Issuer: ASL Marine Holdings Ltd.
Security: ASL Marine Holdings Ltd.

Meeting details:
Date: 28 October 2017
Time: 9.30 a.m.
Venue: 19 Pandan Road, Singapore 609271

Company Description
ASL Marine Holdings Ltd., an investment holding company, provides marine services primarily in the Asia Pacific, South Asia, Europe, Australia, and the Middle East. The company operates through Shipbuilding, Shiprepair and Conversion, Shipchartering, and Engineering segments. It constructs vessels, such as offshore support vessels, dredgers, tugs, barges, and tankers; and provides ship repair and conversion services, including retrofitting and conversion, steel renewal, blasting and painting, electrical and electronic works, and mechanical works for the repair and life extension of various types of vessels. In addition, it owns, operates, and charters a fleet of vessels consisting of towing tugs, work barges, crane barges, split hopper barges, dredge workboats, grab dredgers, landing crafts, tankers, anchor handling tugs, and anchor handling towing/supply vessels for marine contractors in the marine infrastructure and construction, cargoes transportation, offshore oil and gas, dredging, and land reclamation industries; and provides transportation services. Further, it offers dredging engineering products and services, including cutter suction dredgers, trailing hopper suction dredgers, pumping systems, cutting systems, dredger automations, dragheads, dredge line components, and other components. ASL Marine Holdings Ltd. owns and operates five shipyards comprising one in Singapore; three in Batam, Indonesia; and one in Guangdong, China. It operates through a fleet of approximately 234 vessels. The company was founded in 1974 and is headquartered in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=A04)

Q1. Can management provide clarity to shareholders whom would like to gain a better understanding of the group's operational and financial performance. Specifically:

a) Shipbuilding: The order book has dropped from $223 million (as at 30 June 2016) to $39 million (as at 30 June 2017), and it was further boosted to $60 million subsequent to year end. **In times of excess shipbuilding capacity in the industry, what is the margin the group is able to command for its order book, especially for construction of non-OSV vessels?**

b) On 9 September 2017, the company announced that an incident took place in the group's shipyard in Batam. **Has the company completed the investigations? How does the group ensure that health and safety requirements are strictly followed and enforced?**

c) Shipchartering: The group's towing tugs increased from 44 in 2016 to 53 in 2017. The utilisation rate of the towing tugs was 51% in 2016. **Is there new demand requiring the group to increase its fleet of towing tugs? What is the utilisation rate in 2017?**

d) The revenue from the engineering segment slipped by more than 20% from $27.6 million in 2016 to $21.8 million in 2017. It widened its segment loss from $(0.81) million in 2016 to $(1.5) million in 2017. **What are the plans to improve the segment's profitability? How does the group intend to extend VOSTA's footprint to China, which is described by the company as being the largest dredging market in the world?**

Q2. The group has carried out a comprehensive financial restructuring program to strengthen the balance sheet. The exercise included:

- Rights issue that raised proceeds of S$25.2 million
- Extending the maturity dates of the existing S$100 million and S$50 million notes originally due in March 2017 and October 2018 respectively for another three years each
- Obtaining a S$99.9 million club loan facility provided by 3 local banks
- Stretching of loans tenure thereby reducing monthly installments

As at 30 June 2017, the group did not meet one of the covenants imposed by the banks for the 5 year club term loan facility. At the request of the Group, subsequent to the financial year ended 30 June 2017, the Banks had waived the covenant that was breached.

a) Please disclose the covenant that was breached.

As seen in the Consolidated statement of cash flows (page 78), the group managed to generate Net cash flows from operating activities of $85.9 million, while using net cash flows of $24.5 million and $60.6 million in investing and financing activities respectively. The cash and cash equivalents as at 30 June 2017 was at $21.9 million. As shown in Note 27 (page 152 – Finance costs), the group's total interest expense was $24.4 million of which finance costs amounted to $19.3 million.

On 12 October 2017, the group's independent auditor 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 2017.

It had stated, inter alia, that:

The Group had also incurred loss after tax of $73,305,000 (2016: profit after tax of $943,000) for the financial year ended 30 June 2017. As at 30 June 2017, the Group's and Company's total borrowings amounted to $549,499,000 and $207,795,000 of which $235,748,000 and $65,295,000 were classified as current liabilities respectively. As disclosed in that

Note, the Group's loans and borrowings that are due for repayment in the next 12 months exceed its cash and bank balances of $36,141,000 as at 30 June 2017.

b) **Can the board explain if there is a heightened sense of urgency in the group and whether the group has considered drastic measures that are needed to ensure the group's survival? For example, can management tell shareholders if it has started/implemented strict cost control measures?**

c) **Has the group also delayed or cancelled all non-critical capital expenditure?**

d) In the year, the group had added $89.9 million (before disposal/write-off) in property, plant and equipment. These were mainly in tugs and other vessels, plant and machinery and barges**. Can management help shareholders understand if these were mission-critical additions or could they have been postponed to conserve cash?**

e) As disclosed in Note 12 (page 135 - Trade and other receivables), the net trade receivables amount to $88.2 million as at 30 June 2017, following an allowance for impairment of $29.2 million. Out of the amount of $88.2 million, $65.2 million are past due at the end of the reporting period. **How is management working with the customers to improve the collection of its trade receivables?**

Q3. In the Founder's Message (page 14), the founder has stressed that trust and support from friends and partners become extremely precious in times of difficulties.

The remarks in the Chairman's Message (pages 15-18) on the Outlook and strategies include:
- As such, there is limited room for an outright recovery for downstream business in the oil and gas sector.
- Overall, the macro environment has mixed implications for our various business segments.
- The path to recovery will be long and uneven.
- We do not foresee the operating environment for our businesses improving significantly in the next 12 months.
- Demand for shipbuilding and shipchartering is likely to remain weak and price-sensitive.
- We will continue to seek cash-flow-positive business opportunities for our various business segments and optimize our financial performance, with careful cost control, committed management and increased financial flexibility.

All these indicate that the group cannot operate with the business-as-usual mentality.

As stated in the Corporate Governance Report, the board's primary function is to protect the assets and to enhance the long-term value of the Company for its shareholders, by overseeing the businesses and affairs of the group, and reviewing and advising on overall strategies, policies and objectives, in addition to carrying out its statutory responsibilities.

a) **Can the board let shareholders know what guidance and targets it has given to management in view of the prolonged and severe downturn?**

The Remuneration committee (RC) currently consists of three independent directors, namely, Mr Tan Sek Khee (as Chairman), Mr Andre Yeap Poh Leong and Mr Christopher Chong Meng Tak.

The group has entered into service agreements with the executive directors. These service agreements are automatically renewable on a yearly basis.

In total, the executive directors received remuneration of $1.87 million in 2017, $1.99 million in 2016 and $2.16 million in 2015, totaling over $6 million over the three years. As part of the remuneration, the directors received bonuses of 13-16% in 2015, and 6-7% in 2016. There was no bonus paid to executive directors in 2017.

b) **Can the RC explain if it has reviewed the remuneration packages of executive directors to ensure that the remuneration packages are sensitive to the group's and the individual's performance?**

c) **Is the current compensation structured in such a way that it is symmetric with risk outcomes and time horizon of risks? For example, the impact of the group's Built-to-Stocks program is being felt now as the group has to impair and write-off the inventories.**

d) **Would the RC consider if there is a need to establish stronger links between rewards and corporate and individual performance?**

As seen in the table below, the executive directors received other benefits (which refer to car benefits) of 4% to 21% of the remuneration package.

The following table shows the breakdown of the directors' remuneration for FY2017:

Name of director	Total remuneration $'000	Salary[1] %	Bonus %	Other benefits[2] %	Directors' fees[3] %	Total %
Payable by subsidiaries:						
Executive directors						
Ang Kok Tian	541	82	–	18	–	100
Ang Ah Nui	534	79	–	21	–	100
Ang Kok Eng (resigned on 18 September 2017)	363	96	–	4	–	100
Ang Kok Leong	428	81	–	19	–	100
	1,866					
Total for directors of the Company	2,080					

1 Inclusive of Employer's Central Provident Fund contributions
2 Other benefits refer to car benefits
3 The directors' fees will only be paid upon shareholders' approval at the forthcoming AGM

(Source: Company annual report)

The total car benefits paid to the executive directors were $305,000 in 2017. The estimated car benefits for the executive directors in 2016 and in 2015 were $283,000 and $277,000 respectively.

e) **Would the RC confirm that it had reviewed the service agreement with the executives in the financial year?**

f) **Given that the group has raised additional equity, restructured its bonds, obtained new financing from the banks, breached its financial covenant (as at 30 June 2017) and that the auditor has highlighted a material uncertainty related to going concern, would the board agree that it would be prudent to reduce excesses in the group, including car benefits that amounted to $305,000 for 4 directors?**

In addition, the remuneration to Mr Ang Sin Liu, as the Group Advisor, was estimated to be $1 million over the three year period.

g) **Can shareholders understand the role Mr Ang Sin Liu plays as Group Advisor to help steer the group in the current difficult times? How is the group tapping the founder's experience?**

A copy of the questions for the Annual Report for the financial year ended 30 June 2016 could be found here:

https://sias.org.sg/qa-on-annual-reports/?company=ASL%20Marine%20Holdings%20Ltd

The company's response could be found here:

https://sias.org.sg/media/qareport/company_responce/1480469538_20161129_232837_A04_FRS8KH3SZTEFBQ80.1.pdf