



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

RESPONSE TO SGX-ST QUERIES IN RELATION TO THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (“FY2021”)

The Board of Directors (the “**Board**”) of Nam Cheong Limited (the “**Company**”) and its subsidiaries (together the “**Group**”) refers to the queries from Singapore Exchange Securities Trading Limited (SGX-ST) on 23 May 2022 in relation to the Company’s Annual Report (“**Annual Report**”) for FY2021. Unless otherwise defined, capitalised 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 to the queries raised by SGX-ST as follows:

SGX-ST Query 1

Please provide an update on the restructuring exercise.

Company’s Response

Please refer to the Company’s announcement dated 25 May 2022 on the update of restructuring.

SGX-ST Query 2

It was provided 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 minimize any financial exposure.

- a. Please quantify the total financial exposure to the Non-Fujian Group Shipyards and how this is accounted for in the financial statements.
- b. Please provide an explanation as to how not obtaining a written agreement is in the interests of the Company and its shareholders.
- c. Please clarify whether there’s any plans to obtain a written agreement and if so, a deadline for this. If not, why not?

Company’s Response

As disclosed in the Annual Report for FY2021, the aggregate contractual sum for the remaining ten shipbuilding contracts (“the Contracts”) awarded to the Non-Fujian Group Shipyards amounts to approximately US\$121.1 million, of which approximately US\$16.3 million has been paid to-date. The outstanding exposure to the Non-Fujian Group Shipyards under the Contracts is therefore, approximately US\$104.8 million. Out of the US\$104.8 million, US\$24.7 million has been recognised as liabilities of the Group under the line item “trade and other payables”. The recognition of liability was based on contractual milestones achieved.

The remaining US\$80.1 million has not been recognised as liabilities in the financial statements as the contractual milestones have yet to be achieved. The Group reached an understanding (without a written agreement) with the Non-Fujian Group Shipyards to suspend construction or delivery of the vessels under the Contracts, with a view of extending the delivery period and/or terminating the Contracts to minimise the Group's financial exposure.

The abovementioned shipbuilding contracts were awarded to the Non-Fujian Group Shipyards prior to 2015 and the construction of vessels remains status quo since 2017. Minimal progress has been made on discussions with the Non-Fujian Group Shipyards as the Group has been focusing its efforts first on a group-wide financial restructuring with its FI creditors and certain other creditors. The Group hopes to eventually work towards a restructuring with its other creditors (including the Non-Fujian Group Shipyards) after significant progress has been made with the earlier mentioned group of creditors.

Since 2017, the Group has been investing time and effort to restructure its trade payables. Since then, total trade payables of the Group, including amounts owing to Non-Fujian Group Shipyards, decreased from RM1,074.1 million as at 31 December 2017 to RM184.3 million as at 31 December 2021. The substantial decrease is mainly due to amicable negotiations and settlement agreements.

The Company will continue to engage the Non-Fujian Group Shipyards to work towards achieving an amicable and formal settlement, after dealing with the key creditors in the present restructuring, which would be in the best interest of all stakeholders, including the Company and its shareholders.

SGX-ST Query 3

We note that the Company had not complied with Provision 2.2 of the Code as Independent directors do not make up majority of the Board where your Chairman is not independent, and there were no explanations provided for in your annual report on how it is consistent with the intent of Principle 2 of the Code.

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 and diversity of thought and background 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 and the Company had disclosed the following in Pages 26 and 27 of the Annual Report:

- The Board and NC are of the view that the current composition of the Board encompasses an appropriate balance and diversity of skills, experience, knowledge and competencies such as accounting, finance, legal, information, business or management experience, industry knowledge and strategic planning experience; aspects of which are adequate to avoid groupthink and foster constructive debate. While the Company has not adopted a formal board diversity policy, the Board and NC are of the view that its current composition of the Board has the appropriate level of independence and diversity of skills, experience, knowledge and competencies to enable it to make decisions in the best interests of the Company, consistent with the intent of Principle 2.4 of the Code.
- The Directors complete an annual declaration of independence, whereby they are required to assess their independence taking into account the above requirements, which is then put to the NC for review. The Directors are mindful, however, that the relationships identified in the annual confirmation of independence are only indicators of

possible situations where independent judgment may be impaired, but are not in themselves conclusive, and they are also required to disclose any relationship with the Company, its related corporations or its officers which may interfere with, the exercise of their independent business judgment in the best interests of the Company, or would otherwise deem them to be not independent. No individual or group of individuals dominates the Board's decision-making.

- The Board has a healthy proportion of independent and non-executive directors, where such independent and non-executive directors comprising half the Board. The Independent Directors contribute to the Board processes by constructively challenging, developing, monitoring and reviewing the Management's performance against pre-determined goals, strategies and objectives. Their views and opinions provide alternative perspectives to the Group's business and operations. The Independent Directors exercise independent judgment and discretion on the Group's business activities and transactions, particularly in situations involving conflicts of interest and other complexities. To facilitate a more effective check on the Management, the Independent Directors also meet on a need-be basis without the presence of the Management.
- The Board noted that under Principles 2.2 and 2.3 of the Code, independent directors and non-executive directors are to make up a majority of the Board respectively, where the Chairman is not independent. The Board and the NC have ascertained that for the period under review, three out of its six Directors are independent and non-executive.
- Notwithstanding Principles 2.2 and 2.3 of the Code, the NC takes the view that a Board's size should not be determined solely and arbitrarily on the basis that majority of the Board must consist of independent and non-executive directors. The continued services of current size of the Board are crucial and critical as its valuable experience and expertise contribute to the Group's decision-making process. The Directors have contributed significantly in terms of experience, expertise, professionalism, integrity, objectivity and independent judgment in engaging and challenging Management to the best interest of the Group as it performs its duties in good faith, which by means are more prudent measures than ascertaining majority independence of the Board size. Moreover, given that the dynamic business nature of the Company which constantly render uncertain situations and new external challenges, preserving the Board would avoid undue disruption and help to maintain institutional knowledge and continuity in the Board. It is therefore more important to harness the relevant expertise of these Directors to tide through this period as opposed to reconstituting the Board to comply with the Code.
- The roles of the Executive Chairman, the Executive Vice Chairman cum Finance Director and the CEO are assumed by different persons.
- The Board and NC will nonetheless continue to exercise due and careful review, taking into consideration other factors, in assessing the independence of the Board. These factors include, inter alia, whether the directors have any interest, business, relationship and/ or any other material contractual relationships with the Group which could reasonably be perceived to compromise their independence and interfere with the exercise of their independent business judgment with a view to the best interest of the Group.

SGX-ST Query 4

We note that the Company had disclosed the following in its annual report “The Company has disclosed that save for Mr Tiong Chiong Soon and Mr Leong Juin Zer (both of whom, had their remuneration disclosed under the KMP portion), there is no other employees who are substantial shareholder of the Company or who are immediate family of any Director or the CEO of the Company, whose remuneration exceed S\$100,000 for FY 2020.”

In this regard, please disclose the names and remuneration of employees who are substantial shareholders of the company, or are immediate family members of a director, the CEO or a substantial shareholder of the company, and whose remuneration exceeds S\$100,000 during the year, in bands no wider than S\$100,000 in the annual report for the financial year ended 31 December 2021.

Company’s Response:

The Company had disclosed in Pages 33, 34 and 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.

Save for Mr Tiong Chiong Soon (Joseph) and Mr Leong Juin Zer Jonathan, the Company confirms that there is no other employees who are substantial shareholders of the Company or who are the immediate family of any Director or the CEO of the Company, whose remuneration exceed S\$100,000 for FY 2021.

Mr Tiong Chiong Soon (Joseph) is the son of Tan Sri Datuk Tiong Su Kouk, the Executive Chairman, the brother of Mr Tiong Chiong Hiiung, the Executive Vice Chairman cum Finance Director, and the brother-in-law of Mr Leong Seng Keat, the CEO. Mr Leong Juin Zer, Jonathan is the grandson of Tan Sri Datuk Tiong Su Kouk, the Executive Chairman, the nephew of Mr Tiong Chiong Hiiung, the Executive Vice Chairman cum Finance Director, and the son of Mr Leong Seng Keat, the CEO.

As disclosed in Page 34 of the Annual Report, it is imperative that 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

25 May 2022