CHARISMA ENERGY SERVICES LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration No. 199706776D)

RESPONSES TO QUERIES FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

The Board of Directors (the "**Board**" or "**Directors**") of Charisma Energy Services Limited (the "**Company**" and together with its subsidiaries, the "**Group**") wishes to announce the following in response to the queries raised by the Securities Investors Association (Singapore) ("**SIAS**") with respect to the Company's annual report for the financial year ended 31 December ("**FY**") 2020 (the "**AR2020**"). Unless otherwise defined, capitalised terms used herein shall have the meanings ascribed to them in the AR2020.

SIAS Question 1
The company's independent auditor has issued a Disclaimer of Opinion on the group's financial statement for the financial year ended 31 December 2020. The basis for disclaimer of opinion include: - Deficiencies in shareholders' equity and net working capital - Loans and borrowings with lenders - Loans from shareholders - Asset divestment plans - Cash flows from operating activities - Cash flows from potential investor - New financial guarantee issued by the company The basis for the disclaimer of opinion and material uncertainties in relation to the group's financial statements for FY2020 are set out in more detail in the independent auditor's report on pages 35 to 37 of the annual report. In fact, the auditor has issued a disclaimer of opinion for the past three financial years. (i) Can management elaborate further on the group's business model and its strategic growth plans? How does it intend to create long-term shareholder value? As at 31 December 2020, the company has accumulated losses amounting to US$(325.2) million and is in a net liability position of US$(42.78) million. (ii) Would the board consider including a detailed operation review in the annual report to help shareholders understand its current operations? There is little information on the group's hydro power plant in Sri Lanka and the photovoltaic power plant in Hubei, China in the annual report. (iii) As disclosed on page 4, the company has engaged an "external consultant" and is in the midst of negotiating with an interested investor to secure new cash funding. Who is the external consultant? At what stage is the negotiation with the interested investor? How does the board ensure that shareholders, especially minority shareholders, are not unduly diluted as the company raises fresh capital from new investors? (iv) Trading of the company's shares was halted on 31 January 2019 and then suspended since 7 February 2019. Can the independent directors help shareholders understand their roles and the level of involvement in the restructuring of the group and in the resumption of the trading of the company's shares? (v) Given the disclaimers of opinion by the independent auditors, can the directors elaborate further on the reasons that, in their opinion, the financial statements as set out in the annual report, give a true

and fair view of the financial position of the group and of the company as at 31 December 2020 (page 30; Directors' statement)?

(vi) Can the directors further justify why, in their opinion, there are reasonable grounds for them to believe that the company will be able to pay its debts as and when they fall due (page 30; Directors' statement)? In Note 2 (pages 46 to 47 – Going concern), it was further disclosed that there are material uncertainties to (a) the lenders' and shareholders' commitment to continue provide funding to the group and company; (b) the execution and timing of the group's asset divestment plans to raise additional funding; (c) the level of operating cash flows to be generated from the group's continuing businesses given the economic challenges and regulatory landscape faced by the group's energy and power segment; and (d) the outcome of discussions with the potential investor.

Company Response to SIAS Question 1

The Group's marine and offshore oil and gas services ("**O&G**") business was adversely impacted by the global oil and gas downturn since 2017. The protracted depressed market has caused the Group to chalk up hefty losses due to impairment of non-financial assets and receivables. The O&G assets were grossly under-utilised and were not able to generate the normal cash flow that the Group needs to service the related loans. The Group commenced the debt restructuring exercise in early 2018 and was concurrently working on exiting the O&G business and focusing on the renewable energy business.

As previously announced, the Group has engaged RSM Corporate Advisory Pte Ltd ("**Consultant**") as the external consultant since 2018. The Consultant has been supporting the Group in the discussions with the lenders on the debt restructuring and more recently with potential investors. The Company, through its monthly update announcements on SGXNet, has identified three stages to restructure and turnaround the Group as follows:

1) <u>Stabilisation of the Company via debt restructuring</u>

The Company has achieved the following debt restructuring to stabilise the Group from the period of 2018 to 2020 as follows:

a) Restructured the major loan of approximately US$16 million which were in default such that the principal and interest repayments are in line with the cashflow generated from 13 Mini-Hydro Power Plants in Sri Lanka ("**MHPP**").

b) Entered into standstill agreements with two lenders.

c) Entered into standstill agreements with REPS Investors.

d) Restructured the 20MW solar photovoltaic power plant in China ("**PRC Solar**") finance lease to defer the principal repayment by one year to December 2021.

2) <u>Asset divestment</u>

The Company has implemented asset divestment strategy to pare down the financial liabilities of the Group and have achieved the following:

a) Disposal of accommodation module in February 2019;

b) Disposal of 140MW solar photovoltaic power plant in India ("**India Solar**") in December 2020; and

c) Disposal of four offshore support vessels in May 2021.

With the proceeds received from the above asset divestments and cashflow from the Group's continuing business, the Group has made repayment of borrowings including interest amounting to approximately US$17.8 million and US$4.4 million in FY2020 and FY2019 respectively.

3) <u>Restructuring of debts and recapitalisation of the Group</u>

The Company had been continuously in search for and discussed with several potential equity investors in the past but did not advance further mainly due to the uncertainties surrounding the Company, prior to the completion of the stabilisation and divestment mentioned above.

Currently, the Company, with the support from its Consultant, is in initial discussion with two potential investors to secure new cash funding for future growth potential in the renewable energy sector.

One of the potential investors who expressed interests in investing in the Company would like to ensure satisfactory due diligence of the MHPPs before signing any term sheet or subscription agreement. The Group has commissioned the required due diligence of the MHPPs. There is another potential investor who has expressed preliminary interest to invest in the Group, which the Group is concurrently in discussion. The Company will be reviewing the terms and conditions of any proposal put forth by any of the potential investors.

There is also a need to engage in further discussions with the relevant lenders and creditors to obtain their support in satisfying the relevant terms of investments as well as to understand the requirement of these lenders and creditors.

Once the discussion with any of the potential investors materialises, the Company will be looking into a debt restructuring exercise ("**Proposed Debt Restructuring Exercise**") to achieve a positive net assets value upon completion of the debt restructuring and recapitalisation exercise and strive towards trading resumption of the Company's shares.

At the appropriate time, the aforementioned proposed transactions, including any potential shareholding dilution, will be tabled to all relevant stakeholders for their approval.

Currently, while carrying out the above three stages of restructuring steps, the Group's focuses in the renewable energy sector and has two renewable energy projects as follows:

(i) the 13 Mini-Hydro Power Plants in Sri Lanka ("**MHPP**"); and

(ii) the 20MW solar photovoltaic power plant in Hubei, China ("**PRC Solar**")

The two projects are currently generating positive EBITDA and generating positive operating cash flows.

The Board (which includes the Independent Directors) also has oversight of the various stages of the restructuring process and continues to act as a check and balance on the acts of the management of the Company. Before the Group can strategically grow its renewable energy business, it needs to focus on pursuing further debt restructuring to pare down the financial liabilities and recapitalise the Company in order to be placed in good stead to pursue the new opportunities in the renewable energy sector. The Group has a very lean operation and the Board is of the view that the key focus currently is to restructure its debts and recapitalise the Company. The Group will continue to provide further operation review through its monthly updates and quarterly results announcements.

As disclosed in the Company's announcement dated 15 June 2021, although the directors' belief that the financial statements give a true and fair view and the use of going concern assumption in the preparation of the financial statements remains appropriate, there are material uncertainties about:

(a) the outcome of the discussion with the Potential Investor;

(b) the continual support from the relevant parties which is critical for achieving success in the Proposed Debt Restructuring Exercise;

(c) the realisation of the forecasted positive operating cashflows from the Group's continuing businesses; and

(d) the successful planned divestment of some of the Group's assets.

These conditions may affect the Group's ability to meet debts as and when they fall due, at least in the next 12 months from the reporting date. If for any reason the Group and Company are unable to continue as a going concern, it could have an impact on the Group's and Company's classification of assets and liabilities and the ability to realise assets at their recognised values and to extinguish liabilities in the normal course of business at the amounts stated in the financial statements.

However, the Company has been actively engaging the lenders and creditors and continuously strive to maintain the stability of the Group's financial and operational needs. The Company is still actively pursuing various initiatives to further improve the financial position of the Group. The Company is also in discussion with potential investors to raise money to strengthen the capital base of the Group. With all of the above, the Board is of the view that there is no reason to not support their opinion stated in the AR2020 Directors' Statement.

SIAS Question 2

As noted in the Corporate Governance report, one of the main responsibilities of the board is to provide entrepreneurial leadership and guidance and put in place an effective management team (page 11).

(i) Has the board assessed its performance in the past 8-10 years? In particular, how effective was the board in setting strategy, assessing and managing risks to safeguard shareholders' interests and in creating shareholder value? Other than Mr. Eng Chiaw Koon, the directors have been on the board for 8-10 years (since 2011-2013).

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

(iii) At the annual general meeting scheduled to be held on 29 June 2021, Mr. Chew Thiam Keng retires by rotation and would be seeking his re-election. Can Mr. Chew Thiam Keng as non-executive chairman help shareholders understand his contributions and effectiveness during his tenure as non-executive chairman?

(iv) Mr. Cheng Yee Seng and Mr. Lim Chen Yang would also be seeking shareholders' vote on their continued appointment as independent directors under a two-tier vote for long-tenured directors. Similarly, would the two long-tenured directors help shareholders understand their contributions and effectiveness as independent directors since their appointment in May 2011 and July 2011 respectively?

Company Response to SIAS Question 2

The Nominating Committee ("**NC**") conducts an annual review to assess if the existing attributes and core competencies of the Board are complementary and enhance the efficacy of the Board. There is also an annual evaluation by the Directors in relation to skill sets, with a view to understand the range of expertise which is lacking by the Board. Please also see page 19 of the AR2020 for the formal annual assessment of its effectiveness for FY2020.

The Board seeks to strike an appropriate balance between tenure of service and continuity of experience and refreshment of the Board. The Board, save for the affected Directors who have abstained from the deliberations, has recommended the continued appointments of Mr. Chew Thiam Keng ("**Mr. Chew**"), Mr. Cheng Yee Seng ("**Mr. Cheng**") and Mr. Lim Chen Yang ("**Mr. Lim**") as Directors of the Company. These appointments are subject to shareholders' vote.

The NC and the Board has reviewed and concluded that Mr. Chew possesses the experience, expertise, knowledge and skills to contribute towards the core competencies of the Board.

The NC and the Board have determined that Mr. Cheng and Mr. Lim remain objective and independent-minded in the Board deliberations. Their vast experiences enable them to provide the Board and the various Board Committees on which they are serving, with pertinent experiences and competences to facilitate sound decision-making and that their length of service does not in any way interfere their exercise of independent judgement nor hinder their ability to act in the best interests of the Company. Over the years, they are familiar with the fundamentals of the Company's business which further enhance their ability to perform the oversight role. Additionally, they have met the definition of Independent Director of the SGX-ST and the 2018 Code. The Board trusts that they can continue to discharge their duties independently with integrity and competency. In compliance with Rule 406(3)(d)(iii) of the Catalist Rules of the SGX-ST which will take effect from 1 January 2022, Mr Cheng and Mr Lim is subject to shareholders' Two-Tiered voting process.

The evaluation of the management's performance is performed by the Remuneration Committee, who is in charge of determining specific remuneration packages for each Executive Director, the CEO and key management personnel and the implementation of any appropriate performance-related elements to be incorporated in the remuneration framework. These will be approved by the Board thereafter. In order to determine such remuneration packages, the performance of such personnel will be assessed with the following key performance indicators:

- timely fulfilment of duties under work scope;
- mixture of core values, competencies, key results area and potential shown; and
- actual performance of the Group.

SIAS Question 3

As disclosed in page 34 (Directors' statement), the retiring auditors, KPMG LLP, have expressed that they will not be seeking re-appointment as auditors of the company at the forthcoming annual general meeting of the company. The company has proposed to appoint Nexia TS Public Accounting Corporation ("**Nexia TS**") as auditors of the company in place of the retiring auditors.

(i) How did the audit committee shortlist and select Nexia TS as the (proposed) incoming auditors in place of KPMG?

(ii) Can the audit committee help shareholders understand why KPMG has not sought their re-appointment as auditors of the company?

Furthermore, as disclosed in the notice of annual general meeting (dated 14 June 2021), KPMG, had on 14 June 2021, given notice to the directors not to seek re-appointment as auditors of the company at the AGM.

Catalist Rule 704(6)(a) requires an issuer to immediately announce the cessation of key persons including auditors of the issuer.

(iii) Can the company (and the sponsor) help shareholders understand if the company has made the necessary announcement to update the market on the cessation of the auditors, as required by Rule 704(6)?

Company Response to SIAS Question 3

The decision for KPMG to not seek re-appointment as auditors of the Company was discussed between the Company and KPMG. KPMG was cognizant of the Company's efforts to enhance operating costs efficiencies and savings, and accordingly the stepping down as the Company's auditors was in alignment with the Company's interests.

As disclosed in Section 2.3 of the AR2020 Appendix (Page 149), when assessing the suitability of the proposed incoming auditors, the Audit Committee took into consideration the following factors:

- the cost and scope of audit based on the size and complexity of the Group's operations;
- the adequacy of the resources, experience and reputation of the audit firm;
- the audit engagement partner assigned to the audit; and
- the number and experience of supervisory and professional staff assigned to the audit of the Company and the Group.

Upon conclusion of its assessment, the Audit Committee and the Board believe that Nexia TS is suitable and appropriate to be the auditors of the Company.

As the disclosure was made in the AR2020 and the AR2020 was published on the SGXNet shortly after being notified by KPMG on 14 June 2021, the Company (together with its continuing sponsor) was of the view that such disclosure was sufficient to meet the disclosure requirements of Catalist Rule 704(6)(a).

By Order of the Board

Tan Wee Sin
Company Secretary
28 June 2021

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*This announcement has been reviewed by the Company's sponsor, PrimePartners Corporate Finance Pte. Ltd. (the "**Sponsor**"). 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.*

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