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Issuer: Atlantic Navigation Holdings (Singapore) Limited

Stock code: 5UL

Meeting details:

Date: 29 June 2021

Time: 1.00 p.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

Q1. The group started the year well as revenue increased 6.9% in the first half, only for COVID-19 to disrupt the global economy which then led to a 33.3% decrease in revenue in the second half of the year. For the whole of FY2020, the group generated revenue of US\$64.4 million, a decline of 15.8% from US\$76.5 million for FY2019. Net loss after tax was US\$(5.5) million, including an impairment loss on vessels of US\$(5.8) million.

The independent auditors have highlighted a material uncertainty related to going concern. As at 31 December 2020, the group's and the company's current liabilities exceeded its current assets by US\$57.9 million and US\$13.5 million respectively (page 43). The group's loans and borrowings significantly exceeded the cash and bank balances as at 31 December 2020.

The group and company were unable to fulfil certain scheduled principal repayments to its principal bankers. As disclosed in Note 38, the group had by end May 2021 completed the re-profiling of the secured loan obligations with both of its principal bankers which in summary would result in US\$14.1 million in aggregate of principal repayments originally due in 2H2020 and FY2021 to be rescheduled, and repayable from FY2022 to FY2025.

- (i) **What are the other salient terms (including the interest rates) of the debt re-profiling?**
- (ii) **Would management provide shareholders with greater clarity on the debt/repayment schedule after the successful debt re-profiling? In particular, what is the amount repayable in one year or less, or on demand following the re-profiling?**
- (iii) **What is the group's average cost of borrowings?** It is noted that the group has borrowings that cost as much as 10% per annum (page 86 of the annual report). **Would the management be reviewing how it could optimise its borrowings/borrowing costs?**
- (iv) As seen in Note 25 (page 91 – Amount due to shareholders), the group received loans and advances from shareholders amounting to US\$12.3 million as at 31 December 2020. Prior to FY2020, the group was charged interest rates of 6.0% per annum for the majority of the shareholder loans and advances. In FY2020, the shareholders waived off half of the accrued interests and lowered the interest rates to 3.0%. **Can the independent directors help shareholders understand how a rate of 6.0% per annum was determined?**
- (v) **Would the board be reviewing the group's financial position and evaluate if it has the necessary financial resources to support its strategic growth plans? Are there plans to carry out a rights issue to strengthen the group's financial position?**

Q2. In the marine logistics services (“MLS”) segment, the group owns a fleet of 20 vessels (including 1 vessel under Investment in Joint Operation) which comprises of 2 lift-boats (a.k.a. jack-up barges), 1 mid-sized DP2 PSV, 8 various AHTs, 4 maintenance utility vessels, 3 tugboats, 1 crew boat and 1 work utility vessel. In addition, the group also cross-charters vessels from third parties.

The average age of its owned fleet is 7.2 years. Details, including specifications, of the vessels can be found on page 11 of the annual report.

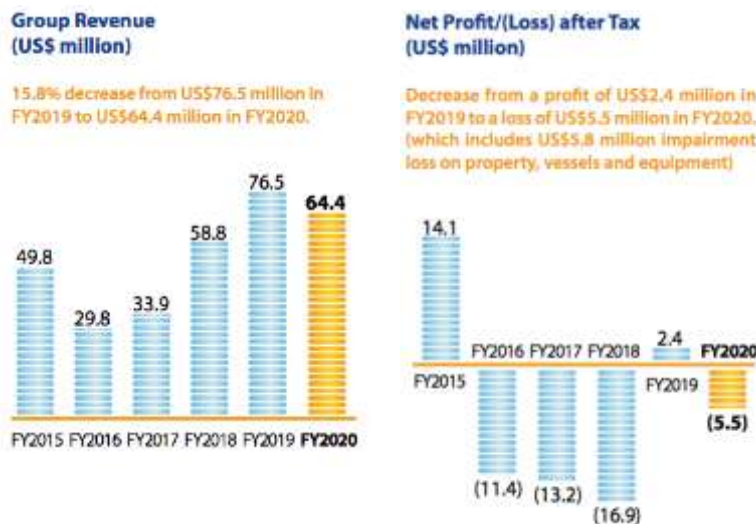
The group achieved vessel utilisation rates of 80.7% in FY2020. This was 1.7 percentage points lower than that in FY2019. The average utilisation rates were 79.5% in 3Q2020, 71.1% in 4Q2020 and 62.4% in 1Q2021. The group reported a gross loss of \$(839,000) or a gross loss margin of (10.0)% in 1Q2021 in the MLS segment.

- (i) **Can management help shareholders understand its strategy to improve the utilisation rate of its fleet?** It is observed that the utilisation rate continues to slip to 62.4% in 1Q2021.
- (ii) **Would management consider including in the annual report information on the employment (charter) profile and the amount of contracted revenue to provide shareholders with better visibility of the group’s financial situation?**

It is noted that there was an early termination of 5 (of the 10-vessel) long term contracts with the Middle East National Oil Company, which resulted in the decline in revenue and profits.

- (iii) **Can management elaborate further on the reason(s) for these early terminations? Also, what is the outlook and ground sentiment in the Middle East?**
- (iv) **How many vessels remain off-charter? Of these, how many are chartered in from third parties?**
- (v) **What are management’s priorities in the MLS segment for the next 12-18 months?**
- (vi) From FY2016-FY2020, the group generated an average revenue of US\$1.6 million each year from the ship repair, fabrication and other marine services (“SRM”) segment. **What is the strategic value of SRM in the group’s long-term growth plans?**
- (vii) **In the project segment, can management elaborate further on its value proposition to undertake project work? How is the group looking to secure new projects?**

Q3. The group's financial highlights can be found on page 10 of the annual report and an extract is reproduced below. Despite increasing revenue and gross profit, the group has been loss-making in 4 of the last 5 years. While the group reported a profit of US\$2.4 million in FY2019, the cumulative losses over the past 5 years add up to US\$(44.6) million. Net gearing has also increased from 23.6% in FY2015 to 52.4% in FY2020.



Financial Indicators	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Basic Earnings/(Loss) per share (US\$ cents)	5.39	(4.38)	(5.05)	(6.15)	0.46	(1.04)
Diluted Earnings/(Loss) per share (US\$ cents)	5.30	(4.38)	(5.05)	(6.15)	0.46	(1.04)
Net Asset Value per share (US\$ cents)	36.9	32.6	29.0	16.1	16.4	15.5
Return on Total Assets	14.6%	(6.3)%	(7.4)%	(8.4)%	1.2%	(3.1)%
Return on Shareholders' Equity	10.8%	(13.3)%	(17.4)%	(20.1)%	2.8%	(6.7)%
Net Gearing Ratio	23.6%	52.0%	57.3%	57.0%	55.2%	52.4%

(Adapted from company annual report)

As noted in the Corporate Governance report, the principal functions of the board include reviewing the performance of management and the remuneration packages for the board and key management personnel; and identifying the principal risks of the group's business, ensuring that such risks are assessed and managed, including safeguarding of shareholders' interests and the company's assets.

- (i) **Has the board assessed its performance and effectiveness at assessing the principal risks of the group to ensure that such risks are properly managed? In particular, how effective was the board at protecting and enhancing long-term shareholders' value?**
- (ii) **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) **What is the long-term performance of the group over a 10-year period or over a business cycle?** Long-term performance can be measured by return on equity/capital employed/ invested capital or total shareholder's return.
- (iv) In addition, the board's role is also to ensure that the necessary financial and human resources are in place for the company to meet its objectives (page 17). **Would the board be reviewing if it has the necessary human resources in place to lead the group in this challenging environment?** The profile of the executive director and chief executive officer can be found on page 7. The biographies of the executive officers are on page 9.

In the past 5 years, the remuneration of the executive director and CEO from FY2016-FY2020 was USD482,300 (FY2016), USD459,100, USD464,400, USD516,200 and USD492,900 (FY2020) respectively. The total remuneration of USD2.4 million was the basic salary component for the executive director and CEO, with USD5,100 in other benefits over the 5 years. No variable component (bonus) was given. Over the same period, the cumulative losses for the group add up to US\$(44.6) million.

- (v) **Can the remuneration committee (RC) help shareholders understand if the current level and structure of remuneration of the executive director is appropriate and proportionate to the sustained performance and value creation of the group? (Principle 7 of the Code of Corporate Governance 2018).**
- (vi) **Will the RC review how it could structure a significant and appropriate proportion of executive directors' and key management personnel's remuneration to link rewards to corporate and individual performance? (Provision 7.1 of the Code of Corporate Governance 2018)**

[^]On 1 October 2020, the Accounting and Corporate Regulatory Authority ("ACRA"), the Monetary Authority of Singapore ("MAS") and Singapore Exchange Regulation ("SGX RegCo") published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so.

[^] Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation (<https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation>)

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on [SIAS website](http://www.sias.org.sg)

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