BENG KUANG MARINE LIMITED
Registration No. 199400196M

RESPONSE TO SUBSTANTIAL AND RELEVANT QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 ("FY2020")

The Board of Directors of Beng Kuang Marine Limited (the "**Company**") refers to the questions raised by the Securities Investors Association (Singapore) ("**SIAS**") on the Group's FY2020 Annual Report, and wishes to respond to those substantial and relevant questions raised as follows:

Query 1:

The group incurred a total comprehensive loss of $(20.3) million for the financial year ended 31 December 2020 and the group's current liabilities exceeded its current assets by $(13.6) million. These conditions indicate the existence of events and conditions that may cast significant doubt on the group's ability to continue as a going concern (Note 4 – Going concern; page 70 of the annual report).

Cash and cash equivalents (less bank overdrafts) amounted to $1.5 million as at 31 December 2020. The group has borrowings of $29.8 million, of which $20.7 million are current, including $14.2 million of (current) bank borrowings. The gearing ratio has increased from 0.57x to 0.79x.

Two of the subsidiary corporations of the group have breached of financial covenants for FY2020 and FY2019 (Note 23(d) – Breaches of loan covenants; page 101) as the group did not fulfil the key financial ratios required by certain banks.

The financial statements of the group were prepared on a going concern basis as the directors believe the group will be able to improve the results and meet its obligations as and when they fall due within the next twelve months based on the following:

- the group's ability to generate positive operating cash flows;
- continuous support from financial institutions; and
- streamlining of operations to cut costs and overheads.

(i) Can the board help shareholders understand the cash generative ability of its business units in this challenging environment?
(ii) Has the board sought financial support from the controlling shareholders?
(iii) What are the cost savings expected from the streamlining of operations? How much progress has management made?
(iv) Did the independent auditor assess the group's material uncertainty related to going concern on the audited financial statements?
(v) Would the board be evaluating the options available (such as a rights issue, or a strategic investor) to the group to strengthen its financial position?
(vi) It was also announced that Mr. Chua Beng Kuang will retire and step down as the executive chairman of the company. Would there be sufficient continuity and stability in the board and in the senior management team to focus the group on its immediate priorities? Please state the immediate priorities of the group for the next 6-18 months.

Company's response to Query 1:

(i) Despite the challenging marine, offshore, oil and gas market conditions and the COVID-19 Pandemic, the Group generated positive operating cashflow for FY2020.

Over the course of the last five years, the Group has, through strict cost cutting measures, fiscal discipline, cashflow management and asset monetisation, consistently deleveraged and reduced its borrowings through principal repayment. This is reflected in the reduction of the Group's borrowings from S$61.4 million as at 31 December 2015 to S$29.8 million as at 31 December 2020, a reduction of S$31.6 million over five years.

The Group intends to continue its strict cost measures, fiscal discipline and cashflow management with a view to further reduction of debt and leverage. The Group reiterates that notwithstanding the aforementioned measures as well as the challenging macro-environment, it has managed to generate positive operating cashflow for FY2020.

Since the commencement of FY2021, the Group's order book has improved. We have diversified our marketing efforts into the Middle Eastern and North American regions and are also actively trying to increase the utilisation of our Batam shipyard in Indonesia.

Notwithstanding the abovementioned, the Group remains cognisant of the challenges posed by the macro environment, in particular by the Covid-19 Pandemic.

(ii) The Group maintains a cashflow management strategy and also remains able to generate cash, as evidenced by generating positive operating cashflow and reduced borrowings from S$34.3 million in 2019 to S$29.8 million in 2020. In light of the foregoing, the Group is of the view that there is no need, at the present moment, to seek financial support from its controlling shareholders. In any event, financial support from controlling shareholders, while always welcomed, is not a sustainable long term business strategy. Ultimately, the business units have to be able to generate revenue and remain able to do so.

(iii) The Group's streamlining of operations has resulted in cost savings which conserved cashflow and contributed to the reduction of the Group's borrowings from S$61.4 million as at 31 December 2015 to S$29.8 million as at 31 December 2020, a reduction of S$31.6 million over five years. This reduction in borrowings has also allowed the Group further savings in interests.

(iv) Yes. The independent auditor has assessed the group's material uncertainty related to going concern on the audited financial statements.

(v) Yes. The Board is constantly evaluating the possible options available to strengthen its financial position. The Board wishes to highlight to shareholders that the strengthening of the Group's financial position can originate externally and organically. External sources of strengthening financial position include, amongst others, a cash call from existing shareholders and/or funding from strategic investors. Organic strengthening of financial position includes prudent and strict balance sheet and cashflow management such as reduction in borrowings. The Board is of the view that the Group's financial position has stabilised over the course of the last five years has pared down the Group's borrowings from S$61.4 million as at 31 December 2015 to S$29.8 million as at 31 December 2020 as well as the related interest savings.

(vi) Yes. There is sufficient continuity and stability at both the board and senior management level.

The Group's immediate priorities for the next 6-18 months is to continue generating positive operating cashflow and allied with its strict cost control, fiscal discipline and cashflow management measures, stabilise and strengthen its financial position.

Query 2:

For the group's shipping division, it operates two livestock vessels that trade from Australia to Vietnam, China, Indonesia and Malaysia and occasionally to South African countries. The group also has two Indonesian flagged tugs. In October 2020, one of the group's livestock carriers encountered an accident and substantial costs were incurred to bring the damaged vessel from Australia to Batam for repairs.

The group recognised an impairment charge of $(9.26) million on two livestock carriers based on fair market valuation taking into consideration the adverse change in business environment and an additional US$(2.5) million incurred on expected repair costs for the damaged livestock vessels.

(i) Did the company make an SGX announcement in October 2020 to update shareholders on the accident encountered by the livestock carrier?
(ii) Has the board/management carried out a review and to further monitor the compliance of its safety regulations in the group's operations? What was the cause of the accident?
(iii) Does the group have insurance on the livestock carrier? How much of the costs related to the accident will be covered by insurance?
(iv) Following the impairment charge of $(9.26) million on the two livestock carriers, what are the carrying values of each of the two livestock carriers?
(v) What were the adverse changes in the business environment?

Company's response to Query 2:

(i) The Company did not make an SGX announcement in October 2020 to update shareholders on the accident because it was a minor accident incurred in the course of operations. The vessel retained the ability to sail unhindered without need for third party assistance. Costs to repair the damaged hull was also estimated to be not material. The eventual escalated costs were in large due to the direction by the relevant authorities with jurisdiction over the waters where the vessel was located, directing the vessel to berth which resulted in additional costs, including the cost of dry towing the vessel to Batam for repairs.

Subsequent to the crystallisation of the escalated costs, the Group issued an announcement, updating shareholders on 29 January 2021.

(ii) Management has investigated the accident and reviewed the safety procedures of the vessels. The cause of the accident is still pending investigation by insurers.

(iii) The vessel concerned was covered at the material time by restricted marine hull insurance and at this stage it is premature to state how much of the costs are recoverable under the insurance as insurers are still looking into the matter.

(iv) The combined carrying values of the two vessels were approximately USD17 million as at 31 December 2020.

(v) The adverse changes in the business environment were due to the uncertainties stemming from the Covid -19 Pandemic, including sudden lockdowns, travel ban and restrictions, unpredictable logistics, safe distancing measures, quarantine procedures. These vary from country to country and significantly altered the livestock carrying business environment.

Query 3:

As noted in the company's report of corporate governance, it outsourced the internal audit function to an external professional firm, Wensen Consulting Asia (S) Pte Ltd. The internal auditors have identified the group's main business processes and developed an audit plan that covers the main business process over a 1-3 year audit cycle (page 30).

The audit committee (AC) has stated that it will review the adequacy of the internal audit function annually and ensures that the internal audit function is adequately resourced and has appropriate standing within the company. It also disclosed that the AC meets from time to time with the group's internal auditors (and external auditors), in each case without the presence of the management of the company, at least once a year.

(i) Can the AC clarify if the internal auditors comply with the standards set by nationally or internationally recognised professional bodies, such as the International Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors?

(ii) Can the AC confirm that it has reviewed and is satisfied with the adequacy of the internal audit function in FY2020?

(iii) What was the scope of the internal audit plan in FY2020? What were the key findings by the internal auditors?

Company's response to Query 3:

(i) Yes. The internal auditor confirms that it has complied with the Internal Auditing Standards set forth in the International Professional Practices Framework issued by the Institute of Internal Auditors.

(ii) Yes. The Audit Committee confirms that it has reviewed and is satisfied with the adequacy of the internal audit function in FY2020.

(iii) The scope in FY2020 was Inventory and Warehouse Management and Procurement to Payment Management. The internal auditors recommended certain improvement points, which the Group has implemented.

BY ORDER OF THE BOARD

Chua Meng Hua
Managing Director and Chief Executive Officer
26 April 2021