the Board of Directors’ assessment as to whether it foresees any collectability issues; and
- (iv) The nature of the non-current trade and other receivables.

Company's responses:

(i) Breakdown of the trade and other receivables

Trade and other receivables - current

	Group		Company	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
	S\$'000	S\$'000	S\$'000	S\$'000
Trade receivables				
- Subsidiary corporations	-	-	2,182	1,744
- Related parties	-	-	-	-
- Non-related parties	19,551	17,925	-	-
	<u>19,551</u>	<u>17,925</u>	<u>2,182</u>	<u>1,744</u>
Less: Allowance for impairment of trade receivables - non- related parties	(1,647)	(1,717)	-	-
Trade receivables – net	<u>17,904</u>	<u>16,208</u>	<u>2,182</u>	<u>1,744</u>
- Retentions	714	836	-	-
	<u>18,618</u>	<u>17,044</u>	<u>2,182</u>	<u>1,744</u>
Non-trade receivables				
- Subsidiary corporations	-	-	73,108	72,058
- Non-related parties (note 1)	5,421	2,405	74	12
	<u>5,421</u>	<u>2,405</u>	<u>73,182</u>	<u>72,070</u>
Deposits	641	375	2	2
Prepayments	721	1,320	57	35
	<u>6,783</u>	<u>4,100</u>	<u>73,241</u>	<u>72,107</u>
	<u>25,401</u>	<u>21,144</u>	<u>75,423</u>	<u>73,851</u>

Trade and other receivables - non-current

- Non-related parties	<u>4,680</u>	<u>-</u>	<u>-</u>	<u>-</u>
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Note 1 - The increase in non-trade receivables on non-related parties was mainly due to the following temporary timing differences:

- \$S1.32 million unbilled invoices for the sale of four sets of tug & barges;
- \$S0.80 million payment on behalf by customers to our creditors for operating expenses to be applied against creditors invoices as paid; and
- \$S0.50 million of payment on behalf to be back charged to a customer.

(ii) Ageing of trade receivables as at 30 June 2018

	S\$'000
Current	3,969
Less than 30 days	1,285
30 to 60 days	1,236
61 to 90 days	1,027
More than 90 days	10,387
	<u>17,904</u>

(iii) Collectability Issues

The Group carries out impairment loss testing on its trade receivables on a quarterly basis. As and when trade receivables are deemed uncollectable, the Company will make the necessary impairment loss provisions. The last impairment loss testing was done in June 2018 prior to the release of the 1H2018 financial result announcement on 7 August 2018. Based on the impairment loss testing done by the Company which is provided as an update to the Board by management on a quarterly basis, the Board is of the view that the trade receivables reflected in the 1H2018 financial results announcement presently remains collectable. However, the Board also notes that the shipping industry is facing challenging circumstances and accordingly the collectability of trade receivables may change in future due to various factors such as the financial conditions of the relevant counterparties. In this regard, the Company is monitoring trade receivables amounting to approximately S\$8.28 million (as at 30 June 2018) which is more than 150 days but which, based on management's impairment loss testing, has not reached a stage whereby it is necessary to be impaired. The Company will make the necessary provisions as and when required by the quarterly impairment loss testing process.

(iv) The nature of the non-current trade and other receivables

The S\$4.68 million was the non-current portion that is due after one year as at 30 June 2018 on 3 year instalment plan for the sale of four sets of tugs and barges.

By Order of the Board

Chua Meng Hua
Managing Director and Chief Executive Officer
3 September 2018