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

DISCLAIMER OF OPINION BY INDEPENDENT AUDITORS ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

DISCLAIMER OF OPINION

In compliance with Rule 704(5) of the Listing Manual, the Board ("Board") of Directors of Nam Cheong Limited (the "Company", and together with its subsidiaries, the "Group") would like to announce that its independent auditors, Foo Kon Tan LLP (the "Auditors"), have issued a disclaimer of opinion in their report (the "Independent Auditor's Report") with respect to the use of the going concern basis of accounting in the preparation of the financial statements of the Group for the financial year ended 31 December 2019 (the "Financial Statements").

A copy of the Independent Auditor's Report together with the extract of the relevant note to the Financial Statements is annexed to this announcement.

BY ORDER OF THE BOARD
NAM CHEONG LIMITED

Tan Sri Datuk Tiong Su Kouk
Executive Chairman
14 April 2020

Independent auditor's report to the members of

Nam Cheong Limited

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of Nam Cheong Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying consolidated financial statements of the Group and the statement of financial position of the Company. Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

<u>Liabilities and going concern</u>

As discussed in Note 2(e) to the financial statements, the Group recorded a net profit of RM65,218,000 (2018: RM1,036,657,000) for the financial year ended 31 December 2019, mainly arising from other non-cash income amounting to RM57,002,000 (2018: RM1,013,682,000), comprising the extinguishment and waiver of debts and the resultant relief from financial guarantee. The Group continued to incur net operating cash outflows of RM4,818,000 (2018: RM52,027,000) for the financial year ended 31 December 2019. In addition, the Group had net current liabilities of RM104,009,000 (2018: net current assets of RM48,959,000) as at 31 December 2019, mainly due to the Bilateral Facilities Debt of RM96,036,000 (2018: RM100,870,000) (Note 16) which is to be repaid by 31 December 2020, notwithstanding that the restructured Term Loan of RM904,005,000 (2018: RM908,646,000) is repayable from 2021 to 2024, and the Group remained in net capital deficit of RM364,220,000 (2018: RM458,464,000) as at 31 December 2019. The Company also had net current liabilities and net liabilities of RM54,509,000 (2018: RM33,117,000) and RM725,974,000 (2018: RM703,340,000), respectively, as at 31 December 2019.

The financial statements have been prepared by management on a going concern basis, the validity of which is premised on a cash flows forecast of the Group prepared for at least the next 12 months from the end of the reporting period. A key assumption made in the cash flows forecast was the Group was not exposed to any additional liabilities in respect of its suspension of the remaining ten shipbuilding contracts (the "Contracts") awarded to the Non-Fujian Group Shipyards.

As at 31 December 2019, the aggregate contract sum of the Contracts was US$121.1 million, of which payments of US$16.3 million had been made. Based on the contract sums and payments made by the Group, the outstanding exposure to the Non-Fujian Group Shipyards under the Contracts is approximately US$104.8 million. An amount of US$24.7 million had been recorded in liabilities based on contractual milestones. Management had represented that the Group had reached an understanding without a written agreement with the Non-Fujian Group Shipyards to suspend construction or delivery of the vessels, with a view to extend the delivery period or terminate the Contracts to minimise any financial exposure.

Basis for Disclaimer of Opinion (cont'd)

Liabilities and going concern (cont'd)

No independently verifiable supporting evidence was available to corroborate management's representation that the balance sum of the Contracts had not been incurred and all liabilities related to the Contracts had been accounted for as at 31 December 2019. We were unable to assess the financial impact of any provision for onerous contracts and/or contingent liabilities that may arise from the default on contractual obligations.

There were no alternative audit procedures that we could perform to satisfy ourselves by alternative means concerning the Group's liabilities in respect of the work performed on the Contracts as at 31 December 2019 and potential contingent liabilities that may arise from the default on contractual obligations.

Any adjustment that would be required may have a consequential significant effect on the cash flows forecast, net liabilities of the Group as at 31 December 2019 and the profit or loss attributable to the owners for the year then ended and the related disclosures thereof in the financial statements.

Given these circumstances, which are more fully described in Note 2(e), there were no practicable audit procedures that we could perform to form an opinion on whether management has considered all relevant events and conditions when making assessment on the Group's and the Company's ability to continue as going concern.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

The engagement partner on the audit resulting in this independent auditor's report is Chin Sin Beng.

Foo Kon Tan LLP
Public Accountants and
Chartered Accountants
Singapore

13 April 2020

2(e) Going concern

Schemes of Arrangement
During the financial year ended 31 December 2018, the Group concluded the debt restructuring exercise via Schemes of Arrangement. The Group and the Company obtained creditors' approval for the Schemes on 22 January 2018 and 24 January 2018, respectively, upon which the Group and the Company applied to The High Court of the Republic of Singapore and The High Court of Malaya for the sanction of the Schemes. The NCD Scheme and NCI Scheme were sanctioned by the Malaysia Court on 12 July 2018, subsequent to which the NCL Scheme was sanctioned by the Singapore Court on 3 August 2018. On 20 August 2018, the NCL Scheme was approved by the Company's shareholders at a Special General Meeting for *inter alia* the issuance of new shares pursuant to the restructuring.

Following the issuance and allotment of the Rights Shares and Non-sustainable Debt Shares by the Company on 26 September 2018, and together with the payment by the Company under the Cash Out Option to eligible creditors pursuant to the Schemes on 28 September 2018, the Group and the Company have fulfilled the necessary steps to implement the Schemes.

Bilateral Facilities Debt
The Bilateral Facilities Debt is excluded from the Schemes. The maturity date of the Bilateral Facilities Debt is 31 December 2020. The Bilateral Facilities Debt amounted to RM96,036,000 as at 31 December 2019.

Non-sustainable Debt
Each Non-sustainable Debt Share is allotted and issued at a conversion price of S$0.045. Pursuant to the Schemes, an aggregate of 3,348,250,793 Non-Sustainable Debt Shares were allotted and issued. Based on the market price of the Company's shares of S$0.015 per share, a gain on extinguishment of debt of RM348,378,000 was recognised in profit or loss for the financial year ended 31 December 2018.

Sustainable Debt
US$221,619,000 of the Sustainable Debt was restructured as the Term Loan. The tenure of the Term Loan is from 1 January 2018 to 31 December 2024. Interest is charged at 4% per annum. There will be no repayment of the principal from 2018 to 2020. The principal shall be repaid in eight half-yearly instalments from 2021 to 2024 in the percentage of 10%, 20%, 30% and 40%, respectively. As the Term Loan is repayable from 2021 to 2024, with no repayment on demand clauses, the amount is classified as non-current liabilities.

Fujian Group Shipyards
On 7 February 2018, the Group entered into a Master Framework Agreement ("MFA") with Fujian Group Shipyards to terminate shipbuilding contracts and restructure its debt settlement arrangement. Pursuant to the MFA, the Group took delivery of seven vessels over the next two years for an aggregate consideration of approximately US$62.7 million on a credit basis, mostly for a period of five years. The shipbuilding contracts for all the remaining 31 vessels were mutually terminated. Arising from the settlement with the Fujian Group Shipyards, the trade payables were waived and accruals were reversed, resulting in a gain on waiver of debts amounting to US$156,566,000 (RM632,924,000) recognised in profit or loss for the financial year ended 31 December 2018.

Non-Fujian Group Shipyards
For the Non-Fujian Group Shipyards, at 31 December 2019, seven shipbuilding contracts had been mutually terminated, while the shipbuilding contracts for another five vessels had been fully settled. The Group has reached an understanding without a written agreement with the Non-Fujian Group Shipyards in relation to the remaining ten shipbuilding contracts to delay construction or delivery of the vessels, with a view to extend the contract period or terminate the shipbuilding contracts to minimise any financial exposure. Based on the contract sums and payments made by the Group, the outstanding exposure to the Non-Fujian Group Shipyards under the remaining ten shipbuilding contracts is approximately US$104.8 million.

2(e) Going concern (cont'd)

Assessment of the Group's and the Company's ability to continue as going concern

For the financial year ended 31 December 2019, the Group recorded a net profit of RM65,218,000 (2018: RM1,036,657,000), mainly arising from other non-cash income amounting to RM57,002,000 (2018: RM1,013,682,000), comprising the waiver of debts. The Group continued to incur net operating cash outflows of RM4,818,000 (2018: RM52,027,000). In addition, the Group had net current liabilities of RM104,009,000 (2018: net current assets of RM48,959,000), mainly due to the Bilateral Facilities Debt of RM96,036,000 which is to be repaid by 31 December 2020, notwithstanding that the restructured Term Loan is repayable from 2021 to 2024 (Note 16), and the Group remained in net capital deficit of RM364,220,000 (2018: RM458,464,000) as at 31 December 2019. The Company also had net current liabilities and net liabilities of RM54,509,000 (2018: RM33,117,000) and RM725,974,000 (2018: RM703,340,000), respectively, as at 31 December 2019.

In assessing whether the Group and the Company can meet their debt obligations for at least 12 months from the end of the reporting period, management has prepared cash flows forecast for the financial year ending 31 December 2020. The key assumptions include (i) sufficient cash inflows are generated by the Group's chartering segment, based on reasonable expectations of daily charter rates, vessel utilisation and low default rates by its customers, to generate sufficient operating cash inflows; (ii) sufficient proceeds from the sale of certain completed vessels held by the Group for repayment of certain borrowings which are due by 31 December 2020; (iii) no material claims from creditors, particularly those subcontracted shipyards, which the Group has yet to terminate the contracts or restructure the debts owing to such subcontracted shipyards, that are reasonably likely to have a material effect on the Group's financial conditions and operations are brought against the Group; and (iv) the offshore activities continue to keep steady in Malaysia, and the Group's vessels continue to be in demand.

Based on the cash flows forecast and barring any further unforeseen adverse, macroeconomic and industry-wide circumstances, the directors believe that the Group and the Company will have sufficient working capital and financial resources to meet their obligations as and when they fall due for at least the next twelve months from the end of the reporting period, and are of the view that the going concern assumption is appropriate for the preparation of these financial statements. As at the date of the financial statements, the Group is not able to ascertain the magnitude of the possible impact to the offshore and marine industry arising from COVID-19 and recent plunge in oil prices but will continually assess as the situation develops.

If the Group and the Company were unable to continue their operational existence or their capabilities to do so were significantly impaired, for the foreseeable future, the Group and the Company may be unable to discharge their liabilities in the normal course of business, and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the statements of financial position. In addition, the Group and the Company may need to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. No such adjustments have been made to the financial statements.