



**NAM CHEONG LIMITED**  
**(Incorporated in Bermuda)**  
**(Company Registration Number 25458)**

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**RESPONSE TO SGX-ST QUERIES IN RELATION TO THE HALF YEAR ENDED 30 JUNE 2020 FINANCIAL STATEMENTS AND RELATED ANNOUNCEMENT**

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The Board of Directors (the “**Board**”) of Nam Cheong Limited (the “**Company**”) and its subsidiaries (together the “**Group**”) refers to its announcement made on 14 August 2020 in relation to the Half Year Ended 30 June 2020 Financial Statements and Related Announcement (the “**Announcement**”). Unless otherwise defined, capitalized terms used herein shall bear the same meaning ascribed to them in the Announcement.

The Board would like to provide the following additional information in reply to the queries raised by SGX-ST on 6 September 2020:

**SGX-ST Query 1**

Please provide the background of, the bases for and elaborate on the impairment on:

- (i) Impairment on investment in an associate;
- (ii) Impairment on investment in a joint venture;
- (iii) Impairment on trade and other receivables;
- (iv) Inventories written down.

## Company's Response

	<b>Background to the impairments made</b>	<b>Bases for the impairments made</b>
(i) Impairment on investment in an associate of RM17.3 million	The associate, which is also operating in the oil & gas industry, has been reporting losses due to the challenging market condition since 2015. The deteriorating market condition caused by the Coronavirus pandemic and global oil glut have caused further financial difficulties to the associate and have increased the doubtfulness of any asset recoverability by the Group.	The investment in an associate has been fully impaired. The amount of impairment was based on the specific review of the carrying amount on the investment in an associate where recoverability is in doubt and the share of adjusted net assets of the associate by the Group.
(ii) Impairment on investment in a joint venture of RM1.4 million	The joint venture, which is also operating in the oil & gas industry, has been facing deteriorating market condition caused by the Coronavirus pandemic and global oil glut and therefore have increased the doubtfulness of asset recoverability by the Group.	The investment in the joint venture has been fully impaired. The amount of impairment was based on the specific review of the carrying amount on the investment in a joint venture where recoverability is in doubt and the share of adjusted net assets of the joint venture by the Group.
(iii) Impairment on trade and other receivables of RM8.2 million	The trade receivables of the Group comprised customers which are operating in the oil & gas industry. The deteriorating market condition caused by the Coronavirus pandemic and global oil glut have caused financial difficulties in certain customers and have increased the doubt of recoverability of the respective receivables.	The amount of impairment was based on the specific review of the carrying amounts of the specific trade and other receivables which recoverability is in doubt, together with the receivables aging and recent communication with trade debtors.
(iv) Inventories written down of RM13.5 million	The inventories of the Group mainly comprised work in progress of the Offshore Support Vessels ("OSVs") which are still under construction. The deteriorating market condition caused by the Coronavirus pandemic and global oil glut have significantly depressed demand and valuation for OSVs.	The amount of inventories written down was based on the difference between the carrying amounts and the estimated selling price of the vessels in the market, obtained from an independent professional ship valuer.

## **SGX-ST Query 2**

Please provide the breakdown of Other operating expenses for the half year ended 30 June 2020 and the half year ended 30 June 2019 and provide explanations on a line item basis on what materially contributed to this increase in other operating expenses.

### **Company's response**

<b>Other Operating Expenses</b>	<b>Group</b>	
	<b>30.6.2020</b>	<b>30.6.2019</b>
	<b>RM'000</b>	<b>RM'000</b>
Impairment on property, plant and equipment	255,356	-
Impairment on investment in an associate	17,288	-
Impairment on investment in a joint venture	1,430	-
Impairment on trade and other receivables	8,195	-
Inventories written down	13,505	-
Property, plant and equipment written off	792	1
Legal and professional expenses	-	751
Change in fair value of financial liabilities	7,367	-
Foreign exchange loss, net	3,305	5,449
	<u>307,238</u>	<u>6,201</u>

With unusual market conditions arising from the combination of the coronavirus-induced demand destruction and the global oil glut, oil majors have been looking to cut their capital expenditure budget. The persistent pandemic and continuing oil volatility, in addition to the reduced capital expenditure, have depressed demand across all major offshore vessel types, further dampening vessel utilisation rates. As a result, the following asset impairments were made during Half Year ended 30 June 2020 ("1H 2020").

- Impairment on property, plant and equipment and inventories written down of RM255.4 million and RM13.5 million respectively in 1H 2020 was mainly as a result of marked to market value of the Group's vessels.
- Impairment on investment in an associate, joint ventures and receivables of RM17.3 million, RM1.4 million and RM8.2 million respectively in 1H 2020 was mainly as a result of the doubtfulness in asset recoverability in the current market condition.

For further information on the background and bases of impairments, please refer to the response to Query 1 above.

Change in fair value of financial liabilities of RM7.4 million in 1H 2020 was arising from the Group's assessment on the fair value of its long-term payables over the period, considering the movement of payables, including additions and repayments, which is consistent with the decrease in payables from RM518.5 million as at 31 December 2019 ("FY 2019") to RM472.5 million as at 30 June 2020 ("1H 2020").

### **SGX-ST Query 3**

Please provide the aging of the trade receivables as at 30 June 2020, the Board's assessment on the recoverability of the Group's trade receivables and the bases for such an assessment.

### **Company's Response**

The aging analysis of trade receivables are as follows:

	<b>Group 30.6.2020 RM'000</b>
Not Impaired:	
Not past due	33,062
Past due 1 to 3 months	30,843
Past due 3 to 6 months	460
Past due more than 6 months	1,201
Net trade receivables	<u>65,566</u>
More than 6 months past due and impaired	31,572
Total trade receivables	<u>97,138</u>

In assessing the recoverability of the Group's trade receivables, the Group took into consideration of the historical bad debt losses based on the age of the receivables and the customers' current financial position to identify any expected credit losses. Receivables that were determined to be impaired as at 30 June 2020 are related to those which have been past due for more than 6 months and have insufficient information to justify recoverability of the respective receivables.

As at todate, RM50.3 million (or 76.7%) of the net trade receivables of RM65.6 million has been collected from the customers subsequent to 30 June 2020. RM14.7 million (or 96.1%) of the remaining net trade receivables of RM15.3 million are mainly outstanding from oil majors and well established oil field service providers which have good payment track records. Based on the above and barring any unforeseen circumstances, the Board is of the view that the carrying value of the net trade receivables represents the recoverable amount as at 30 June 2020.

#### **SGX-ST Query 4**

Please provide the breakdown of Trade and other receivables as at both 30 June 2020 and 31 December 2019, and provide explanations on a line item basis on what contributed to the decrease in trade and other receivables of RM59.1mil.

#### **Company's Response**

	<b>Group</b>	
	<b>30.06.2020</b>	<b>31.12.2019</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Non-Current</b>		
Trade receivables from a third party	17,687	16,904
Less: Allowance for impairment losses	(17,687)	(16,904)
	-	-
<b>Current</b>		
Trade receivables from third parties	73,548	102,710
Trade receivables from joint ventures	5,903	12,224
Less: Allowance for impairment losses	(13,885)	(5,669)
	65,566	109,265
Amount due from associates (non-trade)	230	-
Amount due from joint ventures (non-trade)	21,145	33,425
Deposits	5,833	10,452
Other receivables	9,808	7,764
Less: Allowance for impairment losses		
- amount due from joint ventures (non-trade)	(16,339)	(15,616)
- other receivables	(1,838)	(1,797)
	18,839	37,068
Total trade and other receivables	84,405	143,493

The decrease in trade and other receivables of RM59.1 million was mainly due to the following:

- a) Trade receivables decreased by RM43.7 million from RM109.3 million as at 31 December 2019 ("FY 2019") to RM65.6 million as at 30 June 2020 ("1H 2020") mainly due to collections from customers and offsetting with amount owing to joint ventures during 1H 2020.
- b) Amount due from joint ventures decreased by RM12.3 million from RM33.4 million as at FY 2019 to RM21.1 million as at 1H 2020 mainly due to the offsetting with amount owing to joint ventures during the period.
- c) Deposits, which mainly comprised deposits paid to vendors, decreased by RM4.6 million from RM10.4 million as at FY 2019 to RM5.8 million as at 1H 2020 mainly due to the reclassification to property, plant and equipment upon the delivery of goods by the vendors.

## **SGX-ST Query 5**

Please provide the breakdown for both current and non-current Trade and other payables for the comparative periods, and provide explanations for the material variances in each of the line items included in the breakdown.

### **Company's Response**

	<b>Group</b>	
	<b>30.06.2020</b>	<b>31.12.2019</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Non-Current</b>		
Trade payable - Third parties	197,240	185,525
Other payables	-	2,471
	<hr/>	<hr/>
	197,240	187,996
<b>Current</b>		
Trade payables - Third parties	225,642	261,482
Deposit received	11,384	16,384
Other payables <sup>1</sup>	14,372	15,066
Amount due to joint ventures (trade)	9,484	31,195
Amount due to joint ventures (non-trade)	511	38
Interest payable	13,741	6,224
Dividend payable <sup>1</sup>	146	146
	<hr/>	<hr/>
	275,280	330,535
Total trade and other payables	<hr/>	<hr/>
	472,520	518,531

Trade payables decreased by RM24.1 million from RM447.0 million as at FY 2019 to RM422.9 million as at 1H 2020 mainly due to repayment to trade payables during the period.

Non-current other payables in FY 2019 mainly comprised land lease payable to the Sarawak state government, which was subsequently waived.

Deposits received decreased by RM5.0 million from RM16.4 million as at FY 2019 to RM11.4 million as at 1H 2020 mainly due to the recognition of deposits received from customers as revenue upon the sale and delivery of an Emergency Response and Rescue Vessels ("ERRV") in 1H 2020.

Amount due to joint ventures decreased by RM21.2 million from RM31.2 million as at FY 2019 to RM10.0 million as at 1H 2020 mainly due to the offsetting with amount owing from joint ventures during the period.

Interest payable increased by RM7.5 million from RM6.2 million as at FY 2019 to RM13.7 million as at 1H 2020 mainly due to the increase in accrual for interest expenses in relation to the loans and borrowings as a result of the suspension of interest payment.

<sup>1</sup> Variances deemed immaterial.

BY ORDER OF THE BOARD  
NAM CHEONG LIMITED

Tan Sri Datuk Tiong Su Kouk  
Executive Chairman  
8 September 2020