



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: ASL Marine Holdings Ltd.

Security: ASL Marine Holdings Ltd.

Meeting details:

Date: 31 October 2018

Time: 2.00 p.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, cargo barges, crane barges, split hopper barges, 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 in Singapore, Indonesia, and the People's Republic of China. As of June 30, 2017, it had a fleet of 242 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)

1. In the Chairman's message, it was highlighted that the financial restructuring carried out in the prior financial year (FY2017) had *"provided [the group] with more time to keep the businesses going, preserved ASL Marine's valuable assets and expertise, and enabled [the group] to seize more business opportunities"*.

The company left out details on how it used the precious time to restructure the business, to streamline its operations and to reduce overheads so that it could give itself a better chance at outlasting the "crisis".

- (i) **Can management help shareholders understand the concrete steps that it took to conserve cash and to improve on its cash flow? How successful was management in minimising cash out flow and in maximizing the cash flow generated from its assets?**
- (ii) **What guidance did the board give to management to help the group survive the crisis? What were the specific targets given to management during this critical period?**
- (iii) **Did the board review, and is the board satisfied at, the efforts of management at addressing the liquidity issue of the group?**
- (iv) The company showed its risk management strategies on page 57 of the annual report. It gave a high level overview of the strategies without providing its risk appetite and specific details, such as risk tolerance, risk threshold etc. **Can the company show how it has specifically analysed the market risks and how it had adapted its strategies to address these risks?**

As at 30 June 2018, the group had total borrowings of \$502.1 million. Finance costs increased by 17.5% to S\$22.7 million in FY2018 mainly due to (1) the interest incurred from progressive drawdown of loans under the committed \$99.9 million 5-year club term loan facility ("CTL Facility") and (2) the stepped-up interest rate payable under the fixed rate bonds which became effective from 1 April 2017.

As "sluggish market conditions" persisted, the group is now faced with renewed pressure of fulfilling its financial obligations. The company has pro-actively started informal meetings with the holders of the group's Notes, namely the S\$100,000,000 4.75% Notes due 2017 (Series 006) and S\$50,000,000 5.35% Notes due 2018 (Series 007).

- (v) **Can the board elaborate further on the group's strategy to survive this crisis? Would it be prudent to adopt a "business-as-usual"/"wait-and-see" approach?** The independent auditors have already flagged out material uncertainty related to going concern. The group is in breach of its financial covenants with respect to the 5-year CTL facility. As at 30 June 2018, \$113 million of its total borrowings are classified as current liabilities while the group's cash and bank balances amounted to \$28.6 million.

2. Would the board/management provide shareholders with better clarity on the following operational and financial matters? Specifically:

- (i) **Vessels:** The group has increased its fleet of vessels. As at 30 June 2017, it has a vessel fleet of 242 and this increased to a fleet size of 248 as at 30 June 2018. In fact, in 2014, the number of vessels was 193. What was the utilisation of the group's fleet? Are the additions to the fleet all generating cash flow to the group? Has the group evaluated the options for its vessels with low/no utilisation? Does the board consider it prudent to cut back on the scale of the operations given the market conditions?
- (ii) **Offshore support vessel (OSV):** When will the second OSV be completed? What is the total amount invested into these two OSVs? Can management help shareholders understand what is the estimated breakeven charter rate over its lifecycle? What is the current spot rate for the charter?
- (iii) **Batam:** What is the utilisation rate of the yard? Is the group planning to enhance the yard with further capital expenditure?
- (iv) **Shipchartering:** Please disclose the overall utilisation rate for its fleet, and the utilisation rates by vessel type. Can management disclose the changes in the charter rate? Even though revenue from shipchartering was higher at \$118.7 million, and gross segment profit increasing to \$3.0 million, the segment loss was \$(38.6) million. This is significantly higher than the impairment of \$(21.4) million recognised on the charter fleet. What are the external and internal drivers that will return the segment to profitability?
- (v) **Engineering:** Revenue slipped 40% to \$13.1 million, with gross profit margin slipping to 20% on the back of higher costs from suppliers. The gross segment profit was \$2.6 million, with segment results of \$(8.9) million. Even adjusting for the \$(5.0) million in the impairment of goodwill related to the VOSTA LMG acquisition, the segment would still have made losses. Has the group re-evaluated the business model, its core competencies, its management team and the market changes and fine-tuned its strategy?
- (vi) **Cost of capital:** Has management estimated the current cost of capital? How many of the group's current projects are viable given the cost of capital?

3. Shareholders would also like to seek better visibility on the company's governance policies and practices. Specifically:

- (i) **Attendance at AGM:** Can the board also disclose the (physical) attendance of the directors at the Annual General Meeting?
- (ii) **Founder and Advisor:** Mr Ang Sin Liu, as founder and advisor, is still employed by the group and received a remuneration of \$300,000 to \$350,000. Can the remuneration committee (RC) help shareholders understand the roles and responsibilities of Mr Ang? How is the performance of Mr Ang Sin Liu evaluated?

- (iii) **Attendance at board committee meetings:** The executive directors have been invited to all the board committee meetings, as seen in the table below:

Attendance at Board and Board Committee meetings	Board	AC	NC	RC
Total number of meetings held	4	4	1	2
Number of meetings attended				
Executive directors				
Ang Kok Tian	4	4*	1*	2*
Ang Ah Nui	4	4*	1*	2*
Ang Kok Leong	4	–	–	–
Ang Kok Eng#	3*	–	–	–
Independent directors				
Andre Yeap Poh Leong (Chairman of NC)	4	4	1	2
Christopher Chong Meng Tak (Chairman of AC)	4	4	1	2
Tan Sek Khee (Chairman of RC)	3	3	1	2

* Attendance by invitation of the Committee

Mr Ang Kok Eng resigned as director on 18 September 2017

(Source: Company annual report)

Can the board help shareholders understand if it is the usual practice for non-board committee members (i.e. the executive directors) to attend the board committee meetings? Were there specific agenda items or reasons to invite the executive directors to all the board committee meetings? What is the dynamics of the board committee meetings when the board committee members 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 performance assessment and remuneration of the executive directors and on the audit/financial reporting of the group. Do the invited directors also actively participate in the discussions during the board committee meetings?

- (iv) **Independence of long tenured directors:** Two of the independent directors, namely Mr Andre Yeap Poh Leong (more than 15 years) and Mr Christopher Chong Meng Tak (more than 12 years), have served on the board for more than 9 years. The company has disclosed that a formal review was undertaken, lead and conducted by independent director Mr Tan Sek Khee. **Can the board confirm that the review of the independence of the long tenured directors was carried out by a single director, Mr Tan Sek Khee? How did the board ensure that the “review” by a single director was effective?**
- (v) **2018 Code of Corporate Governance:** In August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance (“2018 Code”). As a consequence of the revised 2018 Code, the Singapore Exchange will be making amendments to its Listing Rules. The Listing Rule changes will come into effect on 1 January 2019, except for the rules on the 9-year tenure for independent



directors and the requirement for independent directors to comprise one-third of the board which come into effect on 1 January 2022. Under the revised Listing Rules, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier vote by shareholders. **Has the company evaluated the impact of the 2018 Code and the amendments to the Listing Rules on the board?**

A copy of the questions for the Annual Report for the financial year ended 30 June 2017 and 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:

2017

2016

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