



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

RESPONSE TO SGX-ST QUERIES IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (“FY2020”)

The Board of Directors (the “**Board**”) of Nam Cheong Limited (the “**Company**”) and its subsidiaries (together the “**Group**”) refers to its Annual Report for FY2020 (“**Annual Report**”). Unless otherwise defined, capitalized terms used herein shall bear the same meaning ascribed to them in the Annual Report.

The Board would like to provide the following additional information in reply to the queries raised by SGX-ST on 28 April 2021:

SGX-ST Query 1

Listing Rule 704 (5) states that an issuer must immediately announce if there are material adjustments to the full year audited results and to disclose and explain the material adjustments via an SGXNET announcement. We note that it was stated in the release of full year financial results that the cash flows from operations was \$75,507,000 while the audited results state that the cash flows from operations was \$20,823,000, net cash from operating activities (Non-audited) was \$57,848,000 while net cash from operating activities (audited) was \$3,067,000. Net cash used in investing activities (non-audited) was \$-8,269,000 while net cash generated from investing activities (audited) was \$53,460,000, and net cash used in financing activities (non-audited) was \$-4,727,000 while net cash used in financing activities (audited) was \$-5,260,000. Given that no announcement was released on SGXNet for the above material adjustment, please explain this discrepancy as well as how the company is in compliance with Listing Rule 704 (5).

Company’s response:

The variances were mainly due to the reclassifications of:

- (a) the proceeds received in relation to the sale of a vessel, which is part of the principal activity of the Group, of RM61.7 million from cash flows from operating activities to cash flows from investing activities as the vessel was classified as property, plant and equipment prior to the sale; and
- (b) the payment of lease liabilities in relation to the rental of office space of RM533,000 from cashflows from operating activities to cash flows used in financing activities.

The above reclassifications within the cashflow statements were mainly for presentation purposes and have no effect to the statements of comprehensive income and statements of financial position of the Group for FY2020.

SGX-ST Query 2

Listing Rule 1207(6)(a) states that the aggregate amount of fees paid to auditors, broken down into audit and non-audit services has been disclosed. If there are no audit or non-audit fees paid, the issuer has to make an appropriate negative statement in the annual report. Please confirm that the Company did not make any non-audit fees payment for FY2020.

Company's Response:

The Company did not make any non-audit fees payment to the auditors for FY2020.

SGX-ST Query 3

Listing Rule 1207(10C) states that the annual report must state the AC's comment on whether the internal audit function is independent, effective and adequately resourced. We note the Company stated that "Based on the audit reports and management controls in place, the AC is satisfied that the Group's internal audit function is adequately resourced to perform its function effectively, and in addition, is staffed by suitably qualified and experienced professionals with the relevant experience and has appropriate standing within the Group." Please confirm the AC is satisfied with the independence of the internal audit function.

Company's Response:

The Company had disclosed the following in Pages 37, 40 and 41 of the Annual Report:

- The risk management and internal audit exercises are conducted by internal auditors which are appointed from an independent advisory firm, Tricor Axcelasia Sdn Bhd ("Tricor Axcelasia") (formerly Axcelasia Columbus Sdn Bhd).
- The internal auditors conduct a full review of the Group's internal controls and risk management system. The audit work carried out by the internal auditors is guided by the International Standards for the Professional Practice of Internal Auditors laid down in the International Professional Practices Framework issued by the Institute of Internal Auditors.
- The internal auditors are from integrated professional services group which have experiences in providing tax advisory, business consulting, enterprise management system applications and business process which outsource services to public listed companies, private companies, multinational corporations and government linked entities. The internal auditors of the Group are led by professionals with diverse professional experience in internal audits, risk management and corporate governance advisory. None of the internal auditors have any relationships or conflict of interest with the Group, which could impair their objectivity and independence.
- The internal auditors provide an annual audit plan, which focuses on material internal control systems including financial, operational, IT and compliance controls, and the risk management processes. They also provide advices on security and control in new systems development, recommends improvements to effectiveness and economy of operations, and contributes to risk management and corporate governance processes. Any material non-compliance or lapses in internal controls together with corrective measures are reported to the AC.
- During the period of audit, the internal auditors have full and unfettered access to all of the Group's documents, records, properties and personnel, including access to the AC and carries out its function in accordance with the standards set by international recognised professional bodies.

- The internal auditors carry out their functions under the direction of the AC and reports their findings and makes recommendations to the AC and administratively to the Management and the Board. The internal audit reports are submitted to the AC for deliberation and their findings and recommendations are discussed at the AC meetings. To ensure timely and adequate closure of audit findings, the status of the implementation of the actions agreed by management of the Company is tracked and discussed with the AC. Annually, the AC will review the adequacy and effectiveness of the internal auditors to ensure that it is sufficiently resourced and able to perform its functions effectively and objectively.
- Based on the audit reports and management controls in place, the AC is satisfied that the Group's internal audit function is adequately resourced to perform its function effectively, and in addition, is staffed by suitably qualified and experienced professionals with the relevant experience and has appropriate standing within the Group. The Board, with the AC's concurrence is satisfied that the internal control systems (including financial, operational, compliance and information technology controls) provide reasonable assurance that assets are safeguarded, that proper accounting records are maintained and financial statements are reliable.

Based on the above, the AC is satisfied with the independence of the internal audit function.

SGX-ST Query 4

Listing Rule 710 requires issuers to explicitly state, when deviating from the provisions prescribed in the Code of Corporate Governance 2018 (the "Code"), an explanation on how the practices it had adopted are consistent with the intent of the relevant principle. We note that the Company will not be in compliance with Provision 2.4 of the Code as your chairman is not independent and Independent and non-executive directors do not make up a majority of the Board. Please clarify how the practices the Company had adopted are consistent with the intent of Principle 2 of the Code, which requires the Board to have an appropriate level of independence in its composition to enable it to make decisions in the best interest of the Company.

Company's response:

The Company acknowledges the implementation of the Code where independent and non-executive directors are to make up a majority of the Board.

The Board has a healthy proportion of independent and non-executive directors, where independent and non-executive directors account for half the Board. The Board and the NC have ascertained that for the period under review, three out of its six Directors are independent and non-executive, ensuing a strong independence element in the Board. Further in concurrence with the NC, the Board is of the view that the current size of the Board is appropriate for the nature of the Group's business and the scope of its operations.

The Board considers continuity and stability of the Board important, especially in these volatile oil market period which impacts the Company's business direction, and that it is not in the interests of the Company to change its current Board composition as the Board is equipped with directors which have many years of business, financial, legal and industry experience and are able to serve the present needs of the Company with their vast experience and knowledge as well as comprehensive understanding of the Group's business and the markets. The Board nevertheless will on a continual basis, review the need for progressive refreshing of its Board, taking into account the need to maintain or enhance its balance and diversity in line with the Code.

Whilst the NC and the Board recognise that there could be benefits of bringing in new directors to the Board who can bring in fresh perspectives, the continued services of the long-tenured directors are crucial and critical as their valuable experience and expertise contribute to the Group's decision-making process. Moreover, given that the dynamic business nature of the Company which constantly render uncertain situations and new external challenges, it is ever more important to harness the relevant expertise of these directors to tide through this period as opposed to reappointing new directors at this juncture.

Reconstituting the Board early to comply with the Code would avoid undue disruption and help to maintain institutional knowledge and continuity in the Board.

The NC will continue to review the composition of the Board on an annual basis.

SGX-ST Query 5

Listing Rule 710 requires issuers to explicitly state, when deviating from the provisions prescribed in the Code of Corporate Governance 2018 (the "Code"), an explanation on how the practices it had adopted are consistent with the intent of the relevant principle. Practice Guidance 8 of the Code states that appropriate remuneration disclosures for individual directors, CEO and KMP should be made to provide sufficient transparency and information to shareholders regarding remuneration matters. The remuneration disclosures for individual directors and the CEO should specify the names, amounts and breakdown of remuneration. We note that the Company declined to disclose the upper limit of the highest remuneration band for Mr Tiong Chiong Soon (Joseph). Please clarify if this disclosure provides sufficient transparency and information to shareholders and it is consistent with the intent of Principle 8 of the Code.

Company's Response:

The Company had disclosed in Page 35 of the Annual Report the remuneration for all individual directors and the CEO of the Company by specifying the names, amounts and breakdown of remuneration as well as for the top 5 key management personnel (who are not also directors or the CEO of the Group) in bands no wider than S\$250,000.

Mr Tiong Chiong Soon (Joseph) is a key management personnel of the Company. As disclosed in Page 36 of the Annual Report, the Company did not disclose the upper limits for the higher remuneration bands for the top 5 key management personnel given the confidentiality and commercial sensitivity attached to remuneration matters, and the competition for talent in the job market in relation to the skillsets of these personnel in the industry.

BY ORDER OF THE BOARD
NAM CHEONG LIMITED

Kong Wei Fung
Cheok Hui Yee
Company Secretaries

30 April 2021