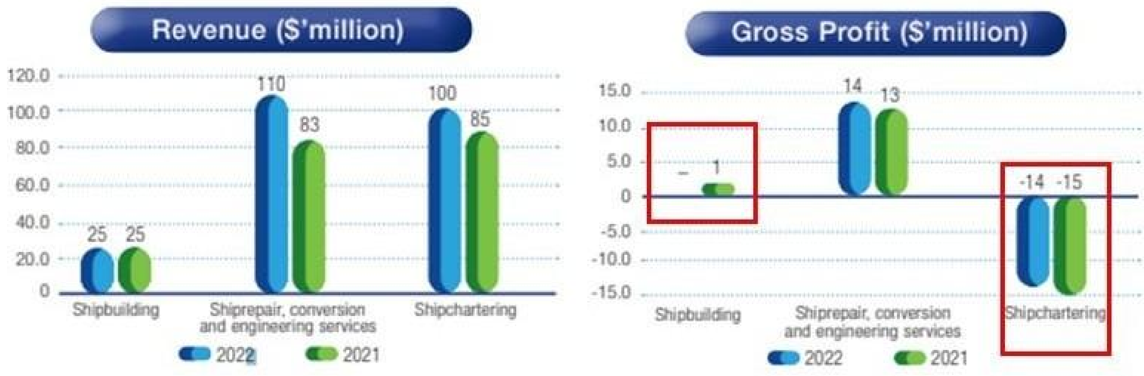
ASL MARINE HOLDINGS LTD.

(Incorporated in the Republic of Singapore)
Co. Reg. No. 200008542N

RESPONSE TO SIAS' QUESTIONS ON THE ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2022 ("FY2022 ANNUAL REPORT")

Q1. For the financial year ended 30 June 2022, loss attributable to owners of the company remain high at $(32.2) million (FY2021: $(36.9) million) even as revenue increased by 22.1%.

The group once again generated a gross loss of $(125,000) even though it was an improvement from the gross loss of $(1.21) million suffered in FY2021. The breakdown by segment is shown below:



(Adapted from company's annual report)

(i) The group's shipbuilding revenue was stable at $25.0 million. As disclosed, the group has an outstanding shipbuilding order book of approximately $59 million for 16 vessels (including 13 barges worth $24 million to be recognised in FY2023). **With renewed interests in the oil and gas segment due to high oil prices, is the group able to secure a good order with a creditworthy customer for high-value vessels such as an offshore support vessel (OSV)?**

ASL: Typically, shipbuilding for oil and gas related vessels are not only high in value but also longer tenure of say, 18 - 36 months, in nature. With the oil and gas segment recovering, we are seeing some renewed interest from customers in the construction of OSV, while the demand is potentially constrained by the uncertainties in global supply chain, inflation, interest rate hike, resurgence of the COVID-19 pandemic, etc. The management is cautiously prudent and practices proper governance in internal reviews to onboard clients before committing to new shipbuilding projects. It is to be noted that there is an increased demand for repair, reactivation, maintenance, conversion and retrofitting of OSVs since the beginning of 2022 and we are capitalizing on this improved opportunities brought about by the recovery of oil and gas industry.

(ii) However, it is also noted the group experienced costs overrun in the construction of barges. This led to gross profit margins of just 0.3% in the shipbuilding segment. Segment loss for the year increased from $(2.85) million to $(6.19) million in FY2022. In fact, the group suffered cost overruns in FY2021 (barges) and in FY2019 (tanker).

What were the reasons for the costs overrun even when the group is constructing standardised vessels (such as barges) which should be the bread and butter of an experienced shipyard?

ASL: In FY2022, like other regional shipyards, we are finding the balance and adapting to a "living with COVID-19" model. Costs overrun during the period, are primarily factors of delays in supply chain logistics, rising cost of raw materials, energy commodities, and manpower.

(iii) **Has the group maintained its competitiveness and retained the technical know-how and discipline in shipbuilding, especially when it comes to highly sophisticated vessels such as OSVs?**

ASL: The shipbuilding business is an integrated part of the Group's marine offshore services and is critical to the Group's vision in providing a one-stop service to our customers. We have maintained a technically-sound and experienced workforce that are capable of providing high quality services to customers.

(iv) **Without considering costs overruns, what are the expected profit margins if the group focuses on standardised vessels like tugs, barges, tankers and dredgers?**

ASL: Without considering costs overruns, the expected operational profit margins of building standardized vessels ranges from 15% to 25% excluding overheads. With more projects undertaken in ship building and ship repair, the overheads of the shipyards could be spread across a wider base thereby improving the overall margin of the shipyard operations.

(v) **Would the board be carrying out a strategic review of the group's shipbuilding segment?**

ASL: The Board together with the management is constantly reviewing its business strategies and redeploying resources to prepare for the business challenges ahead.

(vi) In the shipchartering segment, even as utilisation rate improved from 40% to 54%, the group suffered a gross loss of $(14.5) million mainly due to higher fuel and upkeep expenses in mobilising vessels for overseas projects, and affreightment arrangements (page 3). **Can management elaborate further on its budgeting and pricing processes prior to entering into shipchartering contracts? Why is the group chartering out its fleet at negative gross margin? What guidance and targets would the board give to management tostem the losses in the segment?**

ASL: Ship chartering operational budget is projected at the inception of the charters based primarily on costs, distance and duration. The main costs of charter contracts are fuel, depreciation, and crewing expenses. During FY2022, we booked significantly higher revenue in contracts from lump sum towage and cargo transportation ("Contract of Affreightment") which were lower in profit margin.

To stem the losses in the chartering segment, apart from achieving a higher sales volume to cover its fixed operating costs, the Board has directed the management to vary its revenue mix by focusing on securing higher-margin charter contracts, mainly bareboat charter and time charter (where fuel costs would be borne by the charterer).

(vii) **Would minority shareholders' interests be better safeguarded if the board oversees an orderly liquidation of the group's chartering fleet to preserve shareholder value?**

ASL: The Group's fleet of vessel has a remaining of useful life upto 15 years. It would be more beneficial for the Group to dispose vessels when the market condition is favorable (for instance, when demand is high and valuation is healthy). For aging vessels that require substantial repair and maintenance, scrapping will be a better option.

Q2. The company's independent auditor has highlighted a material uncertainty related to going concern in respect of the ability of the group and the company to continue as a going concern in the Independent Auditor's Report on the financial statements of the company and its subsidiaries for the financial year ended 30 June 2022.

The audit opinion in the Independent Auditor's Report is not modified and not qualified in respect of this matter.

The group has the following major facilities:

- Series 006 Notes with carrying value of $71.6 million; principal amount of $88.5 million (Sep 2022); mature on 28 March 2025
- Series 007 Notes with carrying value of $32.7 million; principal amount of $44.25 million (Sep 2022); mature on 1 October 2026
- $99.9 million 5-year club term loan facilities ("CTL"); mature in November 2026

(i) **Given the cash generating ability of the group, what are the options available to management in 2025-2026 when the Notes and the CTL facilities mature?**

ASL: The Management is regularly evaluating and reviewing various new funding opportunities, which include but not limited to, combination of loans from financial institutions (new and current banks); debt and/or equity funds from private equities/ investors, divestment of non-core assets, as well as the potential conversion of warrants issued (up to S$33.9 million, if fully subscribed). The Company will update shareholders when there are material developments.

(ii) **Has management been actively seeking out buyers for the group's three platform supply vessels (PSVs)?** The PSVs were assessed to have a net realisable value of $67.5 million as of 31 March 2022. **What is the current net realisable value of the PSVs?**

ASL: The management is actively seeking buyers and/or charterers for the PSVs and is currently re-activating its PSVs for deployment. The net realizable value of the three PSVs as of 30 June 2022 is approximately S$68.0 million.

(iii) The group has $308.9 million in borrowings and $22.1 million in cash and bank balances as at 30 June 2022. In FY2022, the group paid $11.2 million in interest (page 86 – Consolidated statement of cash flows). **What is the impact on the group as interest rate rises?**

ASL: Please refer to sensitivity analysis of interest rate risk as set out in Note 33(a)(i) on page 180 of the FY2022 Annual Report.

The Group would consider the use of interest rate swaps and/or other funding options to manage rising interest rates.

Q3. On 30 November 2021, Mr Tan Boon Gin, chief executive of Singapore Exchange Regulation (SGX RegCo), gave guidance that companies are expected to use the two-tier rulesparingly to promote renewal and succession planning[1]. On 13 September 2022, SGX RegCo further announced that it will consult on hard-coding the 9-year limit for independent directors[2].

At the annual general meeting scheduled to be held on 27 October 2022, Mr Andre Yeap Poh Leong would be retiring by rotation in accordance with Regulation 91 of the company's constitution and would be seeking his re-election (resolution 3) and his continued appointment as an independent director (resolutions 9 and 10).

Mr Andre Yeap Poh Leong was first appointed to the board on 17 January 2003, 19 years and 9 months ago.

(i) **Has the board/nominating committee (NC) deliberated on the guidance by SGX RegCo on the selective use of the two-tier rule to promote board renewal?**

ASL: The Board and the NC have followed the Rule 210(5)(d)(iii) of the Listing Manual of the SGX-ST on the two-tier voting. Mr Andre Yeap Poh Leong, who will be retiring and offering himself for re-election at the forthcoming AGM, will seek approval for his continued appointment as an independent director under a two-tier shareholders' vote.

The NC conducts particularly rigorous review on the independence of independent directors whose terms exceed 9 years to determine if there is any impairment with respect to their independence. A formal review was undertaken, led and conducted by the lead independent director Mr David Hwang Soo Chin on independent director Mr Andre Yeap Poh Leong, who has served on the Board for more than 19 years.

The rigorous review and the factors taken into consideration by the NC and the Board to assess and determine Mr Andre Yeap Poh Leong's independence include:

(a) his contribution in terms of professionalism, integrity, objectivity and ability to exercise independent judgement in his deliberation of matters in the interest of the Company;
(b) he has no personal and business relationship with the Company's substantial shareholders, executive directors or management that could impair his fair judgement;
(c) he is non-executive and he does not interfere with the day to day management of the business operations or participate in any operational or management meetings;
(d) his attendance in Board Committee meetings and time commitment to the affairs of the Group;
(e) he did not receive any gift or financial assistance from the Group; and
(f) he is not financially dependent on fees received from the Company and his fees are not linked to the performance of the Group.

[1] https://www.businesstimes.com.sg/companies-markets/answer-my-question-before-i-vote-sgx-regco-sets-new-timelines-for-companies-to

[2] https://www.sgxgroup.com/media-centre/20220913-sgx-regco-require-9-year-cap-id-tenure-disclosure-directors-and-ceo

Based on the above assessments and with the concurrence of the NC, the Board is of the view that Mr Andre Yeap Poh Leong is considered independent notwithstanding that he has served on the Board for more than 9 years. He has demonstrated strong independence in character and judgement as there were no circumstances which have affected or appeared to have affected his judgement. He has expressed individual viewpoints and exercised objective and constructive skepticism to act in the best interests of the Company and its shareholders. He has sought clarification and amplification on matters discussed during Board Committee meetings. In the current challenging conditions faced by the Company and the industry, he provides important legal guidance to the Management and his presence gives comfort to the capital providers of the Company. There has been no increase in directors' fees since FY2014 and the level of remuneration paid to Mr Andre Yeap Poh Leong would not compromise his independence.

(ii) **Would the proposed re-election of Mr Andre Yeap Poh Leong and his continued appointment as an independent director go against SGX RegCo's guidance?**

ASL: Please see response in (i).

(iii) **Should Mr Andre Yeap Poh Leong, the NC chairman, lead by example by setting the tone with regard to capping the tenure of independent directors?**

ASL: Mr Andre Yeap Poh Leong will act in compliance with the Code of Corporate Governance 2018, and act objectively in the best interests of the Company.

(iv) **Since Mr Tan Sek Khee, an independent director, was first appointed on 1 January 2014, will the director be retiring or redesignated when he reaches the nine-year limit on 1 January 2023?**

ASL: Mr Tan Sek Khee, who will be retiring in January 2023 and if he offers himself for re-election at the 2023 AGM, we will seek approval for his continued appointment as an independent director under a two-tier shareholders' vote.

(v) **Are there any challenges faced by the board in identifying and onboarding of new board members?**

ASL: Mr Andre Yeap Poh Leong, a Senior Counsel with considerable experience in construction, insolvency and arbitration matters possesses specialist knowledge and experience which are directly relevant to various aspects of the maritime industry the Group is in, and his in-depth knowledge and experience cannot be easily or readily found in other potential candidates. The Board recognizes finding a new board member that matches the needs of the Group takes time and there is a need to balance between renewal and knowledge continuity of the Board.
