Atlantic Navigation Holdings (Singapore) Limited

(Company Registration No. 200411055E)
(Incorporated in Singapore)

RESPONSES TO QUESTIONS RECEIVED FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) IN RELATION TO THE ANNUAL REPORT 2020

The Board of Directors (the "**Board**") of Atlantic Navigation Holdings (Singapore) Limited (the "**Company**", and together with its subsidiaries, the "**Group**") refers to the Company's annual report for the financial year ended 31 December 2020 ("**AR 2020**"), and the announcement dated 14 June 2021 on the Annual General Meeting to be held by electronic means on Tuesday, 29 June 2021, at 1.00 p.m. (the "**Announcement**").

Further to the Announcement, the Board had received questions from Securities Investors Association (Singapore) ("**SIAS**") ("**Questions**"). The Company wishes to provide its responses to the Questions as follows:

Question 1:

The Group started the year well as revenue increased 6.9% in the first half, only for COVID-19 to disrupt the global economy which then led to a 33.3% decrease in revenue in the second half of the year. For the whole of FY2020, the Group generated revenue of US$64.4 million, a decline of 15.8% from US$76.5 million for FY2019. Net loss after tax was US$(5.5) million, including an impairment loss on vessels of US$(5.8) million.

The independent auditors have highlighted a material uncertainty related to going concern. As at 31 December 2020, the Group's and the Company's current liabilities exceeded its current assets by US$57.9 million and US$13.5 million respectively (page 43). The Group's loans and borrowings significantly exceeded the cash and bank balances as at 31 December 2020.

The Group and Company were unable to fulfil certain scheduled principal repayments to its principal bankers. As disclosed in Note 38, the Group had by end May 2021 completed the re-profiling of the secured loan obligations with both of its principal bankers which in summary would result in US$14.1 million in aggregate of principal repayments originally due in 2H2020 and FY2021 to be rescheduled, and repayable from FY2022 to FY2025.

(i) What are the other salient terms (including the interest rates) of the debt re-profiling?

Company's Response to Question 1(i):

With regard to the debt being re-profiled of US$14.1 million in aggregate:

1. For Bank 1, across 2 loans repayment originally from July 2020 to October 2021 of US$8.3 million in aggregate being re-profiled:
    a. US$2.6 million is repayable at loan maturities, i.e. US$2.1 million in October 2025 and US$0.5 million in May 2025; no change in interest rates, i.e. 4.5% + 3-month and 4.0% + 1-month LIBOR respectively;
    b. US$5.7 million is progressively drawn at original repayment dates, rolled up and cumulating to a new Medium Term Loan (MTL), repayable over 36 months from July 2022 to June 2025; overall increase of interest rates of about 1.0 percentage point

from 4.5% to 5.5%, + 1-month LIBOR.

2. For Bank 2, across various loans repayment originally from October 2020 to June 2021, i.e. 9 monthly tranches of US$5.7 million in aggregate being re-profiled, repayment is deferred where original loan maturities are extended from April 2023 to January 2024; no change in interest rates of 4.0% + 1-month LIBOR. The Group is required to fulfil certain commercial requirements which the Group is in further discussion with Bank 2. The Group will update the market when there are material developments on the matter.

(ii) Would management provide shareholders with greater clarity on the debt/repayment schedule after the successful debt re-profiling? In particular, what is the amount repayable in one year or less, or on demand following the re-profiling?

Company's Response to Question 1(ii):

Assuming that the re-profiling was completed before 31 December 2020:

In US$'000				
	After Re-profiling	**Total**	**Current**	**Non-Current**
Re-profiled Loans	Bank 1	32,799	387	32,412
	Bank 2	20,089	4,137	15,952
	Sub-total	52,888	4,524	48,364
	Others			
Other Loans	Other loans net of prepaid finance cost	4,974	1,653	3,321
	Bank overdraft	841	841	0
	Sub-total	5,815	2,494	3,321
	Total	**58,703**	**7,018**	**51,685**

(iii) What is the Group's average cost of borrowings? It is noted that the Group has borrowings that cost as much as 10% per annum (page 86 of the annual report). Would the management be reviewing how it could optimise its borrowings/borrowing costs?

Company's Response to Question 1(iii):

The Group's average costs of borrowings (including shareholders' accrued interests and loan balances in computation) for the recent 3 years based on total finance costs for the year divided by average loan balances (average of opening and closing balances) are approximately 8.9% (FY2018), 7.9% (FY2019) and 6.5% (FY2020), taking into account the interest rate swap hedging instrument entered into in April 2018 (see Note 30 of AR 2020).

Please refer to the Note 21 to the Financial Statements in the AR 2020 for reference on the range of interest rates applicable to the Group's loans.

To set into context, the fixed rate loan of 10.0% was procured in March 2018 based on the then prevailing market, industry and company-specific conditions as well as lack of access to other funding sources (see announcement dated 2 April 2018 with reference to the specific circumstances then). As an update, the US$8.5 million at loan inception has now been reduced to US$2.6 million to-date.

Please also see the responses to Question 1(iv) below in relation to amount due to shareholders where the interest rates have reduced from 6.0% to 3.0% from 1 January 2021.

The Management has been and will continue to review the Group's borrowings/borrowing cost taking into account the prevailing market, industry, and company-specific conditions, the geographical areas (i.e. Middle East) where the Group operates while improving the access to funding markets with the intention to reduce the effective interest costs of the Group.

(iv) As seen in Note 25 (page 91 – Amount due to shareholders), the Group received loans and advances from shareholders amounting to US$12.3 million as at 31 December 2020. Prior to FY2020, the Group was charged interest rates of 6.0% per annum for the majority of the shareholder loans and advances. In FY2020, the shareholders waived off half of the accrued interests and lowered the interest rates to 3.0%. Can the independent directors help shareholders understand how a rate of 6.0% per annum was determined?

<u>**Company's Response to Question 1(iv):**</u>

The Independent Directors have taken into account the prevailing financial condition and market environment as well as the lack of availability of other readily available funding sources, and flexibility accorded in these shareholder loans in determining the 6.0% interest per annum then.

As disclosed in AR 2020, these shareholders loans are unsecured which are not available to the Group from other funding sources. In addition, the shareholders' interest costs at erstwhile 6.0% per annum are not paid but accrued, and 50% of the accrued interests accumulated until 31 December 2020 had been waived. The interest rates on these shareholders loans have been reduced to 3.0% moving forward where such loans continue to be unsecured. The maturity dates of these shareholders loans have also been extended at various times, and based on latest extensions, until 31 December 2022 (see page 37 of AR 2020).

(v) Would the Board be reviewing the Group's financial position and evaluate if it has the necessary financial resources to support its strategic growth plans? Are there plans to carry out a rights issue to strengthen the Group's financial position?

<u>**Company's Response to Question 1(v):**</u>

The Board, as part of its roles and responsibilities, regularly reviews the financial position and evaluates financial resources of the Group taking into account the financial and market conditions. As evident in the loans re-profiling, the Group has the support of its principal bankers in managing its cash flow requirements. In addition, the Group is also exploring the potential sale of vessels to augment its cash flows. While the Group currently does not have any plans for a rights issue, the Group does not rule out any financing options in the future, including any capital fundraising, taking into consideration the needs and interest of the Group.

<u>**Question 2:**</u>

In the marine logistics services ("MLS") segment, the Group owns a fleet of 20 vessels (including 1 vessel under Investment in Joint Operation) which comprises of 2 lift-boats (a.k.a. jack-up barges), 1 mid-sized DP2 PSV, 8 various AHTs, 4 maintenance utility vessels, 3 tugboats, 1 crew boat and 1 work utility vessel. In addition, the group also cross-charters vessels from third parties.

The average age of its owned fleet is 7.2 years. Details, including specifications, of the vessels can be found on page 11 of the annual report.

The Group achieved vessel utilisation rates of 80.7% in FY2020. This was 1.7 percentage points lower than that in FY2019. The average utilisation rates were 79.5% in 3Q2020, 71.1% in 4Q2020 and 62.4% in 1Q2021. The Group reported a gross loss of $(839,000) or a gross loss margin of (10.0)% in 1Q2021 in the MLS segment.

(i) Can management help shareholders understand its strategy to improve the utilisation rate of its fleet? It is observed that the utilisation rate continues to slip to 62.4% in 1Q2021.

<u>**Company's Response to Question 2(i):**</u>

The declining utilisation rate since 2H2020 cumulating to 1Q2021 of 62.4% was mainly due to the impact of ongoing COVID-19 pandemic and volatilities in global oil prices. Various projects earmarked for 2020 were either suspended or severely delayed owing to restrictions imposed on movement of personnel and equipment within the Middle East region. While the offshore industry continues to be challenging, with gradual return of visibility since the latter part of 1Q2021 coinciding with the recent increase in global oil prices, previously offshore campaigns which were suspended had started to get reactivated together with those earmarked for 2021 leading to more activities in the offshore industry.

The Management has been monitoring and engaging the companies especially the international Engineering Procurement Construction (“**EPC**”) contractors for potential contracts in this regard.

Please also see the response in relation to the Question 2 from public shareholders on the diversification strategies as announced on 28 June 2021.

Apart from the lift-boats, the Management was able to secure charters for all of its OSV vessels except one, with the utilisation rates improving since the end of 1Q2021.

(ii) Would management consider including in the annual report information on the employment (charter) profile and the amount of contracted revenue to provide shareholders with better visibility of the Group’s financial situation?

<u>Company’s Response to Question 2(ii):</u>

The Management deems such information to be commercially sensitive, not least for the potential charterers and vendors etc., against the backdrop of a challenging and highly competitive industry. The order books information has been provided and shall continue to be provided on an annual basis (please see page 97 of AR 2020).

It is noted that there was an early termination of 5 (of the 10-vessel) long term contracts with the Middle East National Oil Company (“MENOC”), which resulted in the decline in revenue and profits.

(iii) Can management elaborate further on the reason(s) for these early terminations? Also, what is the outlook and ground sentiment in the Middle East?

<u>Company’s Response to Question 2(iii):</u>

The main reason for the early termination was ostensibly due to those charter contracts being contracted earlier when the charter rate was much higher compared to prevailing rates at the time of termination. The MENOC had relied on the provision in the charter agreements which are present in the vast majority of chartering contracts with National Oil Companies (NOCs) and International Oil Companies (IOCs) to early terminate these vessels for commercial reasons to the best of our knowledge.

The general ground sentiments in the Middle East have seemingly improved. Please see response to Question 2(i) above for further details. However, the Group expects the outlook to continue to remain challenging with recovery uncertain in view of the ongoing global COVID-19 pandemic and volatilities in global oil prices.

(iv) How many vessels remain off-charter? Of these, how many are chartered in from third parties?

<u>Company’s Response to Question 2(iv):</u>

As mentioned in the response to Question 2(i) above, the 2 lift-boats as well as one OSV are presently off-chartered, i.e. 17 out of the 20 owned vessels are on-charter.

There is no third-party charter-in vessel at the moment. To clarify, the Management does not charter in any third-party vessel unless there is firm requirement from clients for which its own vessels are not available.

(v) What are management’s priorities in the MLS segment for the next 12-18 months?

<u>Company’s Response to Question 2(v):</u>

As previously discussed, the Management continues to focus on utilisation rates and as a corollary, to reduce unproductive costs associated with vessels being idle. Please see the approach embedded in the diversification strategies in the response in relation to the Question 2 from public shareholders on the diversification strategies as announced on 28 June 2021.

(vi) From FY2016-FY2020, the Group generated an average revenue of US$1.6 million each year from the ship repair, fabrication and other marine services ("SRM") segment. What is the strategic value of SRM in the Group's long-term growth plans?

Company's Response to Question 2(vi):

The SRM division has played a strategic role in support of the MLS segment from the outset. Having in-house facilities to repair and maintain the vessels enhances the confidence of its clients in the Group to mobilise its vessels in a timely manner as well to conduct repairs and maintain its vessels on a timely and cost-effective manner.

The Management has embarked on a plan to gradually expand the SRM division to take on more third-party vessels repairs. The Group has recently taken over a modest size facility in Dubai Maritime City ("**DMC**") which now enables the Group to access drydock facilities in DMC for work on not only third-party vessels but also its own vessels which will result in cost savings for the Group. This development is timely as the Group develops its capacities for dry docking in view of the 7 new vessels purchased in 2017 will be progressively due for its special survey including dry-docking every 5 years.

(vii) In the project segment, can management elaborate further on its value proposition to undertake project work? How is the Group looking to secure new projects?

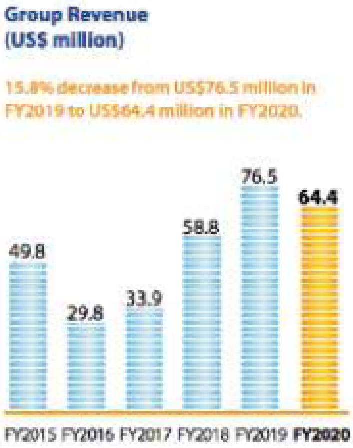
Company's Response to Question 2(vii):

Towards the end of 1Q2021, the Management has secured a contract with an international EPC contractor to provide value added services using one of its own vessels in collaboration with relevant service providers as mentioned in Question 2(v) above.

The Group over the years has established itself as a reputable ship operator and owner, with stellar safety records, and service delivery. This reputation has enabled the Group access to its clients and its top management, many of whom are now repeat customers. The Group will also ensure that it has the requisite technical manpower resources to ensure smooth service delivery.

Question 3:

The Group's financial highlights can be found on page 10 of the annual report and an extract is reproduced below. Despite increasing revenue and gross profit, the Group has been loss-making in 4 of the last 5 years. While the Group reported a profit of US$2.4 million in FY2019, the cumulative losses over the past 5 years add up to US$(44.6) million. Net gearing has also increased from 23.6% in FY2015 to 52.4% in FY2020.



Financial Indicators	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Basic Earnings/(Loss) per share (US$ cents)	5.39	(4.38)	(5.05)	(6.15)	0.46	**(1.04)**
Diluted Earnings/(Loss) per share (US$ cents)	5.30	(4.38)	(5.05)	(6.15)	0.46	**(1.04)**
Net Asset Value per share (US$ cents)	36.9	32.6	29.0	16.1	16.4	**15.5**
Return on Total Assets	14.6%	(6.3)%	(7.4)%	(8.4)%	1.2%	**(3.1)%**
Return on Shareholders' Equity	10.8%	(13.3)%	(17.4)%	(20.1)%	2.8%	**(6.7)%**
Net Gearing Ratio	23.6%	52.0%	57.3%	57.0%	55.2%	**52.4%**

(**Adapted from company annual report)**

As noted in the Corporate Governance report, the principal functions of the Board include reviewing the performance of management and the remuneration packages for the Board and key management personnel; and identifying the principal risks of the Group's business, ensuring that such risks are assessed and managed, including safeguarding of shareholders' interests and the Company's assets.

(i) Has the Board assessed its performance and effectiveness at assessing the principal risks of the Group to ensure that such risks are properly managed? In particular, how effective was the Board at protecting and enhancing long-term shareholders' value?

Company's Response to Question 3(i):

As stated at page 31 of AR 2020, the Group has established a Risk Management Committee comprising of relevant senior management of the Group, and at its direction, adopted an enterprise risk management framework and register to identify, manage and monitor the business and operating risks impacting the Group on an ongoing basis. The Risk Management Committee reports to and updates the Audit Committee ("**AC**") and the Board on a quarterly basis and as and when required.

Further as stated at page 31 of AR 2020, the AC reviewed the adequacy and effectiveness of the Group's key internal controls that address the Group's financial, operational, compliance and information technology controls, and risk management systems, with the assistance of our outsourced internal auditors, the external auditors and the Management, who provide regular reports during the year to the AC in addition to briefings and updates at the AC meetings.

(ii) Has the Board evaluated the performance of management? What were the key performance indicators used to measure the performance management? Is the Board satisfied with the long-term performance of management, especially at creating long-term value for shareholders?

<u>**Company's Response to Question 3(ii):**</u>

The Board through its sub-committees such as the Nominating Committee ("**NC**") and Remuneration Committee ("**RC**"), has reviewed the performance of the Management. As stated in page 28 of AR 2020, annual reviews of the remuneration of the Executive Director and key management personnel are carried out by the RC to ensure that their remuneration is commensurate with their performance, giving due regard to the financial and commercial health and business needs of the Group.

The key performance indicators used to measure the performance of the Management by the Board comprise operational, financial, commercial and compliance indicators.

The Board recognises the efforts of the management to sustain the business and financial performance of the Group in view of the challenging market environment.

(iii) What is the long-term performance of the Group over a 10-year period or over a business cycle? Long-term performance can be measured by return on equity/capital employed/ invested capital or total shareholder's return.

<u>**Company's Response to Question 3(iii):**</u>

The Group operates in the offshore oil and gas sector and had undergone significant expansion from FY2015 until FY2018 as a vessel owner and operator.

Please refer to the table at the Financial Highlights on page 10 of the AR 2020, the previous financial results announcements as well as the relevant annual reports published for further information which would be applicable to assess the performance of the Group.

As a broad overview, FY2015 was a profitable year across the industry but FY2016, FY2017 and FY2018, the industry were severely impacted by the precipitous decline, volatility with subdued oil prices impacting performances where various companies had entered into formal re-structuring, while the bulk of FY2019 and FY2020 were severely affected by the global COVID-19 pandemic whose impacts are well documented.

We wish to clarify that the net loss in FY2016, FY2018 and FY2020 included impairments and write-offs of US$(8.2) million, US$(16.4) million, and US$(5.8) million respectively, or US$(30.4) million in aggregate.

(iv) In addition, the Board's role is also to ensure that the necessary financial and human resources are in place for the Company to meet its objectives (page 17). Would the Board be reviewing if it has the necessary human resources in place to lead the Group in this challenging environment? The profile of the Executive Director and Chief Executive Officer can be found on page 7. The biographies of the Executive Officers are on page 9.

<u>**Company's Response to Question 3(iv):**</u>

Together with the Management, the Board, through its sub-committees, namely NC and RC, periodically reviews the human resources which commensurate with the level of activities and complexity of the Group.

In the past 5 years, the remuneration of the Executive Director and CEO from FY2016-FY2020 was USD482,300 (FY2016), USD459,100, USD464,400, USD516,200 and USD492,900 (FY2020) respectively. The total remuneration of USD2.4 million was the basic salary component for the Executive Director and CEO, with USD5,100 in other benefits over the 5 years. No variable component (bonus) was given. Over the same period, the cumulative losses for the Group add up to US$(44.6) million.

(v) Can the Remuneration Committee (RC) help shareholders understand if the current level and structure of remuneration of the Executive Director is appropriate and proportionate to the sustained performance and value creation of the Group? (Principle 7 of the Code of Corporate Governance 2018).

<u>Company's Response to Question 3(v):</u>

As stated in page 28 of AR2020, in setting remuneration packages, the RC considers the pay and employment conditions within the same industry and in comparable companies, as well as the Group's relative performance and the performance of each individual Director.

Annual reviews of the remuneration of the Executive Director and key management personnel are carried out by the RC to ensure that their remuneration is commensurate with their performance, having due regard to the financial and commercial health and business needs of the Group.

(vi) Will the RC review how it could structure a significant and appropriate proportion of Executive Directors' and key management personnel's remuneration to link rewards to corporate and individual performance? (Provision 7.1 of the Code of Corporate Governance 2018)

<u>Company's Response to Question 3(vi):</u>

Please see response to Question 3(v) above.

By Order of the Board

Wong Siew Cheong
Executive Director and Chief Executive Officer

28 June 2021

*This announcement has been reviewed by the Company's sponsor, SAC Capital Private Limited (the "**Sponsor**"). It has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.*

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