RESPONSES TO QUESTIONS RECEIVED FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

1. INTRODUCTION

1.1 The Board of Directors (the "**Board**") of Vallianz Holdings Limited (the "**Company**", and together with its subsidiaries, the "**Group**") refers to the Company's annual report for the financial period ended 31 December 2023 ("**Annual Report**").

1.2 In this regard, the Company would like to respond to the following questions raised by Securities Investors Association (Singapore) ("**SIAS**") on 22 April 2024 (the "**SIAS Questions**" and each a "**SIAS Question**").

2. THE SIAS QUESTIONS

2.1 SIAS Question 1

The Chairman highlighted several significant observations in his message to shareholders, including:

- OPEC is forecasting world oil demand in 2024 to grow by 2.3 million barrels per day to 104.4 barrels per day compared to 2023
- The OSV Rate Index rose by 30% to reach a 15-year high of 180 points according to Clarksons Research
- OSV utilisation rates have risen above 70% - Offshore energy capital expenditures ("capex") are expected to remain elevated in 2024, according to Rystad Energy; the total offshore investments are estimated to increase by 17% in 2024

Despite these positive indicators, the Chairman assured that the Group will adopt a measured approach and cautiously optimistic stance as global economic uncertainties, higher interest rates and tighter access to financing could impede the offshore industry's recovery. Shareholders would like to seek greater clarity on the following:

(i) Heavy transport vessel ("**HTV**") and Construction Service Operation Vessel ("**CSOV**"): Are HTVs and CSOVs almost exclusively used to support offshore wind industry? How much has the group committed to building HTVs and CSOVs and are these new builds speculative in nature? Can the Board shed light on how the Group is managing the risks associated with HTVs and CSOVs?

(ii) All-electric, zero carbon emissions harbour tug ("**E-Volt Tug**"): Could management provide details on the strategy for the E-Volt Tug? Will this initiative fall under the shipbuilding segment, where the Group constructs E-Volt Tugs for sale to clients?

(iii) Impairment of US$2.9 million: In FP2023, the Group recognised a write-off of US$2.9 million for a vessel under construction due to a design change (Note 13 Property, plant and equipment; page 98). Were there significant changes in the operating landscape that led management to alter its design mid-construction? Was adequate prudence exercised in commencing the new build?

(iv) Digitalisation: Examples of the Group's capabilities in sustainable solutions are shown on page 12. Are digitalisation efforts considered "good-to-have" features or will these become the industrial's standard, leading to widespread adoption?

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The Company's response

(i), (iii) CSOVs are used almost exclusively to support the offshore wind industry. HTVs are vessels with a large deck area capable of general project cargo assignments and transporting large component structures. These include (a) jackets, turbines, blades and monopiles for offshore wind turbines; and (b) heavy structures and equipment for LNG, oil and gas, and shipping industries.

The Group is currently in the design phase of the projects and is taking a prudent approach with regards to the development of these vessels by (a) aligning the designs of the CSOV and HTV with specific requirements of end-users; (b) entering into collaborations with strategic partners and/or end-users; and/or (c) securing long-term charters before commencing construction.

The Group has inked alliances with international partners to independently assess and evaluate the design of the vessels and ensure that the vessels meet evolving end-user requirements. Following these on-going assessments, further improvements to the design may be required. Costs incurred on the initial design phase of the HTV, amounting to US$2.9 million, were written off as a result of these ongoing assessments.

By securing strategic alliance partners and/or long-term charter agreements before commencing construction of the CSOV and HTV, the Group is mitigating risks associated with speculative investments.

(ii) The Group intends to construct its first E-Volt Tug as prototype and for evaluation at its shipyard in Batam. The evaluation phase allows the Group to showcase its capabilities to potential customers.

Depending on market demand, the Group has two potential avenues for commercialising the E-Volt Tug:

- Sale of new-build E-Volt Tugs: This would involve constructing the E-Volt Tugs according to customer specifications and delivering them upon completion. Revenue generated from these sales would fall under the shipbuilding segment of the Group's operations.

- Long-term charter contracts: Alternatively, the Group may enter into long-term contracts to build the E-Volt Tugs and charter them to customers. Revenue generated from these charter contracts would fall under the vessel chartering segment of the Group's operations.

This dual approach will allow the Group to remain competitive and to adapt to varying market preferences and maximise opportunities for the E-Volt Tug.

(iv) The decision to implement digitalisation enhancements for remote monitoring of vessel health, efficient operational/technical maintenance planning and faster response time is intended to promote environmental responsibility alongside efficiency and productivity gains. The Group's digitalisation efforts, in the long run, will help reduce the need for physical inspections, travel and unnecessary downtime, resulting in improved operational efficiency, cost savings, risk mitigation and a more sustainable approach to maritime operations.

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2.2 SIAS Question 2

For the 9-month financial period ended 31 December 2023 ("**FP2023**"), the Group's revenue increased by 44% from US$149.2 million (for the 12-month period ended 31 March 2023) to US$214.7 million.

Nevertheless, the Group still recognised an operating loss of US$(2.1) million in FP2023. Excluding a one-time write-off of US$2.9 million for a vessel under construction, the Group would have recorded an operating profit in FP2023.

Net profit attributable to owners of the Company was US$1.7 million in FP2023.

In the chartering segment, the Group has added two flat top cargo barges and an anchor handling tug supply (AHTS) to its fleet during FP2023 and will continue to expand its fleet in FY2024, with the addition of 4 more flat top barges. Nevertheless, vessel chartering and management revenue decreased significantly from US$64.8 million to US$27.8 million (Note 28 Revenue; page 116).

(i) What were the utilisation rates and the average daily charter rates in FP2023?

(ii) What caused such drastic changes in revenue and how did the Group manage to report higher profits from chartering despite the drop in revenue?

(iii) How does management optimise revenue (and profitability) amidst market uncertainties? How does management prioritise length of charters?

(iv) The Group also wrote off bad debt amounting to US$(3.08) million (Note 29 Other loss, net). How long have the debts been outstanding and what are the profiles of the debtors?

(v) Finance costs in FP2023 increased to US$9.3 million compared to US$8.9 million in FY2023. On an adjusted basis, finance costs increased by 40%. With US$118.9 million of the Group's term loans on floating rates, a 50 basis points increase in interest rates would lead to an approximate US$0.80 million increase in loss before tax. What guidance has the Board given to management in terms of managing the group's interest rate risks?

(vi) The Group's prepayments increased from US$50.7 million to US$158.0 million as at 31 December 2023 (Note 9 Other receivables; page 92). This has been attributed to downpayments and prepayments made to third-party suppliers for the construction of new vessels. What safeguard has the Board/management put in place to protect the Group against default, breaches or non-fulfilment of contracts etc?

<u>The Company's response</u>

(i) Given the competitive environment that the Group is operating in, as well as the market sensitivity of such information, the Company believes that such disclosure may be prejudicial to its strategic and business interests, and accordingly, it is not appropriate to publicly disclose utilisation rates and average daily charter rates.

(ii) As disclosed in page 10 of the Annual Report, the decrease in chartering revenue was mainly due to lower volume of vessel management work, especially mobilisation projects, as well as lesser projects in the region requiring the use of the Group's submersible barges, compared to the prior financial year. Notwithstanding the reduction in volume of projects, the Group improved its average daily charter rates of its remaining fleet and maintained tight control over operating costs, thereby resulting in better gross profit and gross profit margins.

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(iii) The Group's strategic approach to optimising profitability encompasses several key elements:

- Diversification of revenue streams: The Group targets multiple geographical regions and different customer bases. This strategy reduces dependence on a single geographical market or customer segment, thereby mitigating risks associated with regional or sector-specific fluctuations. .

- Market demand assessment: Management assesses market demand and supply dynamics to determine the optimal charter rate and charter period that maximises revenue and profitability. This involves analysing industry trends, customer preferences and competitors' offerings to identify opportunities for securing contracts.

- Utilisation optimisation: Management considers optimising vessel utilization and minimising downtime when determining charter periods. This may involve balancing shorter-term contracts with higher charter rates against longer-term contracts that provide stability but may limit flexibility. By carefully managing utilisation, the Group's aim is to maximise revenue generation while maintaining operational efficiency.

- Control over operating costs: Management maintains control over operating costs by optimising operational efficiency and managing overhead expenses and variable costs.

(iv) The debtors are customers of the shipbuilding and vessel chartering segments whose debts have been outstanding for at least 2 years as at the end of FP2023. The debts were written off after the Group assessed the likelihood of recovering the debts. Factors considered in this assessment included the financial health of the debtors, the legal recourse options, the costs and benefits of pursuing further collection efforts.

(v) Management, with the guidance from the Board, has been engaging with stakeholders and lenders to explore various debt restructuring options. The Company will update shareholders of any developments at the appropriate time.

(vi) To safeguard against default, breaches or non-fulfillment of contracts related to prepayments made to third-party suppliers for the construction of new vessels, Management has implemented the following measures:

- Due diligence: before entering into contracts with the third-party suppliers, due diligence verifications are conducted to assess the financial stability, reputation and track record of the suppliers. This helps to mitigate the risk of dealing with unreliable or financially weak suppliers.

- Contractual protections: contracts with third-party suppliers include provisions that outline the rights and obligations of both parties, including delivery schedules, quality standards, payment terms and remedies in case of default or breach. Legal advisors are engaged to review contracts with key third-party suppliers to ensure that the Group's rights are protected and enforceable and to mitigate risks.

- Performance bonds or guarantees: the third-party suppliers may be required to provide performance bonds or guarantees which serve as financial assurances that the suppliers will deliver goods or services as agreed or compensate the Group for any losses incurred due to default or breach or refund the prepayments made to the suppliers.

- Monitoring and oversight: Management has implemented rigorous monitoring schedules and oversight mechanisms to track the progress of the construction. Regular site visits and progress reports help ensure that suppliers adhere to agreed-upon timelines, quality standards and contractual obligations in order that any deviations can be addressed timely.

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2.3 SIAS Question 3

In the corporate governance report (page 38), the Group disclosed the interested person transactions ("**IPTs**") with Rawabi Holding Company Limited and its subsidiaries (collectively the "**RHC Group**").

In addition, in Note 35 Segment information (page 123), it was disclosed that revenue of US$162.5 million (31 March 2023: US$103.1 million) was derived from a single related company. This revenue is attributable to the chartering and shipbuilding of vessels for the operations in the oil and gas industry.

(i) How does the Board/audit committee ("**AC**") fulfil its responsibilities in reviewing interested person transactions?

(ii) What criteria does the AC use to determine whether IPTs are undertaken on normal commercial terms consistent with the group's usual business practice and policies and are not prejudicial to the interests of the company and its minority shareholders?

(iii) Is management empowered and sufficiently incentivised to foster independent business growth, minimising dependence on support and dealings from the controlling shareholder?

<u>The Company's response</u>

(i) As disclosed in page 16 of the Circular to the Company's shareholders in relation to the proposed renewal of the shareholders' mandate for interested person transactions with the RHC Group ("**Circular**"):

- All Interested Person Transactions entered into pursuant to the RHC IPT Mandate including the factors that have been taken into account in arriving at the terms, as well as any other quotations or evidence obtained to support such basis, shall be recorded and maintained in a register ("**IPT Register**").

- The Finance Director shall review the Interested Person Transactions recorded in the IPT Register on a monthly basis to ensure that the IPTs are in compliance with the review procedures set out in the RHC IPT Mandate.

- The Finance Director shall, on a quarterly basis, report to the Audit Committee on the Interested Person Transactions and the basis on which such transactions were entered into with the Interested Persons during the preceding quarter. The Audit Committee will review the IPT Register on a quarterly basis.

- The Group's external auditors will review the Interested Person Transactions as part of the Group's annual audit. The external auditors will report any non-compliance issues noted from the audit to the Audit Committee.

- In addition, the Group will incorporate a review of all Interested Person Transactions (excluding transaction that is below S$100,000 in value) in its internal audit plan. The internal auditors will review the Interested Person Transactions to check that the relevant approvals have been obtained and the guidelines and review procedures have been adhered to, in the case of the RHC Mandated Transactions in accordance with the RHC IPT Mandate. The internal auditors will submit their review report to the Audit Committee on a half yearly basis.

(ii) As disclosed in pages 10 to 13 of the Circular, the Group will compare the terms of the arrangement offered to RHC Group with at least 2 recent contracts or agreements of a similar

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nature and specification entered into by the Group with unrelated third-party customers to determine that the terms offered to RHC Group by the Group are fair and reasonable and comparable to those offered to the unrelated third parties after considering factors such as credit terms, reliability, exclusivity and long-term business relationship.

In the event that that it is not possible to compare the terms of the arrangement offered to RHC Group with those quoted to unrelated third-party customers, the Review Committee will evaluate and weigh the benefits of, and rationale for, transacting with the RHC Group before submitting a written recommendation to the Audit Committee. The Review Committee comprises 2 Directors (including at least 1 Executive Director) and the Head of Compliance of the Company, each of whom shall not have any direct or indirect interest in the IPT.

In the Review Committee’s recommendation, it will include in its considerations the benefits derived by the Group in providing the services to RHC Group, as compared to transacting with unrelated third-party customers. Such considerations will include, but not limited to, efficiencies and flexibilities derived by the Group in transacting with RHC Group compared with transacting with unrelated third-party customers, resource availability, delivery schedule and costs of executing the arrangement.

The Audit Committee will evaluate the recommendation of the Review Committee and take into account prevailing industry norms before deciding whether to approve or reject the IPT.

(iii) Management is actively seeking out new opportunities to diversify and expand the Group’s operations and minimising its dependence on support from its controlling shareholder through the following approaches:

- Joint ventures: By teaming up with local players, the Group can leverage on their expertise and networks to enhance its presence in those markets;

- Direct participation in tender bids: The Group aims to secure projects independently through direct participation in tender bids with unrelated third parties and national oil companies; and

- Fleet expansion: Acquiring vessels through financing with third-party financiers can help the Group expand its fleet.

The remuneration of key management personnel includes components linked to corporate and individual performance. This alignment ensures that the key management personnel’s incentives are tied to the long-term success of the Group, encouraging them to prioritise initiatives that drive sustainable growth and profitability.

By Order of the Board

Ling Yong Wah
Chief Executive Officer
25 April 2024

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*This announcement has been reviewed by the Company's sponsor, RHT Capital Pte. Ltd. (“**Sponsor**”), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”).*

This announcement has not been examined or approved by 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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