Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Atlantic Navigation Holdings (Singapore) Limited

Security: Atlantic Navigation Holdings (Singapore) Limited

Meeting details:
Date: 29 June 2018
Time: 2.30 p.m.
Venue: 9 Raffles Place #29-01, Republic Plaza Tower 1, Singapore 048619

Company Description

Atlantic Navigation Holdings (Singapore) Limited, an investment holding company, provides marine logistic, ship repair, fabrication, and other marine services. It operates through two segments, Marine Logistics Services; and Ship Repair, Fabrication, and other Marine Services. The Marine Logistics Services segment offers ship chartering and technical management services principally for the offshore oil and gas, as well as marine construction industries through its fleet of 22 vessels, which comprise various AHT, AHTS, liftboats, work and maintenance utility vessels, tugs vessels, and supply vessels. This segment also cross-charters vessels from third parties to serve the needs of its customers; offers various services supporting the exploration, construction and development, production, and post-production phases of offshore oil and gas; and provides vessel chartering and chandlery services to external customers. The Ship Repair, Fabrication, and other Marine Services segment provides afloat and drydock repair and maintenance services comprising mechanical, electrical, air-conditioning, steel, blasting and painting, and carpentry works to customers in the shipping industry. The company also owns and manages ships; and provides ship brokerage services. It serves various oil companies, contractors, survey companies, ship owners, ship yards, and charterers in the United Arab Emirates, South Korea, Singapore, India, the Kingdom of Saudi Arabia, the Sultanate of Oman, the Kingdom of Bahrain, Qatar, and internationally. The company was founded in 1997 and is based in Sharjah, the United Arab Emirates.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=)

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1. The "Carrying value of vessels" is a key audit matter (KAM) highlighted by the Independent Auditor in their Report on the Audit of the Financial Statements (page 35). Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM, the group owned 17 vessels with a carrying value of US$155,460,000 (as at 31 December 2017) which represent nearly 90% of the group's total assets.

In addition, management has assessed that vessels with low utilisation rate during the period, committed to loss making charters or unutilised as at end of each reporting period, are indicators of impairment and based on the assessment, as at 31 December 2017, 4 vessels have indicators of impairment. The impairment test was conducted by comparing the carrying amount of the vessels to their respective recoverable amount. Based on the outcome of the impairment tests, the Group noted that there was no impairment as at year end.

(i) **To help shareholders better understand the group and its operational risks, can management provide shareholders with a comprehensive overview of the group's operating fleet, including the type, age, charter period and rates, utilisation and carrying value?**

(ii) **Can management and the audit committee (AC) confirm that vessels that are chartered out on lower than projected rates (but not loss making) are not subject to the impairment test?**

(iii) **Can management disclose some of the key assumptions used in the value-in-use calculation to assess the recoverable amounts?** Some of the key assumptions include projected future charter rates, utilisation rate and gross margin.

2. In addition, the Independent auditor has highlighted a material uncertainty related to going concern (page 34), as follows:

> *We draw attention to Note 2.1 to the financial statements. The Group incurred a net loss of US$13,156,000 during the financial year ended 31 December 2017 and as at that date, the Group's current liabilities exceeded its current assets by US$21,518,000. These factors indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The Group's ability to continue as a going concern is dependent upon its ability to generate sufficient cash flows from its operations as well as secure funding to support its committed capital expenditure in the near term. The Group's actions after the balance sheet date are disclosed in Note 34 to the financial statements. If the Group is unable to continue in operational existence for the foreseeable future, the Group may be unable to discharge its liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheet. In*

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> *addition, the Group may have to reclassify non-current assets and liabilities as current assets and liabilities. No such adjustments have been made to these financial statements. Our opinion is not qualified in respect of this matter.*

As seen in Note 32 (page 93 – Capital management), equity attributable to owners of the company amounted to US$75.6 million while the group's net debt was US$101.4 million.

(i) With the net current liabilities exceeding the current assets by US$21.5 million, what are management's plans to strengthen the balance sheet?

(ii) Has the board provided management with guidance on the capital management framework? Has the board re-evaluated the group's capital structure and set a limit to the amount of leverage that could be used to grow the business?

(iii) Does the group have sufficient working capital to fund the joint venture which secured a US$45.2 million contract for the purchase and removal of decommissioned offshore and onshore facilities?

In the Operational Review (page 10), it was disclosed that the group has secured a US$8.5 million 5-year loan from its Saudi representative in March 2018 and has almost fully drawn down a 7-year term loan facility agreement of up to US$29.8 million with its United Arab Emirates banker to partial fund the 7 new vessels.

(iv) Can management help shareholders understand the total cash expenditure required to deploy the 7 vessels?

(v) What would be the financial impact should the group be unable to secure sufficient funds to mobilise and deploy the remaining 2 vessels?

(vi) Assuming that the 7 vessels are mobilised and deployed, what is the net impact on the group's cash flow?

3. The group's finance costs in FY2017 increased by US$6.7 million from US$1.8 million in FY2016 to US$8.5 million in FY2017. The increase was mainly attributed to increases in interest expense and loss on extinguishment of convertible loan instrument, as shown below (page 63):

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5. Finance income and costs

	Note	Group 2017 US$'000	Group 2016 US$'000
Finance income:			
Interest income from bank balance		2	11
Finance costs:			
Interest expense on bank loans		4,521	1,788
Interest expense on loan from shareholder		374	24
Loss on extinguishment of convertible loan instrument	21	3,627	–
		8,522	1,812

(Source: Company annual report)

(i) **Can management provide a breakdown to help shareholders understand why interest expense on bank loans increased 2.5x to US$4.5 million?**

(ii) As seen in Note 21 (pages 78 to 79 – Loans and borrowings), the new loans have higher interest rates of LIBOR + 4.5% and 7%. **What are the reasons for the increase in the borrowing rates?**

(iii) In addition, the interest rate charged under the convertible loan increased from 8% per annum to 5% per annum cash interest plus 10% payment-in-kind interest per annum. **Can the board/management explain how the new interest rates were determined?**

(iv) **What is the group's average cost of capital?**

(v) **Would the board clarify if it is prudent and sustainable to borrow at increasingly higher interest rates to continue to fund the business?**