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 2020 ("FY2020 ANNUAL REPORT")

Q1. On 11 November 2020, the company announced that its 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 going concerns in the Independent Auditor's Report on the financial statements of the company and its subsidiaries for the financial year ended 30 June 2020.

In particular, the group incurred loss after tax of $(18.4) million for the financial year ended 30 June 2020. As at 30 June 2020, the group's and company's total borrowings amounted to $359.6 million and $168.3 million of which $46.1 million and $5.7 million were classified as current liabilities respectively. These factors indicate the existence of a material uncertainty which may cast significant doubt on the ability of the group and the company to continue as going concerns.

The directors and management believe that the group and the company can continue as a going concern for the foreseeable future based on the following factors (page 84):

- unrestricted bank balances amounted to $17.7 million as at 30 June 2020 (up from $7.2 million a year ago)
- adequate cash flows from operations to meet working capital needs, disposal of designated assets at targeted price range and continued financial support from the lenders
- 8 months deferment of principal repayment for certain loans from its principal lenders
- COVID-19 support measures by the government
- Support from the controlling shareholders of the company in the past with their injection of funds during the last two fund raising exercises in December 2016 and July 2019

In the chairman's message, in the "Outlook and strategies" section, the company stated that it will "continue to focus on its main core business, improve its cost competitiveness and strengthen its revenue base with focus on positive cash flow contribution." (page 4).

(i) Is there any silver lining for the group during the COVID-19 pandemic?
(ii) What are the major opportunities/ management's priorities in the next 12-18 months in the shipbuilding, ship repair and conversion, engineering services and shipchartering segments? Please provide details of the opportunities/ projects to allow shareholders to better understand the prospects of the group.

ASL: The integrated business model of the Group of providing shipbuilding, ship repair and ship chartering services provide resilience during the industry downturn, including the disruption caused by the current COVID-19 pandemic. This is supported by our shipyard facilities and resources, strong capabilities, track record, management and staff commitment, funding and support from banks and government and stable client network in the shiprepair and conversion and shipchartering business, which enable the Group to ride and navigate through in a difficult business environment.

Despite the immediate challenges, barring any unforeseen circumstances, the Group is optimistic about the medium to longer term prospect of its shiprepair business given the recurring nature of mandatory requirement for repair and maintenance of vessels. It is a mandatory requirement that all ocean-going vessels must undergo periodical repair and dry docking. The addition of a medium sized floating dock in Singapore during FY2020 has enhanced the Group's competitive edge and enabled the repair and service of medium-sized vessels. The local content requirement measures in Indonesia would also contribute to the repair business in the Group's Batam yard.

The shiprepair and shipchartering businesses are comparatively less cyclical than those of shipbuilding. For shipchartering segment, the Group's fleet of vessels is being deployed in diversified sectors including dredging, land reclamation, marine construction works and transportation of cargoes. The shipchartering operations will continue to focus on the marine infrastructure projects in South Asia, Southeast Asia and Singapore, the demand of which is expected to pick up in medium term.

(iii) Can management elaborate further on the concrete steps it is taking to improve its cost competitiveness?

ASL: Management has implemented the following cost control and cash flow enhancement measures, amongst others:

- Planning and keeping track of project budget and setting performance parameters;
- Weekly operations meeting for closer monitoring of project progress and schedule, cost and profitability;
- Review by the management on all purchases and capital expenditures;
- Increase suppliers' base;
- Cutting overheads and admin expenses including a) improving efficiency - through redesigning of job scope; b) salary & bonus freeze; c) renegotiation of fees with service providers; d) procuring lower fixed price electricity plans;
- Closer collaboration with subcontractors and vendors on credit terms;
- Tightening negotiation and billing cycle with customers;
- Better coordinating efforts between operations department and finance department in the collection of debts; and
- Deferment of mortgage loans.

(iv) In addition, would the senior management and directors be taking voluntary cuts in pay and fees of 30-50% (or more) to help the group ride out the current COVID-19 crisis?

ASL: As disclosed in the Corporate Governance Report (page 39), in FY2020, pursuant to the Company's Consent Solicitation Exercise ("**CSE**") passed in January 2019, the Company had taken into consideration the feedback received from its Noteholders, bearing in mind the interest rate cuts and extended maturity on the Notes granted by the Noteholders. To align the interests of the management with its Noteholders, the shareholder-management team, namely Mr Ang Kok Tian, Mr Ang Ah Nui, Mr Ang Kok Eng, Mr Ang Kok Leong and Mr Ang Sin Liu, took a 40% pay cut in their basic salaries with effect from February 2019.

Owing to the downturn in the industry and the losses suffered by the Group, there were no salary adjustments and bonus payout to the directors and KMP in the last 7 years and 4 years respectively.

(v) Will the board be obtaining an undertaking of financial support from the controlling shareholders to further justify the board's opinion that the group and the company can continue as a going concern for the foreseeable future?

ASL: The controlling shareholders - Ang Family Members will not be providing an undertaking of financial support, however, shareholders should note that under the trust deeds entered with respect to the Company's Notes issued, the Company has warranted inter alia that the Ang Family Members, along with Mr Ang Kok Tian's immediate family members, own in aggregate (whether directly or indirectly) not less than 51% of the Company's issued share capital. In addition, under certain debt obligations of the Group, the Ang Family Members and members of their respective families are also required to maintain control in the shareholding of the Company or management of the Group. In this regard, the Board wishes to inform shareholders that the Ang Family Members will continue to support the Company.

As at 30 June 2020, the group has classified just 2 barges (with a carrying value of $1.05 million) as assets held for sale (page 13).

(vi) Can management elaborate in greater detail its asset disposal plans?

ASL: The 2 barges to be disposed within a year were pursuant to the contracts entered prior to year end with purchase consideration to be settled by offsetting arrangement of mutual debts with the buyers. One of the barges relates to the deed of settlement entered with one of the companies related to directors, as disclosed in Note 38 (page 208 – Subsequent events).

(vii) In particular, what are the plans for the group's three Platform Supply Vessels ("PSV")? The group has recognised the three vessels as finished goods with a carrying value of $74.1 million, after recognising impairment losses of more than $(61) million in the past two years.

ASL: The management has plan to re-activate the PSV progressively and look for charter while looking out for selling opportunities. The Company will update shareholders on any development and make the necessary announcement(s) in accordance with Rule 703 of the Listing Manual of the SGX-ST.

Q2. The group's finance costs have increased from $22.7 million in FY2018 (restated), to $23.2 million in FY2019 and to $25.7 million in FY2020. Borrowings have remained at around the $360 million level in the past two years even as the group carried out the debt refinancing exercise.

As disclosed in Note 27 (page 173 – Finance costs and fair value adjustments arising from debt refinancing exercise), interest expense on bank loans and notes increased from $23.34 million in FY2019 to $24.65 million in FY2020.

(i) Would management provide greater clarity on the expected cost savings in interests due to the consent solicitation exercise and the debt refinancing exercise that was completed in FY2019?

(ii) Can management help to reconcile the higher interest expense in FY2020 ($24.65 million) following the debt restructuring?

ASL:

	Note	Group FY2020 $'000	FY2019 $'000	Incease/ (Decrease) %	FY2018 $'000
Interest expense on:					
Bank loans and Notes	(i)	15,395	19,512	(21.1%)	22,335
Amortisation of bank loans and Notes	(ii)	9,252	3,441	168.9%	-
Bank loans and Notes		**24,647**	**22,953**	**7.4%**	**22,335**
Lease liabilities		1,060	242	338.0%	376
		25,707	**23,195**	**10.8%**	**22,711**

Borrowings as at	30-Jun-20 $'000	30-Jun-19 $'000	Incease/ (Decrease) %	30-Jun-18 $'000
Carrying value				
Bank loans and Notes	340,483	361,978	(5.9%)	488,303
Trust receipts and lease liabilities	19,137	1,157	1554.0%	13,805
	359,620	363,135	(1.0%)	502,108
Face value				
Bank loans and Notes	406,740	421,905	(3.6%)	488,303
Trust receipts and lease liabilities	19,137	1,157	1554.0%	13,805
	425,877	423,062	0.7%	502,108

As disclosed in Note 19 (page 161 – Interest-bearing loans and borrowings) and explanation note 7 of Financial Year Review on page 12 of the FY2020 Annual Report, pursuant to debt refinancing exercise undertaken by the Group in FY2019, the bonds and certain loans that have been re-profiled and measured at fair value in accordance with the provision of Singapore Financial Reporting Standards (International) 9 - Financial Instruments ("**SFRS(I) 9**").

Pursuant to accounting policy as described in Note 2.14 (page 99 – Financial instruments) and under SFRS(I) 9, original financial liabilities of these loans and Notes were extinguished and new financial liabilities based on revised terms were recognised at fair value. This had resulted in fair value gain recorded in income statement and adjustments to carrying values of the loans and Notes in the statements of financial position of the Company and the Group in FY2019. The fair value gain of the loans and Notes arose as a result of a higher effective interest rate used in the fair value computation as compared to the nominal interest rate charged by the lenders and noteholders. Such fair value gain recognised would be amortised progressively over the remaining tenor of the loans and Notes that were refinanced.

The Group's finance costs of $25.7 million in FY2020 and $23.2 million in FY2019 included amortisation of bank loans and Notes of $9.3 million and $3.4 million respectively (refer Note (ii) in the above table), which are non-cash flow in nature. Excluding the effect of amortisation of bank loans and Notes mentioned above, the Group recorded lower finance costs of $15.4 million and $19.5 million in FY2020 and FY2019 respectively (refer Note (i) in the above table).

Interest rate on the Notes was reduced in the CSE passed in January 2019 and thereby resulted in cost savings in interests of approximately S$4.0 million, a reduction from $8.0 million in FY2018 to $4.1 million in FY2020. Further details on the debt refinancing exercise in FY2019 were disclosed in Note 19 (page 164 and 165 – Interest-bearing loans and borrowings).

Equity attributable to shareholders continued to slip from $303.7 million (FY2018) to $133.4 million (FY2020). Net gearing ratio has increased from 1.57x to 2.45x.

(iii) What are the financial covenant requirements with regard to the group's/company's net gearing ratio, net assets, EBITDA etc?

ASL: The financial covenants of the Group mainly pertained to interest and debt service coverage ratios and minimum total equity balance. In FY2020, there were no breaches of the financial covenants.

Q3. The board of directors has stated that it recognises the importance of corporate governance and is committed to maintaining a high standard of corporate governance across the company and its subsidiaries (page 22).

As disclosed in the corporate governance report, the company has deviated from the following provisions of the Code of Corporate Governance 2018 issued by the Monetary Authority of Singapore:

Provision 2.2	Independent directors make up a majority of the board where the chairman is not independent.
Provision 2.3	Non executive directors make up a majority of the board.
Provision 3.1	The chairman and the chief executive officer ("CEO") are separate persons to ensure an appropriate balance of power, increased accountability, and greater capacity of the board for independent decision making.

Listing Rule 710 of the SGX Listing Manual requires issuers to explicitly state, when deviating from the provisions prescribed in the Code of Corporate Governance 2018, the provision from which it has varied, the reason for the variation, and the explanation(s) on how the practices it had adopted are consistent with the intent of the relevant principle [emphasis added].

(i) Would the company disclose the underlying reason(s) for deviating from Provision 2.2? On page 26, the company has simply restated that the current board composition (i.e. half of the board comprises independent directors and there is a lead independent director) without providing the underlying reason for its deviation.

ASL: The Board is cognizant of the deviations from the 2018 CG Code. Notwithstanding this, the Board is of the view that the Board has an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the Company, in line with Principle 2 of the 2018 CG Code.

Firstly, all the members of each of the Board's Audit Committee, Nominating Committee and Remuneration Committee, to which the Board has delegated certain functions, are independent directors, including the Chairman of each of the Board committees. Decisions made at the Board committees are achieved by majority consensus and thereafter, subject to approval by the Board. Although the independent directors comprised half of the Board, decisions made at the Board are to be achieved by majority consensus. All decisions of the Board are based on collective decision without any individual or small group of individuals influencing or dominating the decision-making process.

Secondly, the independent directors participate actively during Board meetings. In addition to providing constructive advice and constructively challenge to management on pertinent issues affecting the affairs and businesses of the Group, they also review management's performance in meeting goals and objectives of the Group's business segments. The Company has benefited from management's access to its directors for guidance and exchange of views both within and outside of the meetings of the Board and Board Committees. The independent directors communicate among themselves and with the Company's auditors and senior managers. The independent directors, led by the lead independent director, meet and/or communicate without the presence of the executive directors and/or management. The lead independent director, as chairman of such meetings, will provide feedback to the Chairman after such discussions.

Thirdly, a lead independent director has been appointed to lead and coordinate the activities of the independent directors and act as principal liaison between the independent directors and the CEO and Deputy Managing Director on sensitive Board issues. To empower the lead independent director and the independent directors, the Company pays for advisors appointed by and solely responsible to the lead independent director or the independent directors.

Nevertheless, the Board will consider the appointment of an additional independent director to make up a majority of the Board, and will continue to review its Board size and composition to ensure that (1) the Board will comprise directors who as a group provide an appropriate balance and diversity and taking into consideration core competencies such as accounting, financial, legal, business, industry knowledge, management, strategic planning and customer-based experiences; and (2) each director should bring to the Board independent and objective perspectives so as to foster constructive debate and avoid "groupthink". This process is led by the Nominating Committee, which recognises that an effective and cohesive board requires the right mix of expertise, skills and attributes to meet the business and governance needs of the Company.

In addition, the roles of the chairman and CEO are vested in Mr Ang Kok Tian. The executive directors of the company and their family in aggregate hold approximately 67.3% of the company. The other two executive directors are Mr Ang Ah Nui (also deputy managing director) and Mr Ang Kok Leong. As disclosed on page 59, Mr Ang Kok Tian, Mr Ang Ah Nui and Mr Ang Kok Leong are brothers.

(ii) Has the nominating committee evaluated how the separation of the roles of the chairman and CEO can lead to a more appropriate balance of power, increased accountability, and greater capacity of the board for independent decision making and thereby increasing the effectiveness of the board?

ASL: Notwithstanding that Mr Ang Kok Tian is the Chairman of the Board and the CEO, the Nominating Committee is of the view that the Board has implemented sufficient safeguards to ensure separate leadership of the Board and the operations of the Company, and to ensure that Mr Ang Kok Tian does not have unfettered powers of decision-making.

Firstly, to limit the concentration of power in the hands of Mr Ang Kok Tian, the Board has granted exclusive powers to Mr Ang Ah Nui with respect to operations. Mr Ang Ah Nui is the Deputy Managing Director and is involved in the day-to-day running of the Group and is in charge of operations. Notwithstanding that Mr Ang Ah Nui (i) is the Deputy Managing Director to Mr Ang Kok Tian and (ii) is the brother of Mr Ang Kok Tian, he is directly responsible to the Board and not to Mr Ang Kok Tian. In the area of operations, Mr Ang Ah Nui discusses matters with Mr Ang Kok Tian but is directly responsible to the Board. In the absence of Mr Ang Kok Tian, Mr Ang Ah Nui would stand in as the acting Managing Director to ensure continuity of the business operations of the Company.

Secondly, all major decisions made by Mr Ang Kok Tian are subject to majority approval of the Board and are reviewed by the Board Committees, whose members comprise only independent directors. Mr Ang Kok Tian's performance and remuneration are also reviewed by the Nominating Committee and Remuneration Committee respectively, whose members comprise only independent directors.

Thirdly, taking cognisance that the Chairman of the Board is also the CEO and thus not independent, the Board appointed a lead independent director, Mr Tan Huay Lim, to lead and coordinate the activities of the independent directors and act as principal liaison between the independent directors and the CEO and Deputy Managing Director on sensitive Board issues.

In light of the above, the Board believes that there are adequate safeguards in place to ensure an appropriate balance of power and authority, and increased accountability, within the spirit of good corporate governance and that no one individual has unfettered powers of decision-making.

With effect from 1 January 2019, pursuant to Rule 720(5) of the Listing Manual of the SGX-ST, all directors, including executive directors, must submit themselves for re-nomination and re-appointment at least once every three years. Mr Ang Kok Tian was last re-appointed to the Board on 12 November 2002. Under the Transitional Practice Note 3 (Transitional Arrangements Regarding Code of Corporate Governance 2018) issued by SGX-ST on 28 November 2018, Mr Ang Kok Tian, the Managing Director and CEO of the Company, will be due for re-election no later than 31 December 2021, and his re-election as director and Chairman will therefore be subject to shareholders' approval.

Nevertheless, going forward, the Board will take into consideration the separation of the role of the Chairman and the CEO and the appointment of an additional independent director to the Board to make up a majority so as to ensure an appropriate balance of power, increased accountability, and greater capacity of the board for independent decision making.

(iii) Given that the three executive directors are siblings and have years of experience in the industry, along with three independent directors with no industry experience, how does the board encourage constructive debate, draw out differing views and avoid groupthink?

ASL: Notwithstanding that the three independent directors may not have direct experience in the industry, they are from diverse backgrounds (one being a business leader, and the others being financial and legal professionals) who possess the relevant expertise and skill sets to enable effective decision-making and constructive debate. In addition, the independent directors have over time developed knowledge and familiarity with the Company's business.

(a) Our lead independent director and chairman of the Audit Committee, Mr Tan Huay Lim was an Audit Partner of KPMG Singapore with more than 30 years of accounting and auditing experience across myriad industries and was involved in a number of initial public offerings ("IPO"), debt financing and merger and acquisition transactions during his tenure at KPMG Singapore. He was the IPO partner of the Group back in 2003;

(b) the chairman of the Nominating Committee, Mr Andre Yeap, is 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 industry the Group is in, and his in-depth knowledge and experience cannot be easily or readily found in other potential candidates; and

(c) the chairman of the Remuneration Committee, Mr Tan Sek Khee, brings with him extensive and practical experience in general management, business strategy formulation, business development & marketing, procurement and logistics.

The profiles of the directors are set out on pages 17 to 19 of the annual report.

To enable the directors, especially the independent directors, to make full deliberation on issues and make informed decisions, the Board and the Board Committees are provided with complete, adequate and timely information prior to meetings and on an on-going basis. Board papers with sufficient background and explanatory information are circulated at least three days before each meeting. The independent directors have the right to seek advice from external advisors, such as legal, accounting, finance, treasury or persons familiar with the industry, at the expense of the Company. This is a right the independent directors have availed themselves to from time to time. Furthermore, all newly appointed and existing directors are also invited to visit the Company's shipyards and meet with middle management to gain a better understanding of the Group's business operations.

The Board is of the view that the independent directors have over time developed in-depth knowledge of the Group's businesses and operations and can continue to provide noteworthy and valuable contribution objectively to the Board and Company. Although the independent directors do not exercise management functions in the same industry, they each possess the relevant expertise and skill sets for effective decision-making to ensure that key issues and decisions made are constructively challenged and thoroughly reviewed and monitor the performance of management in meeting agreed goals and objectives.

(iv) Since the board is committed to "maintaining a high standard of corporate governance across the company and its subsidiaries", would the board be reviewing how it could comply better and with more of the provisions of the 2018 CG Code, instead of deviating from the provisions?

ASL: While the Board is of the view that the intent of the principles of the 2018 CG Code are met, the Board will nevertheless endeavor to review its deviations from the provisions of the 2018 CG Code, and work towards ensuring better compliance with the 2018 CG Code.
