JASON MARINE GROUP LIMITED
(Company Registration No. 200716601W)
(Incorporated in the Republic of Singapore)

Responses to SIAS' questions on Jason Marine's Annual Report FY2016

26 July 2016

Jason Marine Group Limited ("**Jason Marine**") has received questions from Securities Investors Association (Singapore) ("**SIAS**") relating to the Annual Report for FY2016 as part of their initiative to improve the quality of Annual General Meetings ("**AGM**"). Our responses to the questions are as follow:

1. In the financial review (page 8 of the annual report), it was noted revenue dropped by about a third to $37 million. Also, the gross profit margin for sales of goods decreased from 28.2% to 19.2%. For rendering of services, the gross profit margin dropped from 21.8% to 18.8%. With weak demand expected to continue as capital expenditure by clients is cut or delayed, what is management's plan to overcome the triple whammy of low revenue, compressed margins and reduced pipeline [refer to pg 4, Chairman's report] to get back to profitability? As a niche player in a highly specialized industry, what are the options available to the Group? How feasible is it for the Group to leverage its expertise to serve clients in other industries?

Answer:

This downturn in the marine and offshore sectors has been more severe and longer than we expected. Although Jason Marine constantly reviews our operations to improve cost efficiency, we have already begun to trim our costs further and will continue to make every effort to stay lean in the current downturn.

While we need to maintain an efficient cost structure, our people and their welfare remain important and we strive to attract and nurture the best talent because they form the foundation of the company. Retaining and enhancing our core capabilities through our people will prepare us for the upturn when it comes.

The current market conditions will test the endurance of all companies in the sector. Jason Marine has been prudent in conserving our cash over the years and our still strong balance sheet has been and will remain helpful in sustaining us through this difficult time. The careful management of our capital has enabled Jason Marine to end FY2016 with a cash balance of $14.0 million and zero bank borrowing, which gives us the capacity and flexibility to make investments that will yield us good returns in the years ahead.

Technology is ever changing and the Group has been investing in companies which will allow us to leverage on our expertise as a marine electronics systems integrator and support services provider to not only ride the upturn, but also serve clients in related market segments such as port and marine facilities where our expertise can be applied to expand our revenue streams.

This downturn has provided us with good opportunities to invest in companies we believe can grow our product offering and services, as in the case of Sense Infosys, a maritime and security data analytics start up in Singapore.

While we are a niche player, we are confident that our focus to be cost efficient and relevant to our clients, our proven track record and technical competencies, our diversified product range from established suppliers around the world, and strong following from existing customers will continue to uphold our well established name in the marketplace.

2. Since the Group's listing in 2010, segmental results for both the sale of goods and rendering of services had never been negative for the full year. Looking at the pre-IPO period back to 2007, this is the first time the Group is reporting a loss in the last ten years. More worrying, net cash has fallen 37% over the year to $14m. Can management help shareholders understand how severe this downturn has been in the past year? In particular:

(a) What caused a loss of $3.1 million in the sale of goods segment when the external revenue was just $22.9 million in 2016 (page 64)?

(b) Similarly, external revenue was $8.0 million for rendering of services and the segmental losses were $1.0 million. Apart from higher allowance for impairment of $515k what were the other factors?

(c) Also, "Other Expenses" have increased significantly from $440k to $2,441k despite the sharp decline in revenue. What makes up "third party non-trade receivables" where $505k out of $589k has been provided for?

The Group has been very prudent and well managed and these losses are not typical based on the Group's good track record.

<u>Answer:</u>

(a) During the year, with hardly any new projects due to the weak oil & gas sector as well as customers' delayed delivery schedules, the Group reported a 48% decline in revenue from the segment to $22.9 million. Keen pricing exacerbated the situation so that the gross profit margin shrank by 9 percentage points to 19.2%. These factors, together with our manpower cost, which remained at $4.3 million, resulted in the loss of $3.1 million incurred by our Sale of Goods segment in FY2016.

(b) The other factors for the loss of $1.0 million by our Rendering of Services segment are higher fixed overhead costs and expenses from our stepped up marketing effort of $557,000, and allowances for impairment loss on doubtful trade receivables of $515,000.

(c) The $505,000 in allowances for impairment loss on doubtful non-trade receivables relates mainly to amounts due from an external party which was a potential joint venture partner.

3. The Group's business, as a systems integrator and services provider, is not capital intensive in nature. Capital expenditure averaged just over than $400k/year for the past 6 years. Instead, capital has been deployed in strategic partnerships in the form of joint ventures, associated or subsidiary companies (or even as available-for-sale financial assets) such as Baze Marine & Offshore, eMarine (formerly known as e-MLX and Hyundai e-Marine), iPromar, Koden,

   Rockson Automation and now Sense Infosys. What is the capital allocation/investment strategy and what is the criteria for making investments? How can the Group strategise better to optimise the investment returns? In particular, what are the synergies or opportunities expected from Sense InfoSys?

<u>Answer:</u>

We regularly review our processes and workflow to optimise our capabilities and resources. Also, as part of our ongoing efforts to equip ourselves with relevant skills and technologies to stay relevant and seize more opportunities, we will continue to seek appropriate partnerships or potential companies to invest in. We believe that these strategies will enable the Group to optimise our investment returns.

At Jason Marine, any suitable investment target should:

- Expand the Group's technical capabilities to enhance the services and products we offer;
- Extend the Group's market reach; or
- Enlarge the Group's client base.

The maritime sector is undergoing a digital transformation that will be increasingly led by companies who can successfully harness data growth and connectivity to improve operational efficiencies on land and at sea.

Therefore, to stay ahead and relevant in the marketplace by tapping on new technological capabilities to service our customers better, Jason Marine first invested in Sense InfoSys in March 2015.

Sense InfoSys is a technology start-up that provides proprietary technologies, services and solutions to the government, security, maritime and logistics sectors.

We see promising prospects for this young company which will strengthen and enhance the Group's range of services and products. Sense Infosys rolled out its first proprietary product in 2015 — this is a real-time data-driven situation awareness and resource management solution that will significantly enhance situation visibility and operational efficiency of maritime and land transport operators.

We consider our investment in Sense Infosys as part of our strategy to sharpen our focus in marine data analytics to provide solutions to our customers as well as in optimising the Group's investment returns.

Over the long term, we believe Sense Infosys could create meaningful value for Jason Marine by honing our technological edge and keeping us ahead of the game in an intensely competitive market.

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*This announcement has been reviewed by the Company's sponsor, CIMB Bank Berhad, Singapore Branch (the "***Sponsor***") for compliance with the Singapore Exchange Securities Trading Limited ("***SGX-ST***") Listing Manual Section B: Rules of Catalist. The Sponsor has not independently verified the contents of this announcement. This announcement has not been examined or approved by the SGX-ST. The Sponsor and the SGX-ST assume no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement. The contact person for the Sponsor is Ms Tan Cher Ting, Director, Investment Banking, CIMB Bank Berhad, Singapore Branch, at 50 Raffles Place, #09-01 Singapore Land Tower, Singapore 048623, Telephone (65) 6337 5115.*