
RESPONSES TO QUESTIONS FROM SIAS ON ANNUAL REPORT FY2021

The Board of Directors of Vallianz Holdings Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) refers to questions from the Securities Investors Association (Singapore) (“**SIAS**”) with respect to the Company’s annual report for the financial year ended 30 March 2021 (“**FY2021**”). The Company has provided the responses as set out below.

Q1. As noted in the Chairman’s statement, during FY2021, the Group de-consolidated the financial results of Rawabi Vallianz Offshore Services Limited (“RVOS”), which is a company incorporated in the Kingdom of Saudi Arabia with effect from 1 October 2020.

- i. Can the board/management clarify the level of influence and control by the Company over RVOS with the deconsolidation? What is the strategic value of RVOS in the Group’s long-term plans given the deconsolidation?**

The results of RVOS were deconsolidated after the Board assessed that the Company no longer had the ability to direct the business activities of RVOS. Further details of the deconsolidation were set out in the Company’s results announcement for FY2021 on 30 May 2021. Notwithstanding the deconsolidation, the Company continues to benefit from its existing equity stake in RVOS and leverage on the reputation of RVOS which has established itself as a leading provider of offshore support vessels in the Middle East region.

- ii. What were the utilisation rates of the Group’s fleet in FY2021?**

For competitive reasons, the Company does not disclose utilisation rates of the Group’s fleet. However, as disclosed on page 9 of the Annual Report, the Company has seen improved utilisation of its vessels and higher level of inquiries from its customers, and the majority of the Group’s vessels have successfully secured charters with durations up to March 2022.

- iii. Can management help shareholders understand the dynamics of the OSV market? How much idle capacity is there in the market? What are the key factors that will drive the utilisation and the charter rates of OSVs? How is the Group positioned to capture that recovery, when it happens?**

The OSV market is dependent on the level of exploration and production activities in the global offshore energy market. A report by Clarkson Research Services in May 2021 estimated that the demand for OSVs had risen 12% from November 2020, and in the June 2021 issue of its monthly oil report, OPEC estimates that world oil demand will average 96.6 million barrels per day (bpd) in 2021, up 5.95 million bpd from 2020. In general, improvement in the demand for OSVs typically drives market utilisation and charter rates, subject to OSV supply situation.

- iv. It is noted that the debt restructuring exercise, issuance of US\$125 million of convertible bonds to Rawabi Holding Company Limited, and the proposed settlement of amounts owing to the Swiber entities, should steer the Group forward on firmer footing. Nevertheless, the Group has been in a loss-making position for 4 out of the last 5 financial years. What are some of the drivers that could return the Group to profitability?**

Vallianz Holdings Limited
Co Reg No. 199206945E

1 Harbourfront Avenue, #06-08 Keppel Bay Tower Singapore 098632
Tel: +65 6911 6200 Fax: +65 6659 1292
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The Group has been working to return to profitability by improving operational efficiencies, reducing finance costs, positioning for recovery in the offshore oil and gas segment, and developing our fabrication and shipyard services business to build a new growth pillar. The Group has successfully strengthened its customer portfolio with the expansion of the Group's fabrication capabilities in FPSO (Floating Production Storage and Offloading) topside module fabrication with a global leader in the FPSO topside module fabrication space. The Group was also awarded a newbuild project from a Taiwan state-owned company, which will help to pave the way for the Group to make further inroads into Taiwan's shipbuilding market.

The Group is also assessing opportunities to secure contracts, and to seek joint-ventures and partnerships to expand into the offshore wind power segment.

- v. **Can management also help shareholders understand the opportunities for the Group in the offshore wind power segment? What is the Group's competitive advantage? Is there a risk that major players with idle capacity are rushing into the offshore wind power segment, thus the potential of oversupply?**

According to Global Wind Energy Council ("GWEC"), the Asia Pacific region accounted for almost 50% of all new global offshore wind power farms in 2020. The GWEC expects annual global offshore wind power to quadruple from 6.1 Gigawatts ("GW") in 2020 to 23.9 GW by 2025 with most of the new installations in North Asia.

As a leading global company in the offshore marine industry, the Group has amassed significant experience supporting the development and production operations of offshore energy projects. The Group is currently assessing opportunities to utilize its existing vessels for offshore wind farm development, and also planning to seek joint-ventures and partnerships to support the operations of offshore windfarms.

Windfarm support vessels are specialized vessels which are required for the offshore wind power segment. These specialized vessels will need to be constructed. As such, there is no significant risk that "idle capacity" will rush into this particular segment causing oversupply.

Q2. The remuneration of the directors is shown on page 33 of the annual report.

- i. **Has the board reviewed the remuneration framework of the executive directors? In particular, has the board, especially the remuneration committee (RC), considered if the level and structure of the remuneration of the executive directors are appropriate and proportionate to the performance, financial position and the market capitalisation of the Group? The remuneration of the two executive directors was between S\$750,000 and \$1,250,000 for FY2021 while the market capitalisation is just S\$34 million.**
- ii. **Can the RC explain how the current remuneration framework motivates and incentivises the directors to create long-term shareholder value?**

Company's response to Q2(i) and Q2(ii)

The Company sets remuneration packages to ensure that it is competitive and sufficient to attract, retain and motivate Directors and key management personnel with the required experience and expertise to run the Group successfully on a long term basis. The Company also ensures that

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performance-related remuneration system is implemented to ensure that they are aligned with the interests of Shareholders and to promote the long-term success of the Group.

In determining the remuneration framework for Directors and key management, the RC may seek advice from human resource consultants and senior practitioners to obtain comparable information on the market and the industry. The annual review of remuneration covers all aspects of remuneration including salaries, fees, allowances, bonuses, options and benefits-in-kind, taking into consideration the long-term interests of the Group.

The RC also takes into account the performance of the Group as well as that of the Directors, aligning their interests with those of Shareholders and linking rewards to corporate and individual performance as well as industry benchmarks. It ensures that remuneration package is appropriate to attract, retain and motivate the Directors to provide good stewardship and successful management of the Group for the long term.

- iii. Is the Group's remuneration framework robust enough to hold executive directors and key management accountable for the long-term performance of the Group, over an entire business cycle, through the claw back of bonuses or with high water mark? The executive directors have been on the board since December 2012 and March 2014 and have been charting the Group's long-term strategy, overseeing the day-to-day operations and driving the corporate and strategic directions.**

As mentioned above, the remuneration framework is designed to ensure that it is competitive and sufficient to attract, retain and motivate Directors and key management personnel and to promote the long-term success of the Group.

Q3. Would the board/management provide shareholders with greater clarity on the following governance matters? Specifically:

- i. Internal audit: Can the board clarify if an internal audit was carried out for FY2021? On page 34, the company disclosed that it had appointed Virtus Assure Pte. Ltd. ("Virtus") as internal auditor on 8 December 2020. If so, what was the scope of the internal audit plan for FY2021? What were the key findings and recommendations made by the internal auditor?**

Yes, an internal audit was carried out by Virtus for FY2021. On an annual basis, Virtus will prepare an audit plan, to review the adequacy and effectiveness of the system of internal controls of the Group. These include operational, financial, compliance and information technology controls. The internal auditor will follow up on these recommendations to ensure that management has implemented them on a timely and appropriate manner, and reports to the audit committee yearly.

The scope of the internal audit includes the following:

- assess and evaluate the adequacy of applicable operational internal controls;
- assess and evaluate the efficiency of business processes;
- evaluate compliance with applicable policies and procedures, as well as regulatory requirements;
- identify possible opportunities for process and internal control improvement;
- compile a report on findings and recommendations to highlight controls deficiencies and compliance gaps; and
- review of all interested persons transactions.

Based on the existing internal controls, the Board, with the concurrence with the AC, is of the opinion that the risk management and internal control systems that the Group has put in place to address financial, operational, compliance and information technology risks on an overall basis, are adequate and effective as at 31 March 2021.

- ii. **Board committee meetings: The attendance of directors at board and board committee meetings is shown on page 23. The executive directors and the non-executive chairman attend the board committee meetings by invitation, making all of the board committee meetings essentially the same as board meetings.**

Can the independent directors help shareholders understand if it is the usual practice for non-board committee members (especially the executive directors) to attend board committee meetings?

Participation by non-board committee members is decided by the committee chairman and its members at their own discretion. Non-board committee members, including executive directors, are usually invited to attend the committee meetings so that they can explain the background and provide the relevant information relating to the matters being discussed to the committee members. Committee meetings are conducted by the respective committee chairman, and the agenda is set by the respective committee chairman. Where occasion requires, some board committee meetings are held without the presence of management or executive directors.

Are the independent directors able to function independently in the board committees?

Yes as explained above.

What is the group dynamics at the board committee meetings when the independent directors on the board committee may be reviewing and discussing matters that are related to or affect the executive directors? Such board committee meetings would have included agenda items on interested person transactions, performance assessment, remuneration of the executive directors and on the audit/financial reporting/internal controls of the group.

Each director is aware of the requirements in respect of his disclosure of interest in securities, and disclosure of conflicts of interest in transactions involving the Group, amongst other requirements. Where a potential conflict of interest arises on a matter to be deliberated by the board committee, the director concerned will recuse himself from discussions and decisions involving the matter and will also refrain from exercising any influence over other members of the Board in respect of the matter.

Do the executive directors also actively participate in the discussions during the board committee meetings? If so, how are board committee meetings different from board meetings? In particular, the Code of Corporate Governance 2018 specifically exclude executive directors from the remuneration and audit committees.

The executive directors and other non-board committee members attend the board committee meetings by invitation of the committee chairman. The executive directors and other non-board committee members are there to provide relevant background or explanatory information relating to matters being discussed. They do not participate in the deliberation of matters by the board committee members. The agenda and deliberation of matters are driven by the committee chairman

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and its members. The recommendations of the respective board committees are then reported to the Board.

- iii. **Separately, the board has put forward the appointment of Mr. Poon Siew Loong as director of the Company. The profile of Mr. Poon can be found on page 16. Mr. Poon has extensive experience in the real estate industry.**

Has the NC reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in future director appointments?

Would the NC elaborate further on its search and nomination process for directors, especially independent directors?

At this point of the Group's restructuring, would a first-time director with real estate experience and expertise be able to contribute to the effectiveness of the board?

Mr. Poon has close to 30 years of business development, investment and advisory experience. He is a CFA charter holder.

The NC has recommended the appointment of Mr. Poon as Independent Director of the Company. The Board of Directors having considered his qualifications, skills and experience, are satisfied that Mr. Poon is suitable for the role as an Independent Non-Executive Director of the Company and can help strengthen the Company's corporate governance. Mr. Poon will attend training in the roles and responsibilities of a director of a listed issuer as prescribed by the Singapore Exchange within one year from the date of his appointment.

- iv. **Mr. Bote de Vries would be retiring pursuant to Article 105 of the company's constitution and would be seeking his re-election at the annual general meeting. Mr. Bote de Vries was appointed to the board on 6 September 2010. Accordingly, given his long tenure, Mr. Bote de Vries would be seeking a two-tier vote on his continued appointment as independent director.**

Can the director help shareholders understand his effectiveness as director in the past ~11 years? What were his contributions as a director to enhance the long-term value of the Group for shareholders?

The NC and Board have conducted a rigorous review of the performance of Mr. de Vries based on a set of criteria and agreed that Mr. de Vries had participated, deliberated and expressed his view independently at all times, presenting objective and constructive challenges to the assumptions and viewpoints by management. The Board is of the view that Mr. de Vries brings invaluable expertise, experience and knowledge to the Board. The Board also trusts that Mr. de Vries who is familiar with the businesses of the Group, will continue to contribute positively to the deliberation of the Board and Board Committees, and his independence of character and judgement will not be in any way affected or impaired by his length of service. The Board is satisfied with Mr. de Vries's continued independence of character and judgement and determined that Mr. de Vries remains independent to discharge his duties objectively.

As the lead independent director, would Mr. Bote de Vries be holding himself to higher governance standards and lead by example, especially in setting the tone with regard to the tenure of independent directors?

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Mr. de Vries has offered himself for re-appointment/re-election at the AGM and Mr. de Vries will be subject to the two-tier vote at the AGM in anticipation of Rule 406(3)(d)(iii) of the Catalist Rules which will come into effect on 1 January 2022. In the event that Shareholders do not approve the continued appointment of Mr. de Vries as an Independent Director of the Company, he will be re-designated as a Non-Independent, Non-Executive Director of the Board with effect from 1 January 2022.

BY ORDER OF THE BOARD

Ling Yong Wah
Chief Executive Officer
28 July 2021

*This document has been reviewed by the Company's sponsor, Provenance Capital Pte. Ltd. ("**Sponsor**"), for compliance with the SGX-ST Listing Manual Section B: Rules of Catalist. It has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "**Exchange**") and the Exchange assumes no responsibility for the contents of this document, including the correctness of any of the statements or opinions made or reports contained in this document.*

The contact person for the Sponsor is Ms. Wong Bee Eng, Chief Executive Officer, at 96 Robinson Road, #13-01, SIF Building, Singapore 068899. Telephone: (65) 6227 1580 Email: wongbe@provenancecapital.com.