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

**RESPONSE TO SGX QUERY ON THE FULL YEAR FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021**

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 unaudited financial statements for the financial year ended 31 December 2021 (the "Financial Statements") and wishes to respond to the queries as follows:-

**Query 1:**

It was disclosed that an amount of $7,543,000 was recognised as impairment losses on property, plant and equipment.

In this regard, please disclose the following information:
(i) How the amount of impairment was determined;
(ii) Whether any valuation was conducted; the value placed on the assets; the basis and the date of such valuation;
(iii) The board's confirmation as to whether it is satisfied with the reasonableness of the methodologies used to determine amount of impairment; and
(iv) The reasons for the impairment losses

**Company's response:**

(i) Discounted cash flow projections were used to determine the recoverable amount over the remaining useful life.

The recoverable amount is measured based on value-in-use determined by the management. The key assumptions for value in use calculations are those regarding the estimated charter rates, pre-tax discount rate and estimated scrapped value at the end of the economic useful life of the vessels. Estimated charter rates are based on the management's judgement and knowledge in the industry within the region and adjusted for future market conditions.

Management estimates the discount rate using a pre-tax weighted average cost of capital that reflects specific risks relating to the cash generating unit (CGU). The estimated scrapped value at the end of the economic useful life is based on the current market rate and adjusted for the inflation rate for future changes in the market.

An impairment loss of $7,543,211 was recognised as the carrying amount of the 2 livestock vessels exceed its recoverable amount.

(ii) There was no valuation conducted.

(iii) The Board confirms that it is satisfied with the reasonableness of the methodologies used to determined amount of impairment.

(iv) The further impairment charge of S$7.54 million on the two livestock carrier vessels to their value-in-use after taking into consideration their adverse performance as a result of the following events:-

(a) in October 2020, MV Barkly Pearl suffered an accident which led to the vessel being off charter since the incident. This is largely due to COVID-19 global travel restrictions and safe distancing measures which hindered the progress of the inspection work carried out by the insurance appointed surveyors and other administrative delays. The Management also decided to put on hold any repairs pending the outcome of the insurance claim: and

(b) in October 2021, MV Diamantina was detained by the Indonesia Navy for anchoring at unauthorised area and released in November 2021. The ship manager was terminated for failure to adhere to sound ship management practice and breached its duties as a ship manager in respect of the incident. The vessel remains off charter pending the Management's strategic review of the business.

**Query 2:**

**In respect of the Group's Trade and other receivables of $21,189,000, please disclose the following:**

(i) A breakdown and ageing of the Group's Trade and other receivables;
(ii) Aging of the Group's Trade and other receivables;
(iii) Details of the Group's underlying transactions of its other receivables and the terms of the transactions;
(iv) The Company's plans to recover the Trade and other receivables;
(v) Whether there are major customer(s) and whether the Company continues to transact with these customers;
(vi) How long are the debts outstanding and in which period the sales were reported;
(vii) What were the actions taken to recover the trade and other receivables;
(viii) The Board's opinion on the reasonableness of the methodologies used to determine the value of the impairment of the trade and other receivables; and
(ix) The Board's assessment of the recoverability of the remaining trade and other receivables.

**Company's response:**

(i) The breakdown of the Group's trade and other receivables are as follows:-

| | $'000 |
|---|---|
| Trade receivables | |
| - Related parties | * |
| - Non-related parties | 20,628 |
| | 20,628 |
| Less: Loss allowance | (4,368) |
| Trade receivables - net | 16,260 |
| | |
| Non-trade receivables | |
| - Non-related parties | 3,399 |
| | |
| Retentions | 464 |
| Deposits | 566 |
| Prepayments | 500 |
| Total | 21,189 |

* Amount less than S$1,000

(ii) The Group's trade receivable aging as at 31 December 2021 is 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 |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Expected loss rate | 0% | 0% | 0% | 0% | 67% | |
| Trade receivables | 2,903 | 4,265 | 5,553 | 1,407 | 6,500 | 20,628 |
| Loss allowance | - | - | - | - | (4,368) | (4,368) |
| Financial Year in which respective sales were reported | 2021 | 2021 | 2021 | 2021 | 2018 to 2020 | |

(iii) Non-trade receivables from non-related party are recoverable from foreign workers related expenses, workmen compensation and insurance related matters, project related advances, and an unbilled receivable relating to the novation arrangement for the sale of a set of tug and barge to a new buyer.

Retentions is a percentage of payment help back by certain customers to act as warranty that the project works will be completed and that defects which may subsequently develop are remedied. Customers will release their payment to the Group once the warranty period expires which is typically 12 – 24 months upon completion.

Deposits are related to deposits paid to landlords for the lease of office building, yard facilities, workers dormitories and container office. Rental deposit will be refunded at the end of the respective lease period or set-off against the last rental payment.

Prepayments are expenditure paid for in one accounting period, but for which the underlying asset will not be consumed until a future period. When the asset is eventually consumed, it is charged to expense.

(iv) Please see Company's response to subsection (vii) below.

(v) The Company notes that trade receivables are a typical circumstance of trade relationships and integral part of any company's cash management strategy, and continues to carry on trade with customers (which include major companies) who owe trade receivables to the Group.

(vi) Please see the Company's response to subsection (ii) above.

(vii) The Group has taken active steps to collect outstanding debts, including following up closely with all trade debtors via phone calls, reminder emails and letters as well as visiting their offices to expedite collection. If necessary, legal proceedings will be taken to pursue the receivables.

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.

(viii) The Board is of the view that the methodologies used to determine the value of the impairment of the trade and other receivables is reasonable. The Board's view is based on (i) Management's assessment of recovery based on historical billings and receipts, (ii) continuing business transactions with counterparties owing trade receivables, and (iii) general outlook of the shipping industry. The Company will make necessary provisions as and when required through its monthly impairment loss testing process.

(ix) Based on the impairment loss testing done by the Company which was provided as an update to the Board by management on a quarterly basis, the Board is of the view that the trade receivables stated in the Financial Statements presently remains collectable.

**Query 3:**

Please disclose a breakdown of the Group's Trade and other payables of $33,120,000 as at 31 December 2021:

**Company's response:**

The breakdown of the Group's trade and other payables are as follows:-

| | $'000 |
|---|---|
| Trade payables | |
| - Related parties | 22 |
| - Non-related parties | 11,780 |
| | 11,802 |
| Non-trade payables | |
| - Related party | 500 |
| - Non-related parties | 11,605 |
| | 12,105 |
| Accruals for operating expenses | 7,728 |
| Accruals for project expenses | 1,485 |
| | 9,213 |
| | 33,120 |

**Query 4:**

Please disclose a breakdown of Borrowings amounting to $18,625,000 as at 31 December 2021:

**Company's response:**

The breakdown of the Borrowings is as follows:-

| | S$'000 | S$'000 |
|---|---|---|
| Bank borrowings | | |
| - Short term / revolving working capital line | 9,060 | |
| - Term loan (current) | 5,529 | 14,589 |
| Bank overdrafts | | 2,392 |
| Bills payable | | 738 |
| Lease liabilities | | 905 |
| | | 18,624 |

**Query 5:**

Given the Group's total liabilities of $60,592,000 including current liabilities of $53,335,000, and cash and cash equivalents of only $4,652,000 and noting that the Group incurred losses of $16,803,000, please disclose the Board's assessment whether the Company's current assets are adequate to meet the Company's short-term liabilities of $53,335,000, including its bases of assessment; and how the Company intends to fulfil its significant payment obligations in the next 12 months. Where the Company has worked out debt repayment plans to fulfil its debt obligations, please disclose if the Company is on track to fulfilling these obligations.

**Company's response:**

The Group's ability to meet its debt obligations as well as current liabilities should be assessed in totality with its total assets. The Group's net tangible asset value remains positive at S$18.8 as at 31 December 2021. In addition, the Group also notes that a large contributory factor towards the losses of $16,803,000 is of a non-cash nature, i.e. the impairment charges. The Group remains profitable at gross profit level, returning a gross profit of S$6,414,000. In addition, the Group generated net cash from its operating activities amounting to S$3,893,000.

The Management is confident that the Group is able to fulfil its current liabilities obligation based on the following:-

(a) the Group is able to generate positive operating cash flows from its CP's and IE's secured orders (which includes recurring orders and uncompleted performance obligations carried forward from financial year 2021) amounting to an aggregate of $36.3 million;

(b) the Group has working capital facilities such as overdrafts, revolving short term loan, receivable factoring and short term trade finance with banks and financial institutions to support the revolving and recurring nature of working capital and acts as a bridging function for suppliers and customers payment cycles.

(c) historically, the Group has generated positive cashflow from its operating activities to repay term loan and lease obligations. In addition, over the past seven (7) years, the Group has fulfilled its financing and repayment obligations, including the repayment of a substantial amount of loan principal;

(d) The Management is pro-actively seeking financing or monetisation opportunities for the 32.8 hectare waterfront yard in Batam, Indonesia as well as the livestock carriers (as part of the Company's strategic review of the livestock carrier business) to substantially alleviate the mismatch between current liabilities and non-current assets and converting current liabilities to non-current liabilities.

(e) the Group is confident of obtaining continuing support for credit extension terms from long-term relationship business associates; and

(f) the force sale value of the non-current assets (in particular the 32.8 hectare waterfront yard; and two livestock carriers is, in the view of Management, adequate to repay the net current liabilities. The Management's view is based on the most recent market valuation report on the yard (with indicative force sale value) conducted by an independent valuer as well as vessel scrap value.

The Board is of the opinion that, after taking into consideration the Group's existing cash and cash equivalents, available bank facilities, existing banking relationships and other possible financing options as well as the Group's existing assets, the Group is able to meet its short-term obligations as and when they fall due. In addition, the Board also notes the positive cash generation from the Group's IE and CP divisions which plays an important role in the Group's cash management cycle.

**Query 6:**

As at 31 December 2021, the Group has total borrowings of S$25,247,000 with cash and cash equivalents of $7,044,000. Please disclose the pro-active actions which management plans to take to ensure that the Group's financial position remains strong.

(i) Please assess the Company's ability to operate as a going concern.
(ii) Please assess the Company's ability to meet its debt covenants (if any).
(iii) Please assess the Company' ability to meet its short-term obligations when they fall due.

**Company's response:**

(i) The Management have considered the operations of the Group as a going concern and the financial statements of the Group were prepared on a going concern basis as the Group will be able to meet its obligations because of the following:

(a) except for the livestock carrier business which has been adversely affected by unforeseen external events, the IE and CP divisions have generated positive contributions in FY2021 with stable ongoing orders, of which the majority are recurring in nature. In addition, the Group has received an increased number of enquiries for new projects that can potentially be added to the order book;

(b) the Group is able to generate positive operating cash flows from its secured orders (which includes recurring orders and uncompleted performance obligations carried forward from financial year 2021) amounting to an aggregate of $36.3 million;

(c) historically, the Group has generated positive cashflow from its operating activities to repay term loan and lease obligations. In addition, over the past seven (7) years, the Group has fulfilled its financing and repayment obligations, including the repayment of a substantial amount of loan principal;

(d) the Group is pro-actively seeking financing or monetisation opportunities for the 32.8 hectare waterfront yard in Batam, Indonesia as well as the livestock carriers (as part of the Company's strategic review of the livestock carrier business) to substantially alleviate the mismatch between current liabilities and non-current assets and converting current liabilities to non-current liabilities. The lease for the Batam yard has been fully paid in advance till 2037;

(e) the Group has secured new short-term working capital loan from a financial institution during the subsequent period and the loan was fully drawdown;

(f) the Group maintains good banking relationships and has continued support from the Group's existing bankers in providing banking, working capital lines and other trade finance facilities;

(g) the Group is confident of obtaining continuing support for credit extension terms from long-term relationship business associates; and

(h) there is an ongoing insurance claim process which is at an advance stage for recovery of accident damages caused to a livestock vessel.

Accordingly, the Management is of the view that there is no material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

(ii) The Company has a debt covenant pertaining to minimum net tangible asset value for one of its existing loans. Whilst the Company is unable to meet the debt covenant, it has obtained a waiver of this covenant from the relevant bank. In any event, the

Company has consistently reduced the principal outstanding on this loan. The principal outstanding on this loan as at 31 December 2021 is S$206,000.

(iii) Please see the Company's response to Query 5.

By Order of the Board

Chua Beng Yong
Executive Chairman
8 April 2022