

 **NamCheong**®

2016

A close-up, low-angle shot of a control panel. The panel is dark grey or black with several buttons and a prominent red lens. The lighting is dramatic, highlighting the textures and colors of the components. The background is blurred, focusing attention on the foreground elements.

**Nam Cheong is a global leader in the
Offshore Support Vessel industry.**

**We deliver only the best ships to help
our customers be ahead of the game.**

**DELIVERING
POSSIBILITIES**

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Vision

Our vision is to create consistent value growth through innovative supply chain solutions and unique partnerships. To realise this vision, we practise a client value adding business model that gives strategic capabilities to the oil and gas industry.

Mission

Timely delivery of reliable vessels and chartering services to our customers, thus saving them invaluable time and enhancing their operations

The company emphasises on its strong procurement philosophies and takes pride in building top notch OSVs, thereby aspiring to revolutionise Nam Cheong into a global household brand and steers the future of shipbuilding.

Our extensive track record and comprehensive knowledge about the offshore support vessel market enable us to strategically envisage and identify the most appropriate vessels to construct for our prospective customers. Coupled with our cutting edge engineering expertise, our ultimate mission is to make certain that the customers receive quality and suitable vessels on schedule. This allows them to execute their projects in a timely manner and enhance their efficiency.

CORPORATE PROFILE

Nam Cheong limited ("NCL") and its subsidiaries (the "Group") are an offshore marine group headquartered in Kuala Lumpur, Malaysia. The Group's history can be traced back to the 1960s with the incorporation of its principal operating subsidiary, Nam Cheong Dockyard Sdn. Bhd. ("NCD"), in Malaysia as a private limited company (under the Malaysia Companies Act 1965) on 5 December 1968, which was then engaged primarily in the construction of barges and fishing vessels in Malaysia. In 2007, the Group expanded its shipbuilding operations, with part of their scope being the engagement, supervision and monitoring of the PRC Contractors where the Group's shipbuilding operations are outsourced to the PRC Contractors.

In May 2011, NCL was listed on the Mainboard of the SGX-ST through a reverse takeover of Eagle Brand Holdings Limited. On 25 April 2011, Eagle Brand Holdings Limited changed its name to Nam Cheong Limited.

At Nam Cheong, we believe in meeting our clients' need through three basic principles:

**QUALITY,
RELIABILITY AND
DELIVERY**

CORPORATE PROFILE & BUSINESS OVERVIEW

The Group's core business is the construction and supply of Offshore Support Vessels ("OSVs") used in the offshore oil and gas exploration and production ("E&P") and oilfield services industries, including Safety Standby Vessels ("SSVs"), Anchor Handling Tug Supply ("AHTS") vessels, Platform Supply Vessels ("PSVs") accommodation work barges and maintenance work vessels.

The Group's customers consist primarily of ship owners and marine services operators that provide logistics support, offshore construction and field operation services to companies operating in the offshore oil and gas support industry in Malaysia, Singapore, Indonesia, Vietnam, the People's Republic of China ("PRC"), Netherlands, India, Tunisia, the Middle East, the United States and West Africa and Latin America. To expand its business in the offshore marine industry, the Group ventured into the vessel chartering business and commenced vessel chartering operations in 2007. As at 31 December 2016, the Group owns and operates 15 vessels, in its vessel chartering business.



SHIPBUILDING

The Group's shipbuilding were conducted solely in its 12.6-hectare Miri shipyard located in Kuala Baram, Sarawak, Malaysia, and East Malaysia prior to 2006. However, due to an increase in the demand for its vessels, the Group started outsourcing the construction of vessels to yards in the PRC.

The Group builds vessels on both a build-to-order and build-to-stock basis. For build-to-order vessels, it typically commences the construction process only upon securing a firm order from a customer. For build-to-stock vessels, however, it commences the construction of the vessels in anticipation of future or potential orders and seeks to sell the vessels to customers at a later stage when the selling prices are favorable. The Group initiates the design and engineering of vessels contracts after it has assessed the market demand for vessels and the availability of major equipment for vessels with identified specifications.

The Group's strategic focus is on building OSVs such as AHTS vessels, accommodation workboats, accommodation barges, and since 2011, Platform Supply Vessels ("PSVs") which comply with the technical specifications required to operate in the North Sea, including the requirements of the Norwegian Maritime Directorate and Det Norske Veritas ("DNV"), as well as alternative PSVs designed specifically for Asian waters.

The Group secures its sale contracts through negotiations and is awarded contracts mainly based on its track record, capacity, pricing, technical product specifications and technical financial capabilities. The Group has developed strong relationships with its customers over the years and has gained a reputation for building reliable, high quality vessels.

The Group typically builds vessel types of standard proven designs with widely accepted vessel designs and specifications that are able to meet the requirements of its customers. However, it also has the flexibility to execute multiple modifications in the specifications requested by its customers during construction, enabling it to provide customized, reliable and high quality vessels to its customers.

At present, the OSVs constructed or to be constructed by the Group

ANCHOR HANDLING TUG SUPPLY (AHTS)

AHTS vessels are designed to provide anchor handling for offshore drilling rigs, tow offshore drilling rigs, barges and other types of OSVs, and also transport supplies and equipment to and from offshore drilling rigs, production platforms and other types of offshore support vessels and installations. The Group's AHTS vessels range from 5,000 bhp to 12,000 bhp, which can produce between 60 and 150 tonnes of bollard pull. The vessels are generally between 60 metres to 78 metres long and are equipped with fire-fighting and fuel-efficient capabilities.

ACCOMMODATION WORK BARGES (AWB)

AWB are vessels specifically designed to house and accommodate crew. Depending on the size and specifications, the capacity of accommodation barges may vary from 150 to 500 people.

MAINTENANCE WORK VESSEL (MWV)

MWV are vessels designed as a platform for the loading and unloading of cargo or as a temporary workspace for the handling of equipment and materials. Measuring up to 78 metres in length, the Group's accommodation workboats are installed with DP2 and have a carrying capacity of up to 200 people. The workboats are currently built for operation in Asia but can be upgraded in size to operate in Europe if required by customers.

PLATFORM SUPPLY VESSEL (PSV)

PSV are designed for the transportation of supplies and equipment to and from offshore oil and gas support production platforms, offshore drilling rigs and other types of offshore vessels and installations. The Group's PSVs measure up to 90 metres in length and have a speed of up to 15 knots. Typically, they can carry loads of up to 5,000 DWT and are equipped with fire-fighting and fuel-efficient capabilities as well as DPS.

In addition, the Group also builds vessels for its vessel chartering operations.

SHIP CHARTERING

To diversify our business, the Group started vessel chartering operations since 2007. These operations are carried out through our subsidiaries, S.K. Marine Sdn. Bhd., SKOSV Sdn Bhd and SK Offshore & Marine Sdn Bhd (SKOM).

Nam Cheong currently has a fleet of 15 vessels, comprising four AHTS vessels, one PSV, nine SSVs, and one landing craft, which are chartered out by way of bareboat or time charters to the oil majors and oil field service providers in Malaysia.

Under the bareboat charter contract, the charterer is responsible for operating and maintaining the vessel and for all expenses, including the costs of maintaining its own crew on board the vessels. Since the beginning of 2009, we have entered into time charter contracts with various charterers, where we provide officers and marine crew who would operate and manage the vessel for the length of the time charter contract.



CORPORATE INFORMATION

BOARD OF DIRECTORS

Tan Sri Datuk Tiong Su Kouk (Executive Chairman)
Tiong Chiong Hiiung (Executive Vice Chairman)
Leong Seng Keat (Chief Executive Officer)
Ajaib Hari Dass (Lead Independent Director)
Yee Kit Hong (Independent Director)
Kan Yut Keong, Benjamin (Independent Director)

AUDIT COMMITTEE

Yee Kit Hong (Chairman)
Ajaib Hari Dass
Kan Yut Keong, Benjamin

NOMINATING COMMITTEE

Ajaib Hari Dass (Chairman)
Yee Kit Hong
Tiong Chiong Hiiung

REMUNERATION COMMITTEE

Ajaib Hari Dass (Chairman)
Yee Kit Hong
Kan Yut Keong, Benjamin

COMPANY SECRETARY

Claudia Teo Kwee Yee

ASSISTANT SECRETARY

Codan Services Limited

REGISTERED OFFICE

Clarendon House 2 Church Street
Hamilton HM 11 Bermuda
Tel: (441) 295 5950 Fax: (441) 292 4720

PRINCIPAL PLACE OF BUSINESS

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#02-01 Ace Building
Singapore 409017
Tel: (65) 6578 6780 Fax: (65) 6316 5301
<http://www.namcheong.com.my>

BERMUDA REGISTRAR AND SHARE TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
The Belvedere Building, 69 Pitts Bay Road
Pembroke HM 08, Bermuda

SINGAPORE SHARE TRANSFER AGENT

RHT Corporate Advisory Pte. Ltd.
9 Raffles Place #29-01
Republic Plaza Tower 1
Singapore 048619
Tel: (65) 6381 6888 Fax: (65) 6381 6899

AUDITOR

BDO LLP
Public Accountants and Chartered Accountants
600 North Bridge Road, #23-01
Parkview Square
Singapore 188778
Tel: (65) 6828 9118 Fax: (65) 6828 9111

AUDIT PARTNER-IN-CHARGE

Leong Hon Mun Peter
(appointed since the financial year ended
31 December 2013)

FINANCIAL HIGHLIGHTS



	2016	2015	% changes
Group Income Statements (RM'ooo)			
Revenue	170,424	950,030	(82%)
Operating (Loss)/Profit	(19,481)	80,410	< -100%
(Loss)/Profit Before Tax	(42,622)	30,954	< -100%
Net (Loss)/Profit After Tax	(42,771)	27,925	< -100%

Group Balance Sheets (RM'ooo)

Total Assets	4,098,305	3,950,903	4%
Total Liabilities	2,730,272	2,573,787	6%
Shareholders' fund	1,368,813	1,377,139	(1%)
Fixed Deposits, Cash and Bank Balance	301,493	506,060	(40%)
Loan and Borrowings	1,823,501	1,809,207	1%

Financial Ratios

(Loss)/Earnings Per Share			
Basic (sen)	(2.00)	1.36	
Diluted (sen)	(2.00)	1.36	
Net (Loss)/Profit Margin (%)			
Net (Loss)/Profit Margin (%)	(25.10)	2.94	
Net Asset Value Per Share (sen)			
Net Asset Value Per Share (sen)	65.30	65.70	
Net Gearing Ratio (times)			
Net Gearing Ratio (times)	1.11	0.95	

CHAIRMAN'S STATEMENT



Dear Valued Shareholders,

On behalf of the Board of Directors, it is my pleasure to present to you Nam Cheong's Annual report for the full year ended 31 December 2016 ("FY 2016").

The journey through 2016 was met with strong headwinds within the offshore and marine industry and broader global economy. While oil prices have experienced a sustained rise over the past year to hover around the range of US\$50 to US\$60 per barrel from the lows of US\$30 per barrel in early 2016, it remains some distance away from

the more buoyant levels of above US\$100 seen just two years ago. The depressed oil prices led to lower exploration and production activities which in turn decreased the demand for equipment and service providers, including OSVs, almost across the entire industry globally. The Middle East however, has shown resilience and was reported as the only region to have bucked the trend of declining demand for OSVs in 2016¹. Factors including interest rate hikes and fears of China's decelerating growth prospects have also continued to 'plague' the oil and gas industry.

¹ *Offshore supply vessel demand to remain stable in the Middle East, says analyst – Offshore Magazine, 3 February 2017*

SUSTAINING SHIPBUILDING GROSS MARGINS AMIDST DOWNTURN

Consistent with the adverse conditions afflicting the industry, Nam Cheong recorded lower revenue of RM170.4 million in FY 2016 as compared to RM950.0 million in the previous corresponding financial year ("FY 2015"). This was primarily due to the lower revenue levels recognised by the Group's shipbuilding segment, stemming from the lower number of vessel deliveries of two as compared to 11 in FY 2015. As such, the segment's revenue decreased 84% to RM146.4 million during the financial year, from RM905.6 million in FY 2015. The Group's topline was also affected by the vessel chartering segment's lower utilisation rate which led the segment's revenue to decline 46% to RM24.0 million in FY 2016, from RM44.4 million in the previous financial year.

Given the flexibility afforded by Nam Cheong's business model of outsourcing shipbuilding operations to contractors in China and the active measures taken to manage costs efficiently, we were able to achieve a consistent gross profit margin of 17% for the shipbuilding segment in FY 2016 and FY 2015. This remained within the healthy range of 15% to 19%. Overall, the Group's gross profit dipped 94% to RM8.5 million during the financial year as compared to RM150.0 million in FY2015, while overall gross profit margin was 5% in FY 2016, down from 16% in FY 2015.

In tandem with the lower topline and gross profit, coupled with the assets impairment, Nam Cheong registered a net loss after tax of RM42.8 million in FY 2016 from a net profit after tax of RM27.9 million in the previous financial year.

Net asset value per share remained stable at 65.3 sen as at 31 December 2016 as compared to 65.7 sen as at 31 December 2015, while shareholders' equity was RM1.4 billion as at both year-ends.

We are grateful of the strong support from our bondholders and bankers. In particular, we were successful in our consent solicitation exercise in early 2016 to amend conditions relating to the multicurrency medium term notes totalling S\$365 million. This has provided us with additional operational and financial flexibility to buffer against the downturn.

During the year, we were notified of the cancellation of two accommodation work barges which was sold to Perdana Petroleum Berhad ("Perdana"). Although it was unfortunate, we recognise that the cyclical nature of the oil and gas industry that Nam Cheong is in translates to potential difficulties from time to time. We are in the midst of embarking on the arbitration process with Perdana to retain the US\$8.4 million in deposit paid for the vessel.



CHAIRMAN'S STATEMENT

CALIBRATING OUR OPERATIONS

We continue to be in constant communications with all our customers to update them on the progress of their ordered vessels while keeping our ears close to the ground on market conditions and working together with customers in areas where we can mutually support each other. By building trust with our customers, it will help us maintain these key relationships that are crucial in capturing the upside when the tide turns. At the same time, it also allows us to potentially tap on pockets of opportunities at the present moment.

During this period of muted demand, we are further calibrating our cost structure to raise efficiencies, optimising our working capital requirements and cautiously navigating the challenging landscape. For one, we have been successful in slowing the cash outflows from operating activities during the financial year, thus, sustaining a firmer financial position.

In addition, our strategic decisions made many years ago to work only with financially strong and reputable shipyards in China has paid off during this period of difficult industry conditions. We were able to leverage on our strong working relationships with our suppliers to slow the construction progress of the vessels and extend the deferment of the vessel delivery schedules. This, along with our asset-light business model, not only strengthened the resilience of our finances, but will also ultimately benefit our customers by allowing them greater room to manoeuvre in their operations. Further, this cements Nam Cheong's long-standing relationships with customers.

CONFIDENCE IN LONGER-TERM PROSPECTS

While the short-term outlook certainly appears uncertain, we are confident that the prospects of the oil and gas over the longer-term remain sound. Over the more immediate-term, we have positioned ourselves for a slower pace of vessel sales and shipbuilding activities while concurrently raising firm-wide productivity, fortifying our balance sheet and striving to utilise capital prudently.

Over the next few years, signs are pointing towards some form of stability within the industry. The U.S. Energy Information Administration has projected Brent crude oil prices to average US\$55 per barrel in 2017 and US\$57 per barrel in 2018². IHS Markit has also noted that offshore rig programmes with start dates between 2017 and 2019 have shown signs of rising interest³. Due to under investments in operating and capital expenditure within the oil and gas industry over the last two years, we foresee a rise in expenditures by oil majors to stem potential adverse impacts on the availability of oil reserves over the longer-term.

Despite the pressures that will continue to afflict all players across the sector during this period, we recognise that it is inevitable that the industry will go through a cycle of peaks and troughs. We believe that as we focus on maintaining our strong track record and ensuring that we emerge from this cycle stronger, the upside will take care of itself when sentiments turn positive.

WORDS OF APPRECIATION

I would like to express my heartfelt appreciation to my fellow Board members for their guidance and efforts in steering Nam Cheong's strategic direction over these trying times. Also, I would like to thank all our shareholders for their unwavering faith in Nam Cheong, particularly during these past two years, as we continue to navigate through the persistently weak macro-environment.

To our management team and staff, I would like to thank you for your hard work and dedication to Nam Cheong. I would also like to express my gratitude to our customers, bankers, consultants, suppliers, partners and business associates, all of whom have lent us strong support.

Mr David Ting, Chief Financial Officer, has recently left Nam Cheong in January 2017 to take on a separate role with another publicly-listed company. On behalf of the Board of Directors, I thank David for his immense contribution over the years and wish him the very best in his endeavours. Mr Tiong Chiong Hiiung, who is also Executive Vice Chairman, has been appointed as Finance Director. I am confident he will be able to contribute much to the role, having had extensive experience within Nam Cheong and was previously responsible for the Group's corporate affairs and finance matters.

Staying the course with confidence to drive operational excellence and prudently capitalising on compelling opportunities is how we intend to approach 2017 to build a sustainable business that generates value for Nam Cheong's investors.

Yours Faithfully

TAN SRI DATUK TIONG SU KOUK

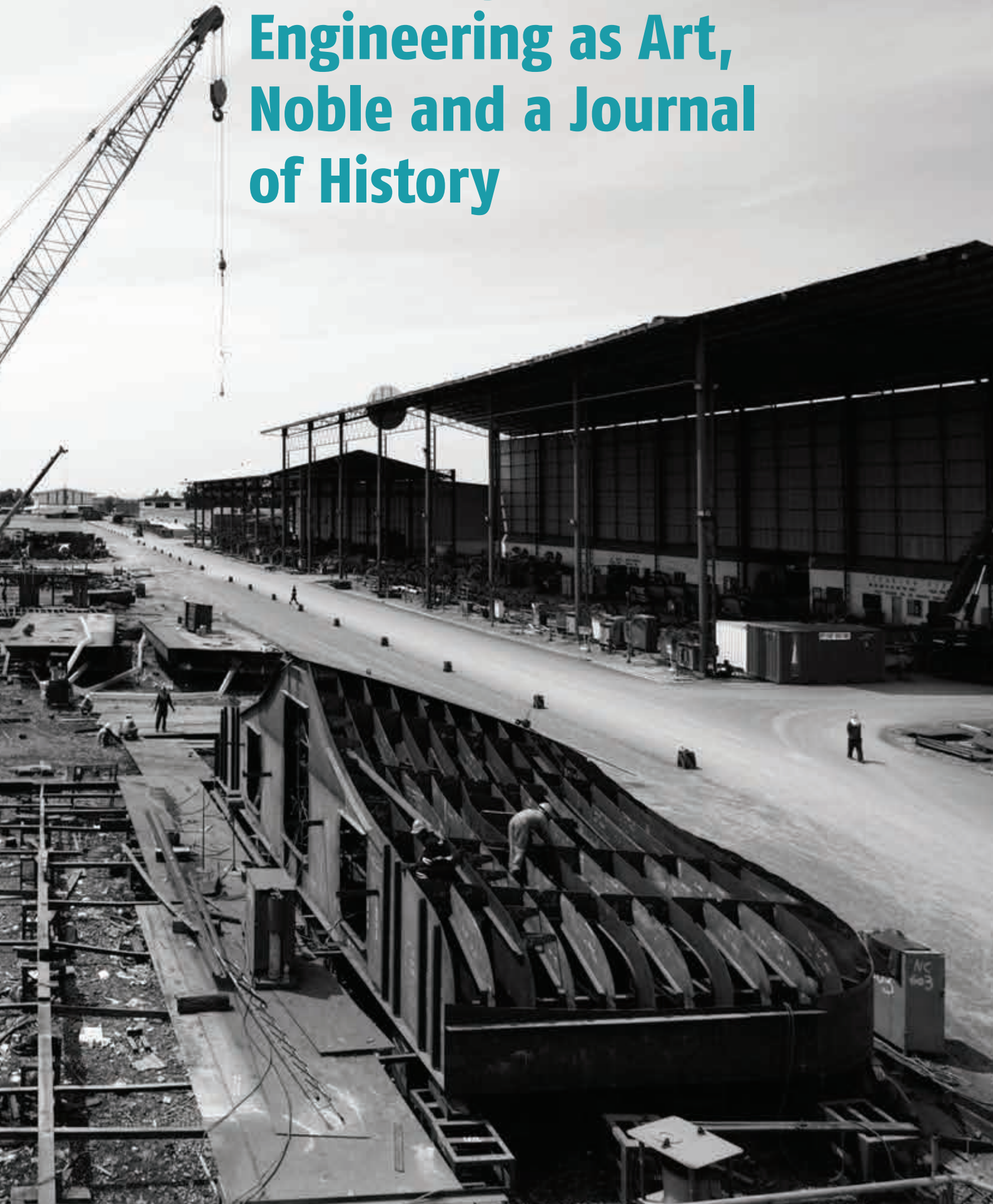
Executive Chairman

17 March 2017

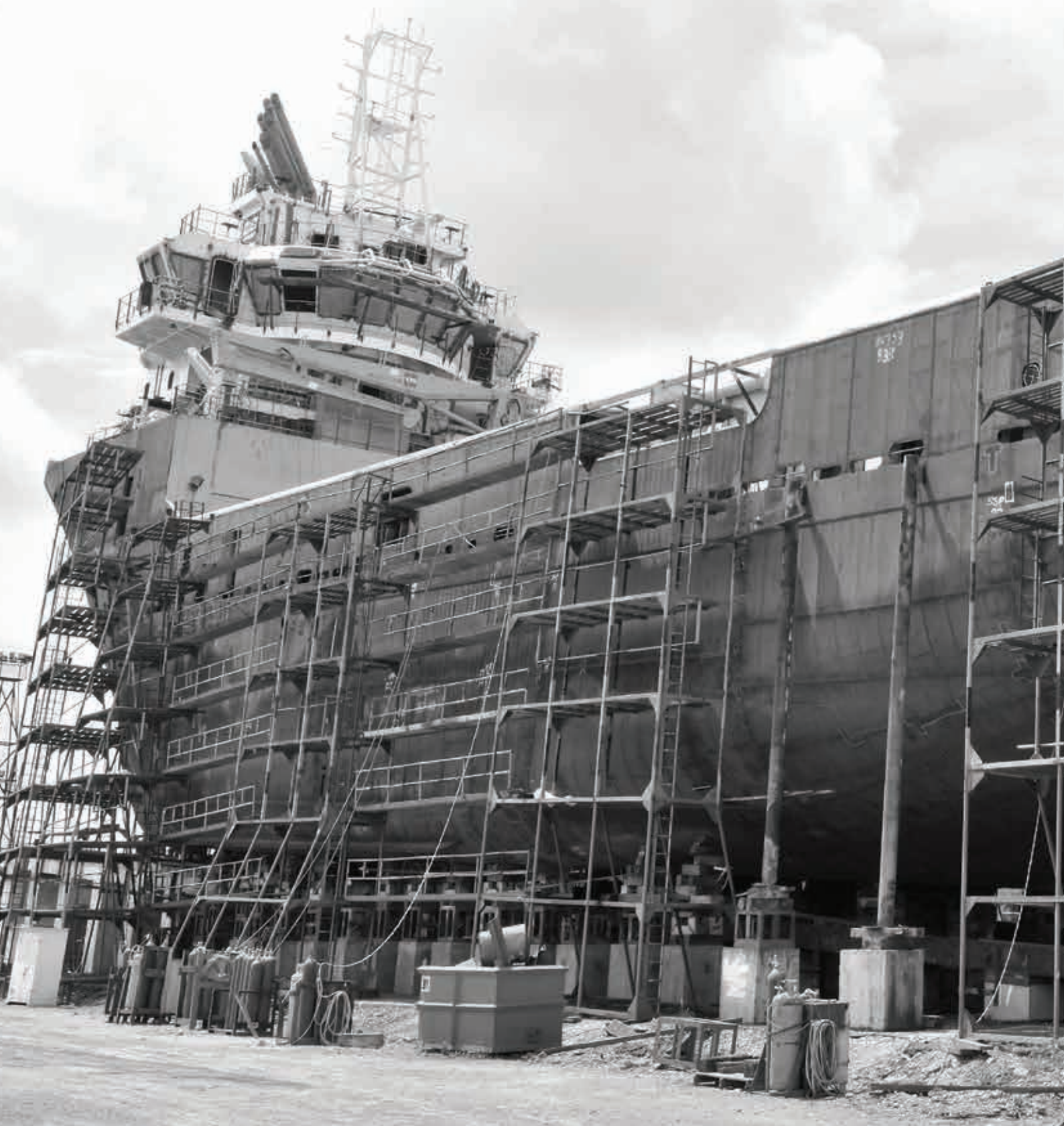
² US EIA Short-Term Energy Outlook – Energy Information Administration, 7 February 2017

³ Top 10 offshore driller survey sees some shakeup – Offshore Magazine, 15 February 2017

Knowledgeable, Engineering as Art, Noble and a Journal of History



FINANCIAL AND OPERATIONS REVIEW



REVENUE AND PROFITABILITY

Revenue for full year ended 31 December 2016 ("FY 2016") of RM170.4 million was RM779.6 million, or 82%, lower as compared to RM950.0 million recorded during the previous year corresponding full year ended 31 December 2015 ("FY 2015"). The shipbuilding segment recorded revenue of RM146.4 million for FY 2016, representing a decrease of 84% as compared to RM905.6 million recorded for FY 2015. This was mainly due to fewer number of vessels delivered in FY 2016 as compared to FY 2015 (FY 2016: 2 units; FY 2015: 11 units).

The vessel chartering segment also registered a decrease in revenue of RM20.4 million, or 46%, from RM44.4 million for FY 2015 to RM24.0 million for FY 2016, mainly due to lower utilisation rate for FY 2016.

Gross profit decreased by 94%, from RM150.0 million for FY 2015 to RM8.5 million recorded for FY 2016, which is in tandem with lower revenue recorded. The gross profit margin for shipbuilding segment was consistent at 17%. The chartering segment recorded gross loss in FY 2016 due to lower utilisation rate of vessels.

Other income for FY 2016 of RM106.1 million was higher as compared to RM18.1 million recorded in FY 2015 mainly due to the deposit forfeited from Perdana Petroleum Berhad's ("Perdana") cancellation of two Accommodation Work Barges ("AWB"); as well as the foreign exchange gain.

Selling and administrative expenses decreased by RM15.6 million from RM58.4 million in FY 2015 to RM42.8 million. Other operating expenses of RM91.2 million mainly consist of inventories written down and impairment on investment in associate, deposit and prepayment written off and impairment on property, plant and equipment.

Finance cost decreased by RM8.8 million in FY 2016 compared to FY 2015, as a result of higher interest expense being capitalised in cost of construction.

Net loss after taxation for FY 2016 was RM42.8 million.

BUSINESS SEGMENTS

Shipbuilding segment continues to be the main revenue generator, contributing RM146.4 million or 86% of the total Group's revenue of RM170.4 million in FY 2016. The remaining 14% of the Group's revenue in FY 2016 was attributed to the chartering

segment. The revenue from chartering increased from 5% in FY 2015 to 14% in FY 2016.

SHARE OF RESULTS FROM JOINTLY-CONTROLLED ENTITY AND ASSOCIATE

Share of profit in jointly controlled entities recorded a gain of RM6.6 million in FY 2016. However, the gain was offset by the share of loss in associate of RM14.3 million in FY 2016.

CASH FLOWS

Net cash flows used in operating activities of RM291.0 million for FY 2016 was mainly due to the increase in inventories of RM305.2 million.

Net cash flows from investing activities of RM105.0 million for FY 2016 was mainly attributed to the proceeds from disposal of held-to-maturity financial assets of RM95.0 million.

Net cash flows used in financing activities of RM101.6 million for FY 2016 was mainly attributed to the placement of fixed deposits of RM59.0 million and net of repayments of bank borrowings of RM42.5 million.

TOTAL ASSETS

Total assets of the Group increased by RM147.4 million from RM3.95 billion as at 31 December 2015 ("FY 2015") to RM4.10 billion as at 31 December 2016 ("FY 2016") mainly due to:

- (i) the net increase in inventories and amount due from customers on contracts of RM510.2 million in FY 2016 as a result of progresses of works for its built-to-stock vessels under the shipbuilding programme, which was partially offset by
- (ii) the decrease in the cash and cash equivalents of RM204.6 million and prepayment of RM57.2 million.

TOTAL LIABILITIES

Total liabilities of the Group increased by RM156.5 million from RM2.57 billion in FY 2015 to RM2.73 billion in FY 2016, mainly due to the increase in trade and other payables of RM164.5 million.

As a result of the decrease in cash and cash equivalents, the Group's net gearing ratio increased from 0.95 time in FY 2015 to 1.11 time in FY 2016.

BOARD OF DIRECTORS



TAN SRI DATUK TIONG SU KOUK

Executive Chairman

Date of Appointment: 28 April 2011

Since 1998, Tan Sri Datuk Tiong Su Kouk had through a series of equity injections, increased his shareholding interest in Nam Cheong Dockyard Sdn. Bhd. ("NCD"). In 1999, Tan Sri Datuk Tiong has obtained majority shareholding control and assumed an active role in the management of the Group.

Tan Sri Datuk Tiong has more than 20 years' experience in the shipbuilding industry. He is responsible for the Group's strategic direction and shipbuilding operations in Miri yard and the People's Republic of China contractors' shipyards. Along with his extensive experience and involvement in the shipbuilding industry, he has built a wide network of Malaysian and foreign business contacts over the years. He has played a significant role in steering the Group from being primarily involved in the construction of barges and fishing vessels in Malaysia to the building of Offshore Support Vessels ("OSVs"), and transformed the Group into one of the leading builders and suppliers of OSVs in Malaysia.

Tan Sri Datuk Tiong is also the founder of CCK Consolidated Holdings Berhad ("CCK"), a company listed on the Main Market of Bursa Securities Malaysia Bhd. Under his stewardship, CCK and its subsidiaries ("CCK Group") has progressed from a small family-run business to one of Sarawak's largest integrated poultry producers and producers of frozen food. In addition, he sits on various school boards and boards of other private limited companies.

In 1999, Tan Sri Datuk Tiong was appointed as a Member of MAPEN II (Majlis Perundingan Ekonomi Negara Kedua). Tan Sri Datuk Tiong is also the Honorary Life President of the World Federation of Fuzhou Association, Permanent Honorary Chairman, Inaugurator of The World Zhang Clan Association, Honorary Life President Chairman of the Federation of Foochow Association of Malaysia and Honorary President of the Associated Chinese Chambers of Commerce and Industry of Sarawak.

Tan Sri Datuk Tiong was conferred the Panglima Jasa Negara (P.J.N.) which carries the title "Datuk" by Seri Paduka Baginda Yang di-Pertuan Agong on the occasion of His Excellency's 75th Birthday on 2 June 2001.

Tan Sri Datuk Tiong was subsequently conferred the Panglima Setia Mahkota (P.S.M.) which carries the title "Tan Sri" by Seri Paduka Baginda Yang di-Pertuan Agong XIV, Almu'tasimu Billahi Muhibbuddin Tuanku Alhaj Abdul Halim Mu'adzam Shah Ibni Almarhum Sultan Badlishah on the occasion of His Excellency's 88th Birthday on 4 June 2016.



MR TIONG CHIONG HIIUNG

Executive Vice Chairman

Finance Director

Member of Nominating Committee

Date of Appointment: 1 July 2014

Mr Tiong Chiong Hiiung graduated with a Bachelor of Economics degree from Monash University, Australia in 1989. Upon graduation, he was appointed as the Managing Director of Central Coldstorage Kuching Sdn Bhd, a subsidiary of CCK Consolidated Holding Berhad.

In 1997, he was appointed as the Managing Director of CCK Group of Companies ("CCK Group"), responsible for the overall management and operations of the CCK Group. He was instrumental in transforming the CCK Group's operations into one of the most modern in Sarawak.

He joined the Group as a Director in 1993 and his primary areas of responsibility include handling the Company's corporate affairs and finance. He was also involved in crafting the human resource policies of the Group and initiated the implementation of the employee salary structure of the Group.

He initiated the development of the corporate management system where policies, procedures and detailed processes of different functions are documented and monitored for better management.

In 2014, he was appointed as the Executive Vice Chairman for the Group, where he serves to strengthen the Board in light of the increasing demands of an evolving and dynamic business. He also assists the Executive Chairman, in reviewing Board matters and in supporting the implementation of growth and business strategy.

In 2017, he was appointed as the Financial Director for the Group. His predominant role as Finance Director is to guide the Finance team in financial strategies and control towards a healthier financial performance for the Group. His vast experience in corporate strategies planning and financial management provides an assurance to the Group's commitment in business continuity and growth.

He is also a licensed company secretary by the Companies Commission of Malaysia, and sits on the boards of various private limited companies.

BOARD OF DIRECTORS



MR LEONG SENG KEAT

Chief Executive Officer

Date of Appointment: 21 May 2013

Mr Leong Seng Keat is the Chief Executive Officer of the Group and a member of the Board of Directors. He graduated from the Chrisolm Institute of Technology, Australia in 1990 with a Bachelor of Engineering degree, majoring in Electrical and Computing.

Before joining the Group, he accumulated more than 15 years of experience in the management of information technology and is very well versed with the different phases of development and changes in the life of a corporation.

In 2005, he joined the Group as an Executive Director and brought with him his vast experience in sales and management. He has successfully marketed and pioneered the sale of the Group's vessels to the international market.

In 2013, he was appointed as the Chief Executive Officer for the Group. He leads the efforts of the Group's continuing expansion of global market sales and innovation in price performance vessels with fuel efficient features. He determines the Group's corporate and strategic directions, working closely with the members of the management team strategically for significant expansion of market share and operations. He predominantly guides the Group towards maintaining a steady performance in the dynamic industry.

With close to 30 years of sales and management experience and in-depth knowledge about offshore and marine industry, he is a frequent and well sought-after speaker and panellist at various domestic and international offshore and marine conferences.

He has been a member of American Bureau of Shipping (ABS) Southeast Asia Regional Committee since 2008 and a member of the Singapore Institute of Directors since 2011.



MR AJAIB HARI DASS

Lead Independent Director

Chairman of Nominating Committee

Chairman of Remuneration Committee

Member of Audit Committee

Date of Appointment: 28 April 2011

Mr. Ajaib Hari Dass graduated from the University of London in 1974 with a Bachelor of Law (Honours) degree and was called to the English Bar at the Middle Temple in 1975 and admitted as an Advocate & Solicitor of the Supreme Court of Singapore in 1976. He is currently an independent director of SembCorp Marine Ltd and Sembcorp Industries Ltd, companies listed on the Mainboard of the SGX-ST, and now a Consultant of Haridass Ho & Partners, a legal firm he set up in 1985.

With more than 40 years of legal experience, he specializes in all admiralty matters, both litigious and non-litigious, from ship sale and purchase, the financing aspects of such transactions, marine insurance to general commercial and banking litigation. He is also a principal mediator of the Singapore Mediation Centre, a member of Singapore International Arbitration Centre (SIAC) Panel of Arbitrators, a panel member of the Singapore Chamber of Maritime Arbitration (SCMA), a member panel of Maritime Arbitrators of Kuala Lumpur Regional Centre for Arbitration (KLRCA).

He is a member of the Board of Visiting Justices & Board of Inspection (Prisons Department) under the purview of the Ministry of Home Affairs.

He is also a Referee at the Small Claims Tribunal and Mediator at Criminal Relational Disputes, State Courts, a Commissioner for Oaths, Notary Public as well as a Justice of the Peace.

BOARD OF DIRECTORS



MR YEE KIT HONG

Independent Director

Chairman of Audit Committee

Member of Nominating Committee

Member of Remuneration Committee

Date of Appointment: 28 April 2011

Mr Yee Kit Hong is a qualified professional accountant who holds a Bachelor of Accountancy (University of Singapore) and is a fellow of the Institute of Chartered Accountant, England and Wales and of the Institute of Singapore Chartered Accountants and a full member of the Institute of Directors. He is a partner of the practice, Kit Yee & Co. Chartered Accountants Singapore. Prior to establishing the practice, he was a Tax Manager with Ernst & Young. In all, he has more than 30 years of experience in the field of audit, management consultancy, accountancy and taxation.

In 2003, Mr Yee was conferred the award of Public Service Medal (PBM) by the Singapore government as recognition for his public service.

He also sits on the board of three other listed companies in Singapore.



MR KAN YUT KEONG, BENJAMIN

Independent Director

Member of Audit Committee

Member of Remuneration Committee

Date of Appointment: 1 October 2014

Mr Benjamin Kan graduated from the University of Hull in the United Kingdom, with B.Sc. Economics (Hons). He articulated with Grant Thornton in London and was admitted as a chartered accountant of the Institute of Chartered Accountants in England & Wales in 1983. He is also a member of the Institute of Certified Public Accountants of Singapore and the Malaysian Institute of Accountants.

On returning from the United Kingdom, he joined PricewaterhouseCoopers in Singapore. He was the staff-in-charge of the Insolvency unit, reporting to the Senior Partner. He was transferred to the management consulting unit after supervising the Insolvency unit for over 3 years. After spending about 5 years with the consulting unit, he developed a new business unit to focus on corporate finance activities. In 2002, arising from the growth of the corporate finance business, the partnership decided to form a separate business entity, PricewaterhouseCoopers Corporate Finance Pte Ltd to apply and obtained a Capital Market Services licence from the Monetary Authority of Singapore to conduct corporate finance activities ("CF Unit"). He was the Managing Director of the CF Unit until his retirement from the partnership in June 2014.

Mr Benjamin has more than 34 years' experience working in professional accounting, corporate finance and consulting in the Asian region and the United Kingdom.

His clients include the public sector, multinational corporations, government linked companies as well as local companies.

KEY EXECUTIVES



**MR TIONG CHIONG SOON
(JOSEPH)**
Group General Manager

Mr Joseph Tiong joined the Group as the Group General Manager in 2009, responsible primarily for the Group's shipbuilding operation which includes vessel chartering, repairs, procurement and sourcing of equipment required for the shipbuilding operation. He reports directly to the Executive Chairman and the CEO of the Group.

Mr Joseph Tiong graduated from the University of Oklahoma, USA, with a Bachelor of Business in 1994. He started his career with CCK Consolidated Holdings Berhad ("CCK"), responsible for all the purchasing function and retail division of the CCK Group of Companies ("CCK Group"). In 1997, he was appointed the Executive Director of CCK Group. He has an excellent rapport with suppliers thus ensuring timely delivery of products of the highest quality for the CCK Group.

He sits on the boards of various private limited companies.



MR KWAN SENG FATT
General Manager
(Newbuilding Division)

Mr Kwan Seng Fatt joined the Group in January 2013 as the General Manager for Newbuilding Division. He heads ship design and product development, engineering, procurement and project management of the Group's newbuilding of offshore support vessels, and technical services support of the Group's fleet of vessels.

He holds a Master of Science degree in Marine Engineering from the University of Newcastle upon Tyne (UK) and a First Class Engineer Certificate of Competency (Motorship) (Singapore). He is also a registered Chartered Engineer of Engineering Council (UK) and a Chartered Marine Engineer of the Institute of Marine Engineers, Scientists and Technologists (UK).

He has over 38 years of experience in new shipbuilding, ship repairs, ship design & development, marine engineering systems, procurement of equipment, project management and many other related services.

Prior to his current appointment, he was the Senior Vice President (Engineering) with Jaya Shipbuilding & Engineering Pte Ltd (a subsidiary of Jaya Holdings Ltd) for more than 5 years. He headed the ship design, product development and functional engineering, project procurement of major equipment for new shipbuilding and ship repairs of offshore support vessels and other related services. He was the Vice President (Engineering) of ST Marine Ltd (a company of ST Engineering Ltd) (a major shipbuilding and marine engineering company in Singapore), where he had served for more than 22 years in various positions in the areas of ship design/development and engineering for commercial, naval, para-military and offshore support vessels, shipbuilding processes, project management, information technology, and several other special projects. He had also served as the Engineer Officer on board foreign-going merchant ships for more than 7 years, including the rank of Chief Engineer with Neptune Orient Lines Limited, Singapore.

KEY EXECUTIVES



MR PRADEEP KUMAR DATAR
Head of Business Development

Mr Pradeep joined the Group in June 2014. He is an oil and gas industry veteran with more than 25 years of experience. His most recent appointment was the Vice President, Offshore – Asia, at Rolls-Royce Singapore Pte. Ltd. (“Rolls-Royce”), where he supervised Rolls-Royce’s offshore business in Asia and had established strong relationships with the key stakeholders.

He had served for more than 18 years in Rolls Royce and its related entities. Prior to this, he was the General Manager (Sales) of Wartsila Diesel’s China and India operations respectively. As Nam Cheong’s Head of Business Development, Mr Pradeep oversees the development of Nam Cheong’s business relationships with customers and tap new opportunities across key markets.



MR MARK WAI-YAN JASON
Technical Senior Manager

Mr Mark Wai-yan Jason joined the Group in 2007 as the Technical Manager of the Group. He graduated with Bachelor of Science (Hons) majoring in Naval Architecture from the University of Strathclyde. Subsequently, he obtained the Chartered Engineer (UK) certification from the Institute of Charter Engineer (RINA) and the Professional Engineer certification from Professional Engineer Board (Singapore).

He has extensive experience in his area of responsibility, and had served in companies such as Vosper Pte Ltd, Conan Wu and Associates, Neptune Orient Lines Ltd, Plimsoll Pte Ltd., Hong Lam Marine (as Project Manager/Naval Architect/Consultant), Sahaisant Co., Ltd in Thailand (as Project Manager) before setting up a consultancy services business from 2001 to 2004. He subsequently joined ASL Shipyard Pte Ltd where he was the Senior Engineering Manager. He is primarily responsible for all technical-related matters of the Group.

KEY EXECUTIVES



Mr Lee Boon Chye joined the Group in July 2013 as the Project Manager. Based in PR China, he is in charge of the entire project management in outsourcing shipyards in PRC and responsible for the group's newbuilding projects.

He holds a Bachelor of Engineering in Marine Technology with Honours in Marine Engineering (First Class) from the University of Newcastle upon Tyne (UK) and a Diploma in Marine Engineering from the Singapore Polytechnic (SG).

He has over 17 years of experience in the naval, marine, offshore, shipbuilding, ship management, project management and integrated services industry. Prior to his current appointment, he was the Project Manager (Outsource Yard) and Technical Superintendent with Jaya Shipbuilding & Engineering Pte Ltd and Jaya Offshore Pte Ltd (a subsidiary of Jaya Holdings Ltd) for more than 9 years. He led the project management team in outsourcing shipyards in People Republic of China where he handled 8 shipyards, managed and delivered various types of Offshore Support Vessel.

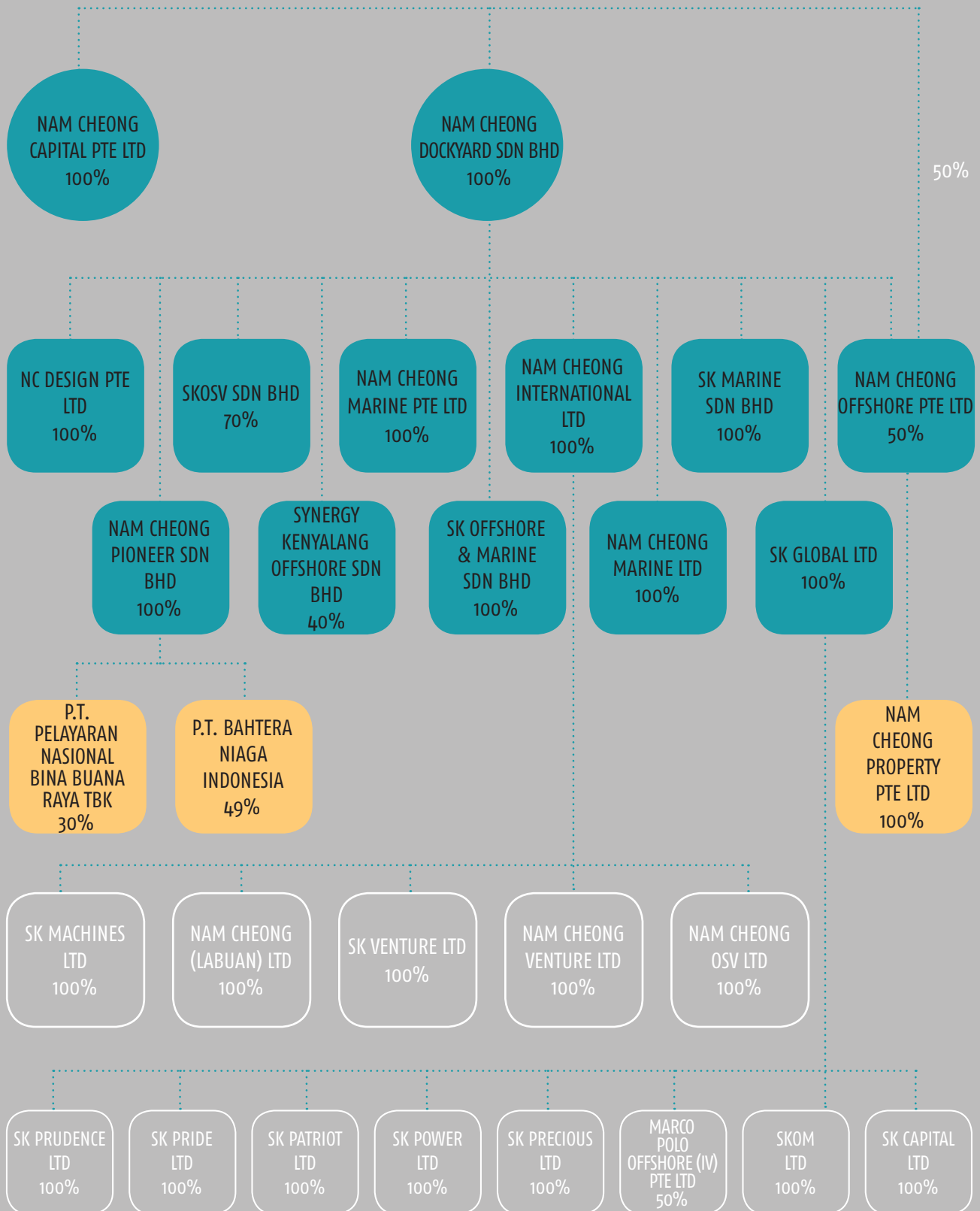
As a Technical Superintendent, Mr Lee managed and organized survey, docking and repairs for vessels. He had also served under the Defence Science & Technology Agency – Navy as a Superintendent Engineering Officer and Specialist Engineer dealing with Naval vessel maintenance strategy and engineering study. He reports directly to Mr Kwan Seng Fatt, General Manager of Newbuilding Division.

CORPORATE STRUCTURE





NAM CHEONG LIMITED



CORPORATE MILESTONES



- 1968 • Nam Cheong Dockyard Sdn Bhd established
- 1987 • Delivered first SSV
- 1989 • Delivered first AHTS vessel
- 2005 • Doubling of production capacity of our Miri yard
- 2006 • Tripling of production capacity. Commenced outsourcing of shipbuilding to Chinese Yard
- 2007 • Commenced chartering business
• Management headquarters shifted to Kuala Lumpur
• Received ISO9001 : 2000 (since been revised to ISO9001 : 2008) certificate
• Delivered first Malaysia made DP2 OSV
- 2008 • Expanded into India, Dubai, Hong Kong, Singapore and the Netherlands markets
- 2009 • Expanded into China & Vietnam markets
• Received the Industry Excellence Award (Transportation Sector) from Malaysia 1000 Corporate Directory
- 2011 • Expanded Tunisia, Indonesia & USA markets
• Successfully listed on the Singapore Exchange on May 27
- 2012 • Delivered first PSV
• Expanded into West Africa market
- 2013 • Expanded into Latin America market
• Raised US\$38m on SGX
• Received the Most Transparent Company Award from Securities Investors Association Singapore (SIAS)
- 2014 • Launched our first propriety design DE series vessels, NCA80E (64.8m 80T BP)
• Received Bronze for the Best Managed Board Award from the Singapore Corporate Awards 2014
• Received the Most Transparent Company Award-Runner-up from SIAS
- 2016 • SK Offshore & Marine Sdn Bhd (SKOM) established to venture into chartering and marine operation
• Received Silver for the Best IR Award from the Singapore Corporate Awards 2016

SHAREHOLDERS' INFORMATION

STATISTICS OF SHAREHOLDINGS AS AT 9 MARCH 2017

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 – 99	1,971	16.47	84,048	0.00
100 – 1,000	4,318	36.09	1,284,216	0.06
1,001 – 10,000	1,789	14.95	10,995,320	0.53
10,001 – 1,000,000	3,827	31.98	320,073,295	15.27
1,000,001 AND ABOVE	61	0.51	1,764,029,006	84.14
TOTAL	11,966	100.00	2,096,465,885	100.00

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	S.K. TIONG ENTERPRISE SDN BHD	574,342,840	27.40
2	HUNG YUNG ENTERPRISE SDN BHD	319,954,845	15.26
3	KGI SECURITIES (SINGAPORE) PTE LTD	209,549,087	10.00
4	TIONG SU KOUK	88,836,517	4.24
5	CIMB SECURITIES (SINGAPORE) PTE LTD	65,520,676	3.13
6	UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED	62,313,360	2.97
7	UOBM NOMINEES (TEMPATAN) SDN BHD	57,654,847	2.75
8	LAU LIONG KII	40,195,342	1.92
9	CITIBANK NOMINEES SINGAPORE PTE LTD	39,720,276	1.89
10	DBS NOMINEES (PRIVATE) LIMITED	32,724,760	1.56
11	RHB SECURITIES SINGAPORE PTE LTD	20,269,780	0.97
12	MAYBANK KIM ENG SECURITIES PTE LTD	17,470,045	0.83
13	PAU KIU FUNG	16,500,769	0.79
14	TIONG SU KOUK OR TIONG CHIONG HIIUNG	16,100,000	0.77
15	WONG BAK HEE	15,420,430	0.74
16	TIONG CHIONG HIIUNG	14,259,240	0.68
17	OCBC SECURITIES PRIVATE LIMITED	14,055,660	0.67
18	PHILLIP SECURITIES PTE LTD	13,040,420	0.62
19	KONG SING CHING	11,777,785	0.56
20	ESTATE OF TIONG ING HUO, DECEASED	11,120,800	0.53
	TOTAL	1,640,827,479	78.28

LIST OF SUBSTANTIAL SHAREHOLDERS AS AT 9 MARCH 2017

Number of equity securities : 2,096,465,885 (excluding treasury shares)
 Class of equity securities : Ordinary share of HK0.50 each
 Voting rights : One vote per share
 Number of treasury shares held : 6,678,597

Name of Substantial Shareholders	Direct Interest		Deemed Interest	
	No. of Shares	%	No. of Shares	%
Tan Sri Datuk Tiong Su Kouk ⁽¹⁾	104,936,517	5.00	969,768,115	46.26
S.K. Tiong Enterprise Sdn Bhd ⁽²⁾	574,342,840	27.40	319,954,845	15.26
Hung Yung Enterprise Sdn Bhd	319,954,845	15.26	–	–
Puan Sri Datin Wong Bak Hee ⁽³⁾	15,420,430	0.74	1,059,284,202	50.53

Notes:

- (1) Tan Sri Datuk Tiong Su Kouk is deemed to have an interest in the shares held by Hung Yung Enterprise Sdn Bhd, S.K. Tiong Enterprise Sdn Bhd, his wife, Puan Sri Datin Wong Bak Hee and 60,000,000 shares held by UOB Nominees (Private) Limited (as nominee), by virtue of Sections 4 and 133 of the Securities and Futures Act (Cap. 289).
- (2) S.K. Tiong Enterprise Sdn Bhd is deemed to have an interest in the shares held by Hung Yung Enterprise Sdn Bhd by virtue of Section 4 of the Securities and Futures Act (Cap. 289).
- (3) Puan Sri Datin Wong Bak Hee is deemed to have an interest in the shares held by S.K. Tiong Enterprise Sdn Bhd, Hung Yung Enterprise Sdn Bhd and her husband, Tan Sri Datuk Tiong Su Kouk and 50,000 shares held by Philip Securities Pte Ltd (as nominee) by virtue of Section 4 of the Securities and Futures Act (Cap. 289).

PERCENTAGE OF SHAREHOLDING IN PUBLIC HANDS

Based on the information available to the Company as at 9 March 2017, approximately 41.65% of the issued ordinary shares of the Company is held by the public hand, therefore, Rule 723 of the Listing Manual issued by the SGX-ST is complied with.

CORPORATE GOVERNANCE REPORT

The Board of Directors and the Management of Nam Cheong Limited ("Nam Cheong" or "the Group" or "the Company") are fully committed to the highest standards of corporate governance and have adopted the principles set out in the Code of Corporate Governance 2012 ("Code") to promote corporate transparency and to protect the interests of the Company's shareholders.

Nam Cheong has established various self-regulating and monitoring mechanisms to ensure that effective corporate governance is practised as a fundamental part of discharging its responsibilities to protect and enhance long-term shareholder value and financial performance of the Group.

This report describes the Group's corporate governance processes and structures that are in place during the financial year ended 31 December 2016 ("FY 2016"), with specific reference to the principles and guidelines of the Code, which forms part of the Continuing Obligations of the Singapore Exchange Securities Trading Limited's ("SGX-ST") Listing Manual.

THE BOARD'S CONDUCT OF ITS AFFAIRS

Principle 1: *Every company should be headed by an effective board to lead and control the company. The Board is responsible for the long-term success of the Company. The Board works with the Management to achieve this objective and the Management remains accountable to the Board.*

In order to perform its functions effectively and efficiently, Nam Cheong's Board comprises Directors with a wide range and invaluable experiences, skills and qualities in the fields of shipbuilding and vessel chartering, business development, business management, financial, legal and accounting. Such diversity of skills, experiences and qualities ensures that the Board is well equipped to deal with a large range of issues.

The Board has adopted a set of well-defined internal controls in the form of the Delegation and Authorisation Limit Policy ("Delegation Policy") for the Management to effectively operate the Group's businesses. Apart from matters that specifically require the Board's approval, such as investments, borrowings, issue of shares, dividend distributions, returns to shareholders, guarantees and indemnities, the Delegation Policy establishes defined limits of authority in relation to all operational matters for the Management, key executive officers and the Board. Transactions exceeding the defined limits in the Delegation Policy are to be approved by the Board.

The Board is responsible for the corporate governance of the Group, thus ensuring the protection and long term enhancement of shareholder value. It sets the overall strategy for the Group. The Board supervises the Management and monitors their performance. In addition to its statutory responsibilities, the Board's role includes:

- (a) providing entrepreneurial leadership, setting strategic objectives and directions to ensure that the required and necessary financial and human resources are in place for the Group to meet all its objectives;
- (b) establishing a framework of prudent and effective controls to assess and manage risks and safeguarding the shareholders' interests and the Group's assets;
- (c) establishing goals for the Management and reviewing the Management's performance by monitoring the achievement of these goals and the condition of the Group;
- (d) identifying principal risks of the Group's business and ensuring the effective implementation of appropriate systems to assess and manage the risks, including safeguarding of shareholders' long-term interests and the Group's assets;

- (e) reviewing and evaluating the adequacy and effectiveness of the Group's internal controls, risk management and financial reporting;
- (f) reviewing and approving corporate plans, annual budgets, major funding, significant investments and divestment proposals and financial plans of the Group;
- (g) reviewing and approving the remuneration packages of the Board and employees related to a substantial shareholder and/or any Board member;
- (h) ensuring accurate, adequate and timely reporting to, and communication with the shareholders;
- (i) identifying the key stakeholder groups and recognising that their perceptions affect the Group's reputation;
- (j) setting the Group's values and standards (including ethical standards), and ensuring that its obligations to shareholders and other stakeholders are understood and met; and
- (k) considering sustainability issues, such as environmental and social factors, as part of its strategic formulation.

The Board discharged its duties and responsibilities objectively and effectively at all times as fiduciaries in the interests of the Group. The Board is expected to act in good faith and in the interests of the Group at all times.

The Board meets on a quarterly basis and on special warranted meetings by particular circumstances. To ensure effective participation and communication, Directors who are unable to attend the meeting in person, will participate via tele-conference, electronic or other communication facilities which permits all parties to communicate with each other simultaneously.

To assist in the execution of its responsibilities and to strengthen the Board's effectiveness, the Board has set up and is supported by four Board Committees, namely the Audit Committee ("AC"), the Remuneration Committee ("RC"), the Nominating Committee ("NC") and the Risk Management Committee ("RMC"). Each committee has its own defined terms of reference and operating procedures to discharge its responsibilities more efficiently.

The number of meetings held by the Board and Board Committees and the attendance for the year under review are as follows:

Directors	Board		Audit Committee		Remuneration Committee		Nominating Committee	
	No. of Meetings	Attendance	No. of Meetings	Attendance	No. of Meetings	Attendance	No. of Meetings	Attendance
Tan Sri Datuk Tiong Su Kouk	4	4	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Mr. Leong Seng Keat	4	4	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Mr. Tiong Chiong Hiiung	4	4	N.A.	N.A.	N.A.	N.A.	1	1
Mr. Ajaib Hari Dass	4	4	4	4	1	1	1	1
Mr. Yee Kit Hong	4	4	4	4	1	1	1	1
Mr. Kan Yut Keong, Benjamin	4	4	4	4	1	1	N.A.	N.A.

CORPORATE GOVERNANCE REPORT

For new appointments to the Board, a formal letter setting out his/her duties, obligations and responsibilities is issued to the newly-appointed Director. The Board ensures that all incoming Directors will receive extensive, comprehensive and tailored induction upon joining the Board. These include, but are not limited to, a briefing of his/her duties, obligations and responsibilities and how to effectively and objectively discharge these duties in good faith, as well as a comprehensive orientation program to ensure familiarity with the Group's businesses, financial related matters and governance practices. Directors are also invited to yard visits and meet with the management of the yard hence enabling them to obtain a better perspective of the Group's business activities and operational matters.

In addition to the Board meetings or special warranted meetings by particular circumstances, whereby Directors are updated on the Group businesses, operational activities and possible changes of business risks, the Group's information policy is to make available to Directors, upon their request, at any time, further and additional explanation, briefing or informal discussion on any aspect of the Group's operations or business issues from the Management. The Directors are issued with a copy of the Company's Code of Dealings as they are privy to price sensitive information.

Directors are encouraged to attend relevant courses/training conducted by Singapore Institute of Directors, Singapore Exchange Securities Trading Limited, businesses and consultants, as may be relevant to the objectives and effective discharge of their responsibilities, at the expense of the Group.

BOARD COMPOSITION AND GUIDANCE

Principle 2: *There should be a strong and independent element on the Board, which is able to exercise objective judgment on corporate affairs independently, in particular, from the Management and 10% of the shareholders. No individual or small group of individuals shall dominate the Board's decision-making.*

As at the date of this report, the Board comprises six members:

Executive Directors

Tan Sri Datuk Tiong Su Kouk (Executive Chairman)
 Mr. Tiong Chiong Hiiung (Executive Vice Chairman)
 Mr. Leong Seng Keat (Chief Executive Officer ("CEO"))

Independent Directors

Mr. Ajaib Hari Dass
 Mr. Yee Kit Hong
 Mr. Kan Yut Keong, Benjamin

Our Directors bring a wide range of invaluable experiences, skills, knowledge, extensive business network and expertise in specialised fields, including but not limited to admiralty matters, shipbuilding and vessel chartering, strategic planning, audit management, taxation, mergers and acquisitions, corporate finance and restructuring, accounting, financing, marketing and business development and legal.

The size, composition, range of experience and the varied expertise of current Board members allow discussions on policy, strategy and performance to be critical, informed and effective.

The Board exercises objective and independent judgment on the Group's corporate affairs. No individual or group of individuals dominates the Board's decision-making. In addition, the roles of the Executive Chairman, the Executive Vice Chairman and the CEO are assumed by different persons.

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.

The Independent Directors have confirmed that they do not have any relationship with the Group, its related companies, its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Directors' independent business judgment.

The Company, on an annual basis, determines whether or not a Director is independent, taking into account the Code's definition. The NC has assessed the independence of each Director and considers that Mr. Ajaib Hari Dass, Mr. Yee Kit Hong and Mr. Kan Yut Keong, Benjamin are, and continue to be, independent. Each member of the NC has abstained from deliberations in respect of the assessment on his own independence.

The Company reviews the Board's structure, size and composition annually, as well as when required by circumstances. The NC is of the view that the Board is of the appropriate size, with the right mix of skills and experience, given the nature and scope of the Group's operations.

The Board has a healthy proportion of independent directors, with independent directors comprising half the Board. The Board is able to exercise objective judgment independently from the Management with no individuals dominating the decisions of the Board. It also ensures that there is effective representation of its shareholders and that issues of strategy, performance and resources are fully disclosed and examined to take into account the long-term interests of the shareholders, employees, customers, suppliers and the industries in which the Group conducts its business.

The profile of each Director is set out on pages 16 to 18 of this Annual Report.

CHAIRMAN, VICE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Principle 3: *There should be a clear division of responsibilities between the leadership of the Board and the executive responsible for managing the company's business. No one individual should represent a considerable concentration of power.*

Tan Sri Datuk Tiong Su Kouk, the Executive Chairman, Mr. Tiong Chiong Hiiung, the Executive Vice Chairman and Mr. Leong Seng Keat, the CEO, play important roles in propelling the growth of Nam Cheong and provide strong leadership and strategic vision for Nam Cheong. They are responsible for the formulation and execution of overall business strategy and policies and chartering the corporate direction of the Group.

The role of Executive Chairman also includes:

- (a) leading the Board to ensure its effectiveness on all aspects of its role;
- (b) setting the agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues;
- (c) promoting a culture of openness and debate at the Board;
- (d) ensuring that the Directors receive complete, adequate and timely information;

CORPORATE GOVERNANCE REPORT

- (e) ensuring effective communication with shareholders;
- (f) encouraging constructive relations within the Board and between the Board and the Management;
- (g) facilitating the effective contribution of Non-Executive Directors in particular; and
- (h) promoting high standards of corporate governance.

The Executive Vice Chairman is responsible predominantly in corporate strategies planning and financial management, as an assurance to the Group's commitment in business continuity and growth.

The CEO is responsible for the management and operation of the Group in accordance with Group's pre-determined goals, strategies and objectives.

All strategic and major decisions made by the Executive Chairman, Executive Vice Chairman and CEO are also reviewed and approved by the Board.

Mr. Ajaib Hari Dass, the Lead Independent Director of Nam Cheong, is responsible for co-ordinating and leading the Independent Directors, providing a non-executive perspective and contributing a balanced viewpoint, to enable the Board to exercise independent decision making and to ensure an appropriate balance of power and authority in the spirit of good corporate governance.

Mr. Ajaib Hari Dass is also available to shareholders should they require alternative advices apart from contacts with the Executive Chairman, Executive Vice Chairman or the CEO.

BOARD MEMBERSHIP

Principle 4: *There should be a formal and transparent process for the appointment and re-appointment of Directors to the Board.*

The Board has established a Nominating Committee ("NC") which comprises the following members, the majority of whom, including the Chairman, are Non-Executive and Independent Directors:

Mr. Ajaib Hari Dass (Chairman)
 Mr. Yee Kit Hong
 Mr. Tiong Chiong Hiiung

The NC is regulated by a set of written terms of reference endorsed by the Board, setting out their duties and responsibilities. The NC is responsible for:

- (a) reviewing and recommending to the Board the structure, size and composition of the Board and Board Committees;
- (b) reviewing Board succession plans for Directors, in particular, the Executive Chairman and CEO;
- (c) establishing procedures for, and making recommendations to, the Board on all Board appointments and re-appointments;
- (d) determining on an annual basis if a Director is independent;

- (e) evaluating if a Director has multiple Board representations and if he is able to and has been adequately carrying out his duties as a Director;
- (f) evaluating the performance of the Board; and
- (g) reviewing the training and professional development programs for the Board.

The NC reports to the Board and meets at least once a year.

Each Director is required to submit a return of independence to the Company Secretary, who will submit the returns to the NC. The NC shall review the returns and determine the independence of each of the Directors for recommendation to the Board. An independent Director shall notify the NC immediately, if, as a result of a change in circumstances, he or she no longer meets the criteria for independence or if such change in circumstances would be relevant to the NC's analysis of his or her independence. The NC has reviewed the independence of each Director for FY 2016 and has determined Mr. Ajaib Hari Dass, Mr. Yee Kit Hong and Mr. Kan Yut Keong, Benjamin are independent.

In the selection and nomination for new Directors, the NC ensures that the potential candidates possess relevant experience, background, knowledge and calibre to contribute to the Group and its business, having regard to the attributes of the existing Board members and the requirements of the Group. The potential candidates are shortlisted and thereafter, interviews with the shortlisted candidates are set up.

A new Director can be appointed by way of a Board resolution, after the recommendation by the NC. Newly appointed Directors must present themselves for re-elections at the next Annual General Meeting of the Company.

Pursuant to the Bye-Laws of the Company, each Director of the Company shall retire at least once every three years by rotation. Directors who retire are eligible to offer themselves for re-election. The NC has reviewed and recommended the re-election of Mr. Yee Kit Hong and Mr. Kan Yut Keong, Benjamin who are retiring under the Company's Bye-Law 86(1) at the forthcoming Annual General Meeting ("AGM"). The Board has accepted the recommendation and the retiring Directors will be offering themselves for re-election.

The NC considers that the multiple Board representations held presently by the Directors do not impede their performance in carrying out their duties to the Company. The NC has ascertained that for the period under review, the Directors have devoted sufficient time and attention to the Group's affairs.

While the Code recommends stipulating a maximum number of listed company board representations for directors, the NC is of the view that in assessing the performance of the Directors in carrying out their duties and whether they are able to devote sufficient time in discharging the same, the contributions of the Directors to the Board and relevant Board Committees as well as their attendance at meetings of the Board and such committees should be taken into account. The NC is of the view that determining the capacity of the Directors should not be restricted only to a consideration of the number of listed company board representations of each Director. Rather, factors such as whether the Director is able to devote sufficient time and attention to the affairs of the Company will also be taken into consideration. As such, the Board has not prescribed a maximum number of listed company board representations for the Directors. The NC has evaluated the time the Directors are able to devote to the Company in light of their other commitments, and is of the view that each Director has been able to carry out his duties adequately.

As recommended by Guideline 4.5 of the Code, the Board does not encourage the appointment of alternate directors and no alternate director has been appointed to the Board.

CORPORATE GOVERNANCE REPORT

BOARD PERFORMANCE

Principle 5: *There should be a formal annual assessment of the effectiveness of the Board as a whole and its board committees and the contribution by each director to the effectiveness of the Board.*

The Board believes that active participation and contribution by the Directors are essential to the effectiveness of the Board. Hence, the NC is assigned to annually review the Board's performance based on pre-set objective criteria, approved by the Board, which aims to address the long-term enhancement of shareholders' value.

In assessing the effectiveness of each Director and the Board's performance as a whole, the following quantitative and qualitative criteria are adopted:

- (a) evaluation of the structure, size and composition of the Board;
- (b) manner in which the Board meetings are conducted;
- (c) Board's access to information;
- (d) Board performance in relation to discharging its principal responsibilities;
- (e) Board processes and accountability;
- (f) performance of the Board Committees; and
- (g) board succession planning.

In addition, all Directors are requested to complete a Board Evaluation Questionnaire designed to seek their views on the performance of and on various aspects of the Board and the Board Committees so as to assess the overall effectiveness of the Board as a whole and its Board Committees and for assessing the contribution by the Executive Chairman and each individual director to the effectiveness of the Board. A consolidated report of the results of the Board Evaluation Questionnaire is first prepared and subsequently reviewed by the NC and presented to the Board.

Each member of the NC shall abstain from voting on any resolutions in respect of the assessment of his performance or re-nomination as a Director.

The NC has conducted a performance evaluation of the Board and confirms that all Directors have contributed effectively and have demonstrated full commitment to their roles in FY 2016. No external facilitator had been engaged by the Board for this purpose.

ACCESS TO INFORMATION

Principle 6: *In order to fulfil their responsibilities, directors should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.*

The Board believes that it should be provided with complete information in a timely manner prior to Board meetings and on an on-going basis.

The Board has separate and independent access to the Management, internal and external auditors and the Company Secretary at all times. The Management regularly provides the Board with information on issues requiring the Board's deliberations, so as to enable the Board to make informed decisions. The Board is also informed of all material events and transactions as and when they occur. Requests for additional information from the Board are dealt with promptly by the Management.

In addition, the Management provides the Board with quarterly reports of the Group's performance. The Management also consults the Board whenever necessary and appropriate.

The Board is issued with Board papers in a timely manner prior to Board and Board Committee meetings, to facilitate decision making by the Board and to deal with matters arising from such meetings. The Management and external advisers are invited to attend Board meetings to provide additional insights and professional views.

The Company Secretary, or, when unavailable, an authorized designate, attends all Board and Board Committee meetings and prepares the minutes for such meetings. The Company Secretary also assists the Chairman in ensuring that Board procedures, the Company's Bye-Laws, and other applicable rules and regulations are complied with so that the Board functions effectively.

The Company Secretary ensures implementation and adherence of good corporate governance and best practices across the Group. The appointment and the removal of the Company Secretary are subject to the approval of the Board.

Each Director has the right to seek independent legal and other professional advice, at the Company's expense, concerning any aspect of the Group's operations or undertakings in order to fulfil his duties and responsibilities as a Director.

PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

Principle 7: *There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.*

The Remuneration Committee ("RC") is regulated by a set of written terms of reference, which sets out their duties and responsibilities. The RC comprises the following Non-Executive Directors, the majority of whom, including the Chairman are Independent Directors. The members of the RC as at the date of this report are:

Mr. Ajaib Hari Dass (Chairman)
Mr. Yee Kit Hong
Mr. Kan Yut Keong, Benjamin

The responsibilities of the RC are to assist the Board in ensuring a formal and transparent procedure in:

- (a) overseeing the remuneration packages of the Directors as well as key executive officers of the Group;
- (b) determining and reviewing, from time to time, the remuneration policy of the Group; and
- (c) reviewing and recommending a remuneration framework for the Directors and key executive officers of the Group, taking into account the environment and circumstances faced by the Group in which it operates.

CORPORATE GOVERNANCE REPORT

The recommendations of the RC would be submitted for endorsement by the entire Board. To ensure the RC's ability to exercise unbiased judgment in its deliberations and act in the best interests of the Group as well as the shareholders, each member of the RC shall abstain from voting on any resolutions in respect of his or his associates' remuneration package. No individual Director shall be involved in deciding his own remuneration.

The RC has full authority to engage any independent, external professional advice on matters relating to the remuneration as and when the need arises and expenses of such advice shall be borne by the Company.

LEVEL AND MIX OF REMUNERATION

Principle 8: *The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company, and (b) key management personnel to successfully to manage the company. However, companies should avoid paying more than is necessary for this purpose.*

The Group's remuneration policy is to provide remuneration packages which will reward performance and attract, retain and motivate Directors and key executive officers to run the Group successfully.

In setting the remuneration packages, the RC takes into consideration the salary payment and employment conditions within the same industry and in comparable companies and the performance of the Group and the relevant individual.

The Non-Executive Directors and Independent Directors do not have any service agreements with the Company. They are paid Directors' fees, which are determined by the Board, appropriate to the level of their contribution, taking into account factors such as the responsibilities, effort and time spent for serving the Board and Board Committees.

Directors' fees are tabled annually for shareholders' approval at the Annual General Meeting. Other than directors' fees, the Non-Executive Directors and Independent Directors do not receive any other remuneration from the Company.

Tan Sri Datuk Tiong Su Kouk, the Executive Chairman, Mr. Tiong Chiong Hiiung, the Executive Vice Chairman and Mr. Leong Seng Keat, the Chief Executive Officer are paid based on their respective service agreements with the Group. The service agreements are for an initial period of three years each, with an automatic renewal for a further three years on the same terms and conditions, unless terminated prior to the renewal by either party giving six months' written notice.

The remuneration package of the Executive Directors includes a variable or performance related bonus which is based on the performance of the Company and the relevant individual, and have been designed to align their interests with those of shareholders.

Non-Executive Directors are paid Directors' fees, subject to the approval of shareholders at the AGM. Directors' fees comprise a basic fee, fees in respect of service on Board Committees and attendance fees.

The RC has recommended to the Board a total amount of S\$503,000 as Directors' Fees for FY 2016. This recommendation has been endorsed by the Board and would be tabled at the forthcoming AGM for shareholders' approval. No director was involved in deciding his own remuneration.

DISCLOSURE OF REMUNERATION

Principle 9: Every company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedures for setting remuneration, in the company's Annual Report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key management personnel, and performance.

The remuneration of the Directors (including CEO) is disclosed as follows:

DISCLOSURE ON REMUNERATION OF DIRECTORS (INCLUDING CEO) FOR FY 2016

Remuneration	Salary SGD'000	Director's Fees & Meeting Allowances SGD'000	Variable or Performance Related Income/Bonus and Benefits-In-Kind SGD'000	Total Compensation SGD'000
Directors				
Tan Sri Datuk Tiong Su Kouk	676	55	–	731
Mr. Tiong Chiong Hiiung	576	68	–	644
Mr. Leong Seng Keat, CEO	835	55	–	890
Mr. Ajaib Hari Dass	–	115	–	115
Mr. Yee Kit Hong	–	114	–	114
Mr. Kan Yut Keong, Benjamin	–	96	–	96

The remuneration of the key management personnel (who are not also directors or the CEO) is disclosed as follows in the respective bands:

DISCLOSURE ON REMUNERATION OF KEY MANAGEMENT PERSONNEL FOR FY 2016

Key Management Personnel	Salary %	Variable or Performance Related Income/Bonus and Benefits-In-Kind %	Total Compensation %
S\$250,001 and above			
Tiong Chiong Soon (Joseph)	100	–	100
Kwan Seng Fatt	77	23	100
Pradeep Kumar Datar	81	19	100
Zee le Ming	95	5	100
S\$0 to S\$250,000			
Mark Wai-yan Jason	90	10	100

CORPORATE GOVERNANCE REPORT

The Company has not disclosed the upper limits for the higher remuneration bands, given the confidentiality and commercial sensitivity attached to remuneration matters, as well as the competition for talent in the job market in relation to the skillsets of these personnel in the industry.

For FY 2016, the aggregate total remuneration for the key management personnel (who are not also directors or the CEO) amounted to S\$1,498,591.

The Group adopts a remuneration policy for the CEO, Directors and key management personnel comprising a fixed component and a variable component. The fixed component is in the form of a base salary. The variable component is in the form of a variable allowance, bonus and benefits-in-kind that is linked to the Group and based on each individual's performance.

The RC ensures the remuneration paid to the CEO, Directors, and key executive officers are clearly linked to the achievement of their individual performance targets. The performance targets, as determined by the RC, are meant to motivate a high degree of business performance, yet the remuneration remains at a realistic level. The individual performance targets are aligned to the overall strategic, financial, and operational goals of the Company, ensuring that the Company and its people grow together. The performance targets, while different for each individual, are based on the same criteria. Actual performance is measured against pre-agreed performance targets, which includes financial and non-financial performance indicators and all other actions and performance that supports the Group's long term financial soundness, risk management framework, internal controls to safeguard the shareholders' interests and the Group's assets.

Save for Mr. Tiong Chiong Soon (Joseph) and Leong Juin Zer Jonathan, there are no other employees of the Company who are the immediate family of any Director or the CEO of the Company, whose remuneration exceed S\$50,000 for FY 2016.

For the year under review, the Company did not grant any awards under the Nam Cheong Group 2013 Share Grant Plan.

ACCOUNTABILITY

Principle 10: *The Board should present a balanced and understandable assessment of the company's performance, position and prospects.*

The Board is accountable to shareholders for the management of the Group. The Board updates shareholders on the operations and financial position of the Group through quarterly and full year results announcements in addition to timely announcements of other matters as prescribed by the relevant rules and regulations.

The Board has also taken adequate steps to ensure compliance with regulatory requirements, including requirements under the SGX-ST Listing Manual, by establishing written policies where appropriate.

To ensure the Board fulfils its responsibilities, the Management is accountable to the Board by providing the Board with the necessary updates in relation to the performance of the Group.

The Management provides the Board with information which the Board may require from time to time, in the discharge of its duties, to make a balanced and informed assessment of the Company's performance, position and prospects.

RISK MANAGEMENT AND INTERNAL CONTROLS

Principle 11: *The Board is responsible for the governance of risk. The Board should ensure that the Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.*

The Board acknowledges its responsibility for maintaining a sound system of internal control and risk management practices covering the areas of strategic, financial, operational, and compliance. The Group has set up a Risk Management Committee ("RMC"), led by the Executive Chairman, Tan Sri Datuk Tiong Su Kouk and CEO, Mr. Leong Seng Keat. The RMC reviews regularly the Group's policies and procedures, business and operational activities, to identify areas of significant risks as well as to determine appropriate measures to control and mitigate these risks and subsequently report these findings to the Board and the AC.

The RMC is assisted by an external advisor, Axcelasia Columbus Sdn Bhd (formerly known as Columbus Advisory Sdn Bhd) ("Axcelasia Columbus") to monitor and manage the risks across the Group via an Enterprise Risk Management ("ERM") framework.

Axcelasia Columbus has recommended a risk reporting structure, together with reporting frequency and roles and responsibilities for implementation by the Group. Risk awareness sessions were organised for the staff. Key risks were assessed and risk action plans were developed (via workshops facilitated by Axcelasia Columbus) for the top ten risks of the Group. This ERM framework and risk management activities is reviewed, updated and improved regularly to enhance the Group's capability in risks identification, assessment and management in the light of challenging business environment currently.

The Board acknowledged the recommendations and is committed to continuously implementing a suitable ERM framework for the Group. During the year, follow-up was performed internally on the risk action plans implementation status. Results of the follow-up were reported to the AC. Risk ratings were also re-assessed during the financial year to communicate and reflect the Management's views on the challenges expected ahead based on information and intelligence available.

Separately, in performing the audit of the financial statements of the Group, the external auditors perform test over the operating effectiveness of certain controls that they intend to rely on, that are relevant to the preparation of its financial statements. Material non-compliance and internal control weaknesses and recommendations for improvements are noted in their audit report to the AC. The AC has reviewed the effectiveness of the action taken by Management on the recommendations made by the internal and external auditors in this respect.

The Board has received assurances from the CEO and the Executive Vice Chairman and Finance Director that the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances.

The Board has also received assurance from Axcelasia Columbus, CEO and the Executive Vice Chairman and Finance Director that the Company's risk management and internal control systems are adequate and effective in addressing the material risks in the Group in its current business environment.

Based on the internal controls established and maintained by the Group, work performance by the internal and external auditors, and reviews performed by Management and the Board, the Board, with the concurrence of the AC, are of the opinion that the Group's internal controls, including financial, operational, compliance and information technology controls and risks management systems were adequate and effective as at 31 December 2016.

CORPORATE GOVERNANCE REPORT

The Board will, on a continuing basis, endeavour to further enhance and improve the Group's system of internal controls and risk management policies. However, the Board also notes that no system of internal controls and risk management can provide absolute assurance against the occurrence of material errors, poor judgement in decision making, human error, losses, fraud or other irregularities.

AUDIT COMMITTEE

Principle 12: *The Board should establish an audit committee with written terms of reference, which clearly set out its authority and duties.*

The Audit Committee ("AC") is regulated by a set of written terms of reference, which sets out their duties and responsibilities. The AC comprises the following Non-Executive Directors, the majority of whom, including the Chairman, are Independent Directors. The members of the AC as at the date of this Annual Report are:

Mr. Yee Kit Hong (Chairman)
 Mr. Ajaib Hari Dass
 Mr. Kan Yut Keong, Benjamin

The members of the AC bring with them invaluable experience and professional expertise in the financial, legal, consultancy and administration fields. The Board is of the view that the Chairman and members of the AC are appropriately qualified to discharge their responsibilities. At least two members, including the AC Chairman, have relevant accounting or related financial management expertise or experience, as determined by the Board in its business judgment.

The principal duties of the AC include reviewing:

- (a) the annual audit plan, including the nature and scope of internal and external audits before the commencement of these audits;
- (b) the adequacy and effectiveness of the internal audit function, including the adequacy of internal audit resources and its appropriate standing within the Group;
- (c) the results of internal and external audit findings and the Management's response;
- (d) significant financial reporting issues and judgements so as to ensure the integrity of the audited financial statements of the Company and the consolidated balance sheet and income statement of the Group, including announcements of financial results;
- (e) the independence and objectivity of the external auditors, recommendations to the Board on proposals to shareholders on the appointment and re-appointment of external auditors;
- (f) the adequacy of the Group's risk management process and internal controls, including financial, operational, compliance and information technology controls;
- (g) interested person transactions; and
- (h) the whistle blowing policy.

Apart from the above functions, the AC shall commission and review the findings of internal investigations and review and discuss any matters with the external auditors where there is any suspected fraud or irregularity, failure of internal controls, or infringement of any Singapore law, rule or regulation, which has or is likely to have a material impact on the operating results or the financial position of the Company. The AC will also ensure that the appropriate follow-up actions are taken. In the event that a member of the AC is interested in any matter being considered by the AC, he will abstain from reviewing that particular transaction or voting on that particular resolution.

The AC has explicit authority to investigate any matter within its terms of reference. The AC has full access to, and co-operation of the Management, full discretion to invite any Director or executive officer to attend its meetings and reasonable resources to enable it to discharge its function. It has also set in place arrangements to ensure independent investigation of matters such as improprieties in financial reporting.

Annually, the AC meets with the internal auditors and the external auditors without the presence of the Management.

The AC conducts an annual review of the independence of the external auditors.

For FY 2016, the AC has reviewed and is satisfied with the external auditor's independence and objectivity. The AC has made recommendations to the Board on the appointment and re-appointment of the external auditors including the remuneration and terms of engagement. The AC, with the concurrence of the Board, has recommended the re-appointment of BDO LLP as auditors at the forthcoming AGM of the Company.

The Group has complied with the requirements of Rules 712, 715 and 716 of the SGX-ST Listing Manual.

The Group has put in place a whistle-blowing policy, endorsed by the AC where employees of the Group and any other persons may, in confidence, raise concerns about possible corporate improprieties in matters of financial reporting or other matters and to ensure that arrangements are in place for the independent investigations of such matters and for appropriate follow up actions.

For FY2016, the AC had:

- (a) held 4 meetings during the year, which were attended by the Executive Vice Chairman and Finance Director, General Manager, internal auditors, external auditors and other members of the Management and Board at the invitation of the AC;
- (b) reviewed the internal and external audit plans, including the nature and scope of work before commencement of these audits;
- (c) met up with the internal and external auditors on an annual basis without the presence of the Management, to discuss their findings as set out in their respective reports to the AC. Both internal and external auditors confirmed that they have received full co-operation of the Management and no restrictions were placed on the scope of audits;
- (d) reviewed and approved the consolidated statement of comprehensive income, statements of financial position, statement of changes in equity, consolidated cash flows and auditors' reports;

CORPORATE GOVERNANCE REPORT

- (e) reviewed all services provided by external auditors given that the aggregate amount of audit fees paid to the external auditors FY 2016 was RM625,592. No non-audit fees were paid to the external auditors for FY 2016. The external auditors also confirmed their independence in their report to the AC;
- (f) reviewed the Group's Risk Profiles and related documents presented by the Risk Management Committee on a semi-annual basis;
- (g) reviewed arrangements by which employees of the Group may, in confidence, raise concerns about possible improprieties relating to accounting and financial controls as well as any other matters pursuant to the Whistle Blowing Policy. The Whistle Blowing Policy extends to "any other persons" in addition to all employees of the Group in line with the Code. There were no reports of whistle blowing received during FY 2016; and
- (h) reviewed the interested person transactions pursuant to Chapter 9 of the SGX-ST Listing Manual as set out in this Report.

INTERNAL AUDIT

Principle 13: *The Company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits.*

The Group has outsourced its internal audit functions to an independent advisory firm, Axcelasia Columbus to conduct a full review of the Group's internal control and risk management system. Axcelasia Columbus is a wholly-owned subsidiary of Axcelasia Inc., a company incorporated in Malaysia and listed on the Singapore Stock Exchange.

Axcelasia Columbus carries out their functions under the direction of the AC and reports their findings and makes recommendations to the AC and administratively to the CEO. The reports of Axcelasia Columbus 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.

Axcelasia Columbus has full 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 AC is satisfied that the Group's internal audit function is adequately resourced and qualified and has appropriate standing within the Group.

SHAREHOLDER RIGHTS AND COMMUNICATION WITH SHAREHOLDERS

Principle 14: *Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangement.*

Principle 15: *Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.*

Nam Cheong is committed to maintaining and improving its level of corporate transparency of financial results and other pertinent information. Other than the routine announcements made via SGXNET in accordance with the requirements of the SGX-ST Listing Manual, the Group has issued additional announcements and press releases to update shareholders on the activities of Nam Cheong so as to ensure that all shareholders have access to material information at the same time. In addition, shareholders can access our website at www.namcheong.com.my, for more information of the Group including the corporate profile and financial information of the Company, research house reports, stock information, announcements, press releases, and other information about the Company. The Group provides descriptive and detailed disclosure whenever possible and avoids boilerplate disclosure.

The Group does not practise selective disclosure. Price-sensitive information is first publicly released before the Group meets with any group of investors or analysts. Results and annual reports are announced or issued within the mandatory period (and where this is not possible, relevant extensions of time are sought in accordance with applicable laws, regulations and rules). Subsequent to the release of the results, investor relations personnel are available by e-mail or telephone to answer questions from shareholders and the media as long as the information requested does not conflict with SGX-ST's rules of fair disclosure.

Shareholders have the opportunity to participate effectively in and vote at general meetings of shareholders and they are informed of the rules, including voting procedures, which govern general meetings of shareholders.

Notices of general meetings are dispatched to shareholders and published in the newspaper, together with the annual report or circulars within the time notice period prescribed by the regulations. All registered shareholders are invited to participate in general meetings. If they do not wish to attend in person, they can issue instructions to accept or reject each individual item on the meeting agenda by giving instructions to their proxy. The Bye-Laws of the Company allow a shareholder to appoint one or two proxies to attend and vote on behalf of the shareholder. The Bye-Laws of the Company currently do not allow a shareholder to vote in absentia. Shareholders who hold shares through nominees are allowed, upon prior request through their nominees, to attend the general meetings of shareholders as observers without being constrained by the two-proxy rule.

At general meetings, shareholders are given opportunity to air their views and ask the Directors or the Management questions regarding the Group.

The Company does not have a formal dividend policy. The Board considers the Company's capital structure, cash requirements and future plans in deciding whether to declare dividends or not.

The Company has not declared and paid any dividends for FY 2016 due to volatile market conditions.

CORPORATE GOVERNANCE REPORT

CONDUCT OF SHAREHOLDER MEETINGS

Principle 16: *Companies should encourage greater shareholder participation at general meetings of shareholders, and allow its shareholders the opportunity to communicate their views on various matters affecting the company.*

The Company encourages its shareholders' participation at general meetings and ensures that the venue for general meetings is in a central location easily accessed by public transportation.

General meetings are the principal forum for dialogue with its shareholders. The Group encourages its shareholders to participate at general meetings to ensure a high level of accountability and to be kept informed of the Group's strategies and goals.

Shareholders have the opportunity to participate effectively and to vote in general meetings either in person or by proxy. Resolutions on each distinct issue are tabled separately at general meetings.

In general meetings, shareholders are given the opportunity to communicate their views and direct questions to Directors and Senior Management. All Directors, including the respective Chairman of the AC, NC, RMC and RC are present at general meetings to address shareholders' queries. External auditors also attend the Annual General Meeting to address any queries from the shareholders regarding the conduct of audit and the preparation and content of the auditors' report.

The Company prepares minutes of general meetings that include substantial and relevant comments or queries from shareholders relating to the agenda of the meeting and record responses from the Board and the Management. These minutes are made available to shareholders during office hours upon their request.

Since August 2015, for greater transparency, the Company has put all resolutions to vote by way of poll for general meetings. An announcement containing the detailed results of the number of votes cast for, and against, each resolution and the respective percentages will be made on the same day.

DEALING IN SECURITIES

The Company has adopted an internal policy, which is in line with Rule 1207(19) of the SGX-ST Listing Manual, with respect to dealings in securities of the Company.

The Company and its officers are prohibited from dealing in the securities of the Company at least two weeks before the announcement of the Company's financial results for each of the first three quarters of its financial year, and one month before the announcement of the Company's full year financial results, and ending on the date of the announcement of the relevant results or when they are in possession of any unpublished price sensitive information of the Group. In compliance with Rule 1207(19) of the SGX-ST Listing Manual, quarterly reminders of the restrictions in dealing in the securities of the Company are issued to all Directors and officers of the Company.

In addition, Directors and officers are reminded not to deal with the Company's securities for a short term considerations and are expected to observe the insider trading laws at all times even when dealing in securities within the permitted trading period.

The Directors and the officers are required to notify their dealings in the Company's shares within two business days of the transaction.

The Company has complied with Rule 1207(19) of the SGX-ST Listing Manual.

INTERESTED PERSON TRANSACTIONS

The Company has adopted an internal policy in respect of any transaction with interested persons and has set out the procedures for review and approval of any interested person transactions.

All interested person transactions are subject to review by the AC to ensure that such transactions are carried out on normal commercial terms or entered into on an arm's length basis and are not prejudicial to the interests of the Group and its minority shareholders.

For FY 2016, the Group has carried out interested person transactions with the following company/persons:

Name of Interested Person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S\$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S\$100,000)
Top Line Works (2008) Sdn Bhd ⁽¹⁾	S\$190,206	Not applicable

Note:

- (1) Mr. Tiong Chiong Soon, a key executive of the Company and the son of Tan Sri Datuk Tiong Su Kouk the Executive Chairman, holds shares representing more than 30% of the issued share capital in Top Line Works (2008) Sdn Bhd ("TOP"). During the period under review, Nam Cheong Dockyard Sdn Bhd, a wholly-owned subsidiary of the Company, purchased shipbuilding materials from TOP in the amount of S\$190,206.

The Group does not have a general mandate for recurrent interested person transactions.

MATERIAL CONTRACTS

Save as disclosed in the Report of the Directors and Financial Statements, the service agreements between the Executive Directors and the Company, and above, there were no material contracts (including loans) of the Company or its subsidiaries involving the interests of the CEO, any directors or controlling shareholders which are either still subsisting as at the end of FY 2016 or if not then subsisting, entered into since the end of the previous financial year.

CORPORATE SOCIAL RESPONSIBILITY



As part of our review to conserving and preserving the surrounding environment, we have made sustainable environmental development an integral part of our corporate social responsibility programme. Nam Cheong also recognises the importance of giving back to society and participated in initiatives that care for underprivileged children and marginalised members of the community.

We have adopted the following:

“Clean Class/Clean Design” vessels: Our team is constantly working with renowned ship design firms to tap into their expertise in the design of sophisticated offshore support vessels. These vessels are of high specifications and are classed as clean class/clean design, being more environmentally-friendly than older designs.

This is in tandem with current industry trends veering toward vessels with improved designs of stability capabilities, safety and increased environmental-friendliness.

“Compliance with Best Operating Standards”: Being a provider of vessels for the oil and gas industry, we have organised and well-defined operating standards that are aligned with the best practices of industry standards in terms of health, safety, resource management and environmental impact. We are committed to ensuring compliance and our personnel’s familiarisation with the operating standards.

“Community Initiatives”: Nam Cheong has directly and indirectly contributed to society via the creation of employment and business opportunities to Malaysians and Singaporeans. In addition, the Group actively supports government agencies, such as the marine department in its community programmes and participates in other social and cultural welfare for local communities.

We funded the Dignity for Children’s Foundation which provides disadvantaged children with quality education and empowers them to break out of the poverty cycle. Established in 1998, it currently has more than 900 students.

Furthermore, Nam Cheong (through Tan Sri Datuk Tiong, the Executive Chairman) has been actively involved in various clan associations and business chambers. In addition to his contributions such as the sponsoring of school developments, scholarship programmes and other initiatives that aim to bridge gaps in the community, Tan Sri Datuk Tiong also sits on various school boards. He is the honorary life President of the World Federation of Fuzhou Association and is the honorary life Chairman of the Federation of Foochow Association of Malaysia. Malaysia and the state of Sarawak have conferred on him various dignitary titles for his contributions to the society throughout the years. He was conferred the Panglima Setia Mahkota (P.S.M.) which carries the title “TAN SRI” by Seri Paduka Baginda Yang di-Pertuan Agong XIV, Almu’tasimu Billahi Muhibbuddin Tuanku Alhaj Abdul Halim Mu’adzam Shah Ibni Almarhum Sultan Badlishah on the occasion of His Excellency’s 88th Birthday on 4th June 2016.

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DIRECTORS' STATEMENT

The Directors of Nam Cheong Limited (the "Company") present their statement to the members together with the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the financial year ended 31 December 2016 and the statement of financial position of the Company as at 31 December 2016.

1. Opinion of the Directors

In the opinion of the Board of Directors,

- (a) the consolidated financial statements of the Group and the statement of financial position of the Company together with notes thereon are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016, and the financial performance, changes in equity and cash flows of the Group for the financial year then ended; and
- (b) at the date of this statement, after considering the matters as described in Note 4 to the financial statements with respect to the Group's and the Company's ability to continue as going concerns, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due if the plans can be successfully implemented.

2. Directors

The Directors of the Company in office at the date of this statement are as follows:

Tan Sri Datuk Tiong Su Kouk	Executive Chairman
Tiong Chiong Hiiung	Executive Vice Chairman
Leong Seng Keat	Chief Executive Officer
Ajaib Hari Dass	Lead Independent Director
Yee Kit Hong	Independent Director
Kan Yut Keong, Benjamin	Independent Director

In accordance with Bye-Law 86(1) of the Company's Bye-Laws, Messrs Yee Kit Hong and Kan Yut Keong, Benjamin retire and being eligible, offers themselves for re-election.

3. Arrangements to enable Directors to acquire shares and debentures

Except as disclosed under the "Share Plans" section of this statement, neither at the end of, nor at any time during the financial year, was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

4. Directors' interests in shares and debentures

The following Directors, who held office at the end of the financial year, had interests in shares in the Company (other than wholly-owned subsidiaries) as stated below:

	Number of ordinary shares of HK0.50 each						
	Direct interest			Deemed interest			
	At the beginning of the financial year	At the end of the financial year	At 21 January 2017	At the beginning of the financial year	At the end of the financial year	At 21 January 2017	At 2017
Ordinary shares of the Company							
Tan Sri Datuk Tiong Su Kouk	104,936,517	104,936,517	104,936,517	969,768,115	969,768,115	969,768,115	
Tiong Chiong Hiiung	14,259,240	14,259,240	14,259,240	9,629,881	9,629,881	9,629,881	
Leong Seng Keat	15,833,890	15,833,890	15,833,890	80,871,087	81,815,987	81,815,987	

DIRECTORS' STATEMENT

4. Directors' interests in shares and debentures (Continued)

Except as disclosed in this statement, no Director of the Company who held office at the end of the financial year had interests in shares, share options, warrants or debentures of the Company, or of related corporations, either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year.

5. Share plans

Pursuant to a resolution passed in the special general meeting on 29 April 2013, the Nam Cheong Group 2013 Share Grant Plan ("2013 Plan") was established.

The 2013 Plan is administered by the Remuneration Committee. The committee members are duly authorised and appointed by the Board of Directors. The members of the Remuneration Committee as at the date of the statement are Mr Ajaib Hari Dass, Mr Yee Kit Hong and Mr Kan Yut Keong, Benjamin.

The salient features of the 2013 Plan is as follows:

- The 2013 Plan is a share incentive plan.
- The 2013 Plan is proposed on the basis that it is important to retain key employees whose contributions are essential to the Company's long-term growth and profitability.
- The 2013 Plan will give Participants an opportunity to have a personal equity interest in the Company and will help to achieve better and long-term performance.

The purpose of adopting the 2013 Plan is to align the interests of Directors, employee, especially key executives, with the interests of Shareholders.

(i) Eligibility

The eligible of Group Participants to participate in the 2013 Plan shall be at the absolute discretion of the Committee, which would be exercised judiciously. In addition, such person must:

- (a) be confirmed full-time employees of the Group who have attained the age of 21 years on or before the Grant Date; and
- (b) Directors of any member of the Group who perform an executive function.

For the avoidance of doubt, persons who are Controlling Shareholders and their Associates shall not be eligible to participate in the 2013 Plan.

There shall be no restriction on the eligibility of any Participant to participate in any other share option schemes or share award schemes implemented or to be implemented by the Group Companies.

(ii) Grant of Awards

Awards may be granted at any time during the period when the 2013 Plan is in force. The selection of a Participant and the quantum of the Award shall be determined at the absolute discretion of the Committee. Awards shall be time-based and/or performance-based and released in tranches over such number of years as may be determined by the Committee in its absolute discretion.

Awards are personal to the selected Participant and shall not be transferred, assigned, charged, pledged or otherwise disposed of, in whole or in part, unless with the approval of the Committee.

Awards are granted to the Participants in consideration for their performance and contribution to the Company.

DIRECTORS' STATEMENT

5. Share plans (Continued)

(iii) Size and duration

The 2013 Plan shall continue in force at the discretion of the Committee, subject to a maximum period of ten years commencing on the date on which the 2013 Plan is adopted by the Company in general meeting, provided always that the 2013 Plan may continue beyond the above stipulated period with the approval of the Shareholders by ordinary resolution in general meeting and of any relevant authorities which may then be required.

The 2013 Plan may be terminated at any time by the Committee or by resolution of the Company in general meeting, subject to all relevant approvals which may be required, and if the 2013 Plan is terminated, no further grants of Shares shall be made by the Company.

Notwithstanding the expiry or termination of the 2013 Plan, any Awards which have been granted in accordance with the 2013 Plan will continue to remain valid.

The total number of Shares (and cash equivalents) to be issued and/or transferred under the 2013 Plan and any other share-based incentive schemes of the Company will be subject to a maximum limit of 10 per cent (10%) of the Company's total issued Shares (excluding treasury shares) from time to time. Such limit will be subject to a further annual grant sub-limit of 1 per cent (1%) per annum on a cumulative basis. Any unutilised per centum of the annual grant sub-limits shall be available for roll-over and aggregated with the applicable annual grant sub-limits for the subsequent years.

(iv) Events prior to vesting

An Award, to the extent not yet released, shall forthwith become void and cease to have effect on the occurrence of any of the following events:

- (a) a Participant, ceasing for any reason whatsoever (including but not limited to retirement, redundancy, ill health, injury, disability or death), to be in the employment of the Group or in the event the Company by which the Participant is employed ceases to be a company in the Group;
- (b) upon the bankruptcy of the Participant or the happening of any other event which results in him being deprived of the legal or beneficial ownership of or interest in such Award;
- (c) a Participant commits any breach of any of the terms of his Award;
- (d) misconduct on the part of a Participant as determined by the Committee in its discretion; and/or
- (e) a take-over, winding-up or reconstruction of the Company.

In the previous financial years, the conditional shares awarded under the 2013 Plan to the selected management staff were fully released in 2015. The detail of the share awarded were disclosed in Note 28 to the financial statements.

DIRECTORS' STATEMENT

6. Audit committee

The audit committee of the Company is chaired by Yee Kit Hong, and includes Ajaib Hari Dass and Kan Yut Keong, Benjamin, who are independent directors. The audit committee has met four times since the last Annual General Meeting (AGM) and has carried out its functions in accordance with the Singapore Listing Manual and the Code of Corporate Governance, including reviewing the following, where relevant, with the executive Directors and external and internal auditors of the Company:

- (a) the audit plans of the internal and external auditors and the results of the auditors' examination and evaluation of the Group's systems of internal accounting controls;
- (b) the Company's and the Group's financial and operating results and accounting policies;
- (c) the statement of financial position of the Company and the consolidated financial statements of the Group and external auditor's report on those financial statements before their submission to the Directors of the Company;
- (d) the quarterly, half-yearly and annual announcements as well as the related press releases on the results and financial position of the Company and the Group;
- (e) the co-operation and assistance given by the management to the Company's internal and external auditor;
- (f) the re-appointment of the external auditor of the Company;
- (g) the adequacy of the Group's risk management process and internal controls, including financial, operational, compliance and information technology controls;
- (h) interested person transactions; and
- (i) the whistle blowing policy.

The audit committee has full access to and has the co-operation of the management and has been given the resources required for it to discharge its function properly. It also has full discretion to invite any Director and executive officer to attend its meetings. The external and internal auditors have unrestricted access to the audit committee.

The audit committee has recommended to the Board of Directors the nomination of BDO LLP for re-appointment as external auditor of the Company at the forthcoming Annual General Meeting of the Company.

DIRECTORS' STATEMENT

7. Independent auditors

The independent auditors, BDO LLP, have expressed their willingness to accept re-appointment.

On behalf of the Board of Directors

Tan Sri Datuk Tiong Su Kouk
Director

Leong Seng Keat
Director

Singapore
17 March 2017

INDEPENDENT AUDITOR'S REPORT

To the members of Nam Cheong Limited

Opinion

We have audited the financial statements of Nam Cheong Limited (the "Company") and its subsidiaries (the "Group") as set out on page 59 to 145, which comprise:

- the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2016;
- the consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows of the Group for the financial year then ended; and
- notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the International Financial Reporting Standards ("IFRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2016, and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year then ended.

Basis for Opinion

We conducted our audit in accordance with International Standards of Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 4 in the financial statements, which indicates that for the financial year ended 31 December 2016, the Group experienced a significant decrease in revenue and incurred a net loss of approximately RM42,771,000. As at 31 December 2016, the Group's loans and borrowings that were classified as current amounted to RM948,720,000 of which RM278,566,000 pertained to medium term notes that are due for repayment on 28 August 2017. These amounts exceeded the Group's cash and cash equivalents of RM162,618,000 as at 31 December 2016. As stated in Note 4, these events or conditions, along with other matters as set forth in the note, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

INDEPENDENT AUDITOR'S REPORT

To the members of Nam Cheong Limited

KEY AUDIT MATTER	AUDIT RESPONSE
<p>1 Shipbuilding construction and amount due from contract customers</p> <p>The Group's core business is construction of offshore support vessels ("OSV") that are used in the offshore oil and gas exploration and production and oilfield services industries, and involves fixed price contracts. The Group's customers consist primarily of ship owners and marine services operators that provide support or operate in the offshore oil and gas industry in overseas countries.</p> <p>During the financial year ended 31 December 2016, construction contract revenue of approximately RM146,414,000 and contract costs of approximately RM118,366,000 are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period.</p> <p>The sustained low oil prices have generally affected the oil and gas market and resulted in a significant decline in operating activities. In line with the market performance and coupled with customers' requests, the Group has deferred the delivery schedule of their vessels, deferred the issuance of progress billings to contract customers and two contracts were terminated during the financial year. In assessing the recoverability of the amount due from contract customers, management take into consideration the contract customers' profiles, historical payment records and other related information.</p> <p>We focused on this area as a key audit matter due to the significant judgement and estimation made by management in relation to the outcome and stage of completion of the construction contracts and in assessing whether the amount due from contract customers is recoverable from contract customers.</p>	<p>We performed the following audit procedures, amongst others:</p> <p>We selected significant construction contracts and reviewed them to obtain an understanding of the key terms of the contracts. We assessed the recording of revenue for these contracts by testing and evaluation of design and implementation of the Group's internal controls over this area. For the selected contracts, we tested the recording of costs incurred to verify that the costs were properly allocated to their respective contracts and that these costs were directly attributable costs supported by suppliers invoices and other documentation.</p> <p>We have recalculated management's computation of the percentage of completion for revenue recognition as at the end of the reporting period. A comparison of the recognition of the accounting percentage of completion was made against the progress billings raised and/or physical percentage of work completed as certified by surveyors on a sample basis.</p> <p>We evaluated management's budgets and assessments based on historical accuracy of past estimates in respect of the probable outcome of the construction projects and discussed with management on potential significant costs overruns which may result in foreseeable losses.</p>
<p>Refer to Notes 3.2 (iv), 5 and 23 of the accompanying financial statements.</p>	<p>In relation to the amount due from contract customers, we challenged management's assessment of credit risk and reviewed contract customers' profiles including their transaction history of repayment patterns.</p>

INDEPENDENT AUDITOR'S REPORT

To the members of Nam Cheong Limited

KEY AUDIT MATTER	AUDIT RESPONSE
<p data-bbox="264 405 1185 432">2 Impairment of non-financial assets and net realisable value of inventories</p> <p data-bbox="237 432 847 539">The outlook for oil prices is highly unstable and this challenging macro volatility has affected the performance of those related energy and marine sector companies.</p> <p data-bbox="237 566 847 884">A significant decline in operating profit, utilisation rate of vessels held by the Group and the carrying amount of the Group's net assets which is greater than its market capitalisation has led the management to exercise their judgement to assess the recoverability of the Group's investment in an associated company of approximately RM74,840,000 and chartering vessels of approximately RM377,944,000 included in property, plant and equipment ("chartering vessels") and unsold vessels included in inventories of approximately RM2,372,813,000 ("unsold vessels") as at 31 December 2016.</p> <p data-bbox="237 911 847 1099">Management assessed the recoverable amount of investment in an associated company and chartering vessels by using value in use ("VIU"). In preparing VIU calculations, management have estimated utilisation rate and profit margin for the cash-generating units as well as a suitable discount rate to apply to the projected cash flows.</p> <p data-bbox="237 1126 847 1234">The net realisable value of the Group's unsold vessels included in inventories were assessed by management with reference to the latest transacted or indicative selling price of similar vessels.</p> <p data-bbox="237 1261 847 1368">We focused on this area a key audit matter due to the significant judgements and estimates made by management in determining the appropriate carrying amounts of the above assets.</p>	<p data-bbox="904 432 1334 488">We performed the following audit procedures, amongst others:</p> <p data-bbox="904 515 1334 645">We evaluated management's assessment and discussed with management the basis of assumptions made and relevance of the input data provided.</p> <p data-bbox="904 672 1334 779">We challenged the reasonableness of the key assumptions made by the management, including the discount rate, used in the cash flow projections.</p> <p data-bbox="904 806 1334 936">We performed sensitivity analysis on key assumptions used to stress test the cash flow projections and considered the potential impact of the downside changes.</p> <p data-bbox="904 963 1334 1070">We reviewed the supporting information in relation to management's assessment of net realisable value of unsold vessels.</p>
<p data-bbox="237 1420 847 1471">Refer to Notes 3, 12, 17 and 20 of the accompanying financial statements.</p>	

INDEPENDENT AUDITOR'S REPORT

To the members of Nam Cheong Limited

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 IFRSs, and for such internal control as management determine 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 director's responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

INDEPENDENT AUDITOR'S REPORT

To the members of Nam Cheong Limited

Auditor's Responsibilities for the Audit of the Financial Statements

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is
Leong Hon Mun Peter

BDO LLP
Public Accountants and
Chartered Accountants
Singapore
17 March 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2016

	Note	2016 RM'000	2015 RM'000
Revenue	5	170,424	950,030
Cost of sales	6	(161,971)	(800,027)
Gross profit		8,453	150,003
Other income	7	106,065	18,093
Selling and administrative expenses		(42,824)	(58,383)
Other operating expenses	9	(91,175)	(29,303)
(Loss)/Profit from operations		(19,481)	80,410
Finance costs	8	(15,463)	(24,216)
Share of results of equity accounted joint ventures, net of tax		6,593	6,633
Share of results of equity accounted associate, net of tax		(14,271)	(31,873)
(Loss)/Profit before income tax	9	(42,622)	30,954
Income tax expense	10	(149)	(3,029)
(Loss)/Profit for the financial year		(42,771)	27,925
Other comprehensive income			
<i>Items that will or may be reclassified subsequently to profit or loss</i>			
Exchange differences on translating foreign operations		27,071	184,936
Changes to cash flow hedge reserves	28	6,617	31,428
Income tax relating to items that may be reclassified		-	-
Other comprehensive income for the financial year, net of tax		33,688	216,364
Total comprehensive (loss)/income for the financial year		(9,083)	244,289
(Loss)/Profit attributable to:			
Owners of the parent		(42,014)	28,516
Non-controlling interests		(757)	(591)
		(42,771)	27,925
Total comprehensive (loss)/income attributable to:			
Owners of the parent		(8,326)	244,880
Non-controlling interests		(757)	(591)
		(9,083)	244,289
Earnings per share			
Basic (in sen)	11	(2.00)	1.36
Diluted (in sen)	11	(2.00)	1.36

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2016

	Note	Group		Company	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
ASSETS					
Non-current assets					
Property, plant and equipment	12	428,497	449,881	-	-
Prepaid land lease payments	13	7,403	7,673	-	-
Investment properties	14	92,784	92,241	-	-
Investments in subsidiaries	15	-	-	2,307,317	1,079,188
Investments in joint ventures	16	10,957	8,624	-	-
Investment in an associate	17	74,840	88,281	-	-
Held-to-maturity financial assets	18	-	110,102	-	-
Available-for-sale financial assets	19	30,442	-	-	-
		<u>644,923</u>	<u>756,802</u>	<u>2,307,317</u>	<u>1,079,188</u>
Current assets					
Held-to-maturity financial assets	18	-	16,924	-	-
Available-for-sale financial assets	19	4,716	-	-	-
Inventories	20	2,398,304	1,827,799	-	-
Trade and other receivables	21	128,012	105,656	100,576	1,198,273
Prepayments	22	156,785	214,033	7	244
Current income tax recoverable		1,674	744	-	-
Due from customers on contracts	23	462,398	522,734	-	-
Derivatives	24	-	151	-	-
Cash and cash equivalents	25	301,493	506,060	61,511	131,483
		<u>3,453,382</u>	<u>3,194,101</u>	<u>162,094</u>	<u>1,330,000</u>
Total assets		<u>4,098,305</u>	<u>3,950,903</u>	<u>2,469,411</u>	<u>2,409,188</u>
EQUITY AND LIABILITIES					
Equity					
Share capital	26	405,962	405,962	405,962	405,962
Share premium	26	82,347	82,347	82,347	82,347
Treasury shares	27	(4,097)	(4,097)	(4,097)	(4,097)
Reserves	28	327,787	294,099	778,608	778,608
Retained earnings	28	556,814	598,828	58,413	19,855
Equity attributable to owners of the parent		<u>1,368,813</u>	<u>1,377,139</u>	<u>1,321,233</u>	<u>1,282,675</u>
Non-controlling interests		<u>(780)</u>	<u>(23)</u>	<u>-</u>	<u>-</u>
Total equity		<u>1,368,033</u>	<u>1,377,116</u>	<u>1,321,233</u>	<u>1,282,675</u>

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2016

	Note	Group		Company	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Liabilities					
Non-current liabilities					
Loans and borrowings	29	874,781	1,181,227	847,228	1,105,256
Deferred tax liabilities	30	1,480	1,478	-	-
Trade and other payables	31	2,637	2,692	-	-
		<u>878,898</u>	<u>1,185,397</u>	<u>847,228</u>	<u>1,105,256</u>
Current liabilities					
Due to customers on contracts	23	3,791	16,968	-	-
Derivatives	24	-	9,146	-	-
Loans and borrowings	29	948,720	627,980	294,457	18,690
Trade and other payables	31	898,663	734,096	6,493	2,567
Provisions	32	200	200	-	-
		<u>1,851,374</u>	<u>1,388,390</u>	<u>300,950</u>	<u>21,257</u>
Total liabilities		<u>2,730,272</u>	<u>2,573,787</u>	<u>1,148,178</u>	<u>1,126,513</u>
Total equity and liabilities		<u>4,098,305</u>	<u>3,950,903</u>	<u>2,469,411</u>	<u>2,409,188</u>

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2016

	Share capital (Note 26) RM'000	Share premium (Note 26) RM'000	Treasury shares (Note 27) RM'000	Foreign currency translation reserve (Note 28) RM'000	Cash flow hedge reserve (Note 28) RM'000	Share grant reserve (Note 28) RM'000	Retained earnings (Note 28) RM'000	Equity attributable to owners of the parent RM'000	Non-controlling interests RM'000	Total equity RM'000
At 1 January 2016	4,05,962	82,347	(4,097)	300,716	(6,617)	-	598,828	1,377,139	(23)	1,377,116
Loss for the financial year	-	-	-	-	-	-	(42,014)	(42,014)	(757)	(42,771)
Other comprehensive income for the financial year										
Exchange differences on translating foreign operations	-	-	-	27,071	-	-	-	27,071	-	27,071
Reclassification during the financial year	-	-	-	-	6,617	-	-	6,617	-	6,617
Total other comprehensive income for the financial year, net of tax	-	-	-	27,071	6,617	-	-	33,688	-	33,688
At 31 December 2016	4,05,962	82,347	(4,097)	327,787	-	-	556,814	1,368,813	(780)	1,368,033

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2016

	Share capital (Note 26) RM'000	Share premium (Note 26) RM'000	Treasury shares (Note 27) RM'000	Foreign currency translation reserve (Note 28) RM'000	Cash flow hedge reserve (Note 28) RM'000	Share grant reserve (Note 28) RM'000	Retained earnings (Note 28) RM'000	Equity attributable to owners of the parent RM'000	Non-controlling interests RM'000	Total equity RM'000
At 1 January 2015	405,962	82,347	(7,090)	115,780	(38,045)	2,825	656,985	1,218,764	568	1,219,332
Profit for the financial year	-	-	-	-	-	-	28,516	28,516	(591)	27,925
Other comprehensive income for the financial year										
Exchange differences on translating foreign operations	-	-	-	184,936	-	-	-	184,936	-	184,936
Reclassification during the financial year	-	-	-	-	103,124	-	-	103,124	-	103,124
Net unrealised loss on cash flow hedges	-	-	-	-	(71,696)	-	-	(71,696)	-	(71,696)
Total other comprehensive income for the financial year, net of tax	-	-	-	184,936	31,428	-	-	216,364	-	216,364
Total comprehensive income for the financial year	-	-	-	184,936	31,428	-	28,516	244,880	(591)	244,289
Contributions by and distributions to owners										
Dividends (Note 37)	-	-	-	-	-	-	(84,896)	(84,896)	-	(84,896)
Total transactions with owners	-	-	-	-	-	-	(84,896)	(84,896)	-	(84,896)
Others										
Issue of share grant	-	-	-	-	-	683	-	683	-	683
Treasury shares re-issued for share awards vested	-	-	5,285	-	-	(3,508)	(1,777)	-	-	-
Purchase of treasury shares	-	-	(2,292)	-	-	-	-	(2,292)	-	(2,292)
Total others	-	-	2,993	-	-	(2,825)	(1,777)	(1,609)	-	(1,609)
At 31 December 2015	405,962	82,347	(4,097)	300,716	(6,617)	-	598,828	1,377,139	(23)	1,377,116

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2016

	Note	2016 RM'000	2015 RM'000
Operating activities			
(Loss)/Profit before income tax		(42,622)	30,954
Adjustments for:			
Interest income		(4,979)	(6,321)
Interest expense		15,463	24,216
Unrealised (gain)/loss on foreign exchange, net		(42,751)	43,703
Net fair value gain on derivatives		(2,378)	-
Ineffectiveness on forward currency contracts designated as cash flow hedges		-	(7,302)
Amortisation of prepaid land lease payments		108	108
Depreciation of property, plant and equipment		20,888	20,498
Depreciation of investment properties		1,298	1,195
Loss/(Gain) on disposal of property, plant and equipment		3,264	(64)
Property, plant and equipment written off		-	18
Impairment of trade and other receivables		1,196	1,702
Share of post-tax results of equity accounted joint ventures		(6,593)	(6,633)
Share of post-tax results of equity accounted associate		14,271	31,873
Share grant plan expenses		-	683
Other receivables written off		15	-
Prepayments written off		19,929	-
Loss on disposal of available-for-sale financial assets		2,713	-
Impairment on investment in an associate		3,445	-
Impairment of property, plant and equipment		3,554	-
Allowance for trade receivables written back		(1,635)	-
Inventories written down		59,772	-
Total adjustments		87,580	103,676
Operating cash flows before working capital changes		44,958	134,630
Changes in working capital:			
Increase in inventories		(305,236)	(637,022)
(Increase)/Decrease in receivables		(15,475)	84,100
Decrease/(Increase) in prepayments		43,895	(30,145)
(Increase)/Decrease in amount due from customers on contracts		(83,206)	46,894
Increase/(Decrease) in payables		129,688	(51,357)
Decrease in amount due to customers on contracts		(13,639)	(23,698)
Total changes in working capital		(243,973)	(611,228)
Cash flows used in operations		(199,015)	(476,598)
Interest paid		(90,898)	(72,545)
Taxes paid, net of refund		(1,079)	1,255
Net cash flows used in operating activities		(290,992)	(547,888)

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2016

	Note	2016 RM'000	2015 RM'000
Investing activities			
Acquisition of property, plant and equipment		(87)	(33,985)
Interest received		4,979	6,321
Proceeds from maturity of held-to-maturity financial assets		15,914	10,716
Proceeds from disposal of available-for-sale financial assets		79,130	-
Proceeds from disposal of property, plant and equipment		5,050	85
Net cash flows from/(used in) investing activities		<u>104,986</u>	<u>(16,863)</u>
Financing activities			
Dividends paid		-	(84,896)
Proceeds from revolving credit		316,840	534,068
Proceeds from trust receipt		5,633	18,523
Proceeds from term loans		45,533	122,516
Proceeds from project invoice financing		23,047	75,955
Proceeds from issuance of medium term notes, net of transaction costs		-	210,241
Purchase of treasury shares		-	(2,292)
Repayments of revolving credit		(315,695)	(260,301)
Repayments from trust receipt		(2,950)	(15,573)
Repayments of term loans		(97,689)	(22,293)
Repayments of project invoice financing		(17,227)	(63,588)
Repayments of medium term notes		-	(275,077)
Increase in fixed deposits pledged		(59,048)	(63,871)
Net cash flows (used in)/from financing activities		<u>(101,556)</u>	<u>173,412</u>
Net decrease in cash and cash equivalents		(287,562)	(391,339)
Effects of exchange rate changes on cash and cash equivalents		8,189	33,430
Cash and cash equivalents at beginning of financial year		<u>441,991</u>	<u>799,900</u>
Cash and cash equivalents at end of financial year	25	<u>162,618</u>	<u>441,991</u>

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

These notes form an integrated part of and should be read in conjunction with the financial statements.

1. General corporate information

Nam Cheong Limited ("the Company") was incorporated as an exempted company with limited liability and domiciled in Bermuda and is listed on the Main Board of the Singapore Exchange Securities Trading Limited ("SGX-ST"). The registered office address is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the principle place of business is 146B, Paya Lebar Road #02-01 Ace Building, Singapore 409017.

The principal activity of the Company is that of an investment holding company. The principal activities of the subsidiaries are disclosed in Note 15 to the financial statements.

The statement of financial position of Company and the consolidated financial statements of the Company and its subsidiaries (the "Group") for the financial year ended 31 December 2016 were authorised for issue in accordance with a Directors' resolution dated 17 March 2017.

2. Summary of significant accounting policies

2.1 Basis of preparation of financial statements

The consolidated financial statements of the Group and the statement of financial position of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements have been prepared on a historical cost basis, except as disclosed in the accounting policies below. The financial statements are presented in Ringgit Malaysia ("RM") which is the functional currency of the Company and presentation currency for the consolidated financial statements and all values are rounded to the nearest thousand ("RM'000"), except when otherwise indicated.

The preparation of financial statements in conformity with IFRS requires the management to exercise judgement in the process of applying the Group's and the Company's accounting policies and requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the end of the reporting period, and the reported amounts of revenue and expenses during the financial year. Although these estimates are based on the management's best knowledge of historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances, actual results may ultimately differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the financial year in which the estimate is revised if the revision affects only that financial year, or in the financial year of the revision and future financial years if the revision affects both current and future financial years.

Critical accounting judgements and key sources of estimation uncertainty used that are significant to the financial statements are disclosed in Note 3 to the financial statements.

During the financial year, the Group and the Company adopted the new or revised IFRS that are relevant to their operations and effective for the current financial year. Changes to the Group's and the Company's accounting policies have been made as required in accordance with the relevant transitional provisions in the respective IFRS. The adoption of the new or revised IFRS did not result in any substantial changes to the Group's and the Company's accounting policies and has no material effect on the amounts reported for the current and prior financial years as discussed below.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation of financial statements (Continued)

New or amended standards effective from 1 January 2016

IFRS 14 – Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 was effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, the standard has no impact on the Group financial statements.

IFRS 11 (Amendments) – Accounting for Acquisitions of Interests in Joint Operations

The amendments require the Group to apply all of the principles of IFRS 3 when it acquires an interest in a joint operation that constitutes a business as defined by IFRS 3, and clarify certain other aspects of applying IFRS 3 to acquisitions of interests in joint operations. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and was applied prospectively from 1 January 2016. The amendments did not have any effect on the existing amounts in the Group's financial statements on initial application, but the Group will apply the requirements to any future acquisitions of interests in joint operations.

IFRS 10, IFRS 12 and IAS 28 (Amendments) – Investment Entities: Applying the Consolidated Exception

The amendments clarify a number of aspects of IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Interests in Associates and Joint Ventures in relation to the investment entities exception:

- (i) Exemption from preparing consolidated financial statements
- (ii) A subsidiary that provides services related to investment entity's investment activities
- (iii) Application of IFRS 12 to an investment entity
- (iv) Non-investment entity's interests in any associates or joint ventures that are investment entities

The amendments were effective for annual periods beginning on or after 1 January 2016. Early application is permitted. The amendments was applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. As none of the entities of the group is an investment entity, the amendments has no impact on the Group financial statements.

IAS 1 (Amendments) – Disclosure Initiative

The amendments made to a number of aspects of IAS 1 Presentation of Financial Statements to improve the presentation of, and disclosures in, IFRS financial statements. The amendments were effective for annual periods beginning on or after 1 January 2016. Early application is permitted. The amendments has no impact on the Group financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation of financial statements (Continued)

New or amended standards effective from 1 January 2016 (Continued)

IAS 16 and IAS 38 (Amendments) – Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify that revenue-based methods of depreciation and amortisation are not appropriate, as they do not reflect the pattern of economic benefits consumed from the use of the asset by the Group. Therefore, revenue-based methods are prohibited to be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments was applied from 1 January 2016 prospectively. The amendments has no impact on the Group financial statements as the Group has not used a revenue-based method to depreciate its non-current assets.

IAS 16 and IAS 41 (Amendments) – Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments was retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The amendments has no impact on the Group financial statements as the Group does not have any bearer plants.

IAS 27 (Amendments) – Equity Method in Separate Financial Statements

The amendments provide the option for the Company to account for its investments in subsidiaries, joint ventures, and associates using the equity method in its separate financial statements. The accounting approach that is selected is required to be applied for each category of investment. The amendments were effective from 1 January 2016 and are required to be applied retrospectively. The amendments has no impact on the Group financial statements as the Company did not take up this option.

Annual Improvements 2012–2014

These improvements 2012–2014 were effective from 1 January 2016. These improvements to standards has no impact on the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation of financial statements (Continued)

New or amended standards and interpretations that have been issued but are not yet effective

The Group and the Company have not early adopted the following new or amended IFRSs that have been issued but are not yet effective:

IFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions ²
IFRS 4 (Amendments)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts ²
IFRS 9	Financial Instruments ²
IFRS 10 and IAS 28 (Amendments)	Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
IFRS 15	Revenue from Contracts with Customers ²
IFRS 15 (Amendments)	Clarifications to IFRS 15 Revenue from Contracts with Customers ²
IFRS 16	Leases ³
IAS 7 (Amendments)	Disclosure Initiative ¹
IAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses ¹
IAS 40 (Amendments)	Transfer of Investment Property ²
Annual Improvements (2014-2016)	
- IAS 28 (Amendments)	Investments in Associates and Joint Ventures ²
- IFRS 12 (Amendments)	Disclosure of Interests in Other Entities ¹
IFRIC 22	Foreign Currency Transactions and Advance Consideration ²

¹ Effective for annual periods beginning on or after 1 January 2017

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

⁴ To be determined

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation of financial statements (Continued)

New or amended standards and interpretations that have been issued but are not yet effective (Continued)

IFRS 9 – Financial Instruments

IFRS 9 supersedes IAS 39 *Financial Instruments: Recognition and Measurement* with new requirements for the classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement

Under IFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for certain equity investments, for which the Group will have a choice to recognise the gains and losses in other comprehensive income. A third measurement category has been added for debt instruments – fair value through other comprehensive income. This measurement category applies to debt instruments that meet the Solely Payments of Principal and Interest contractual cash flow characteristics test and where the Group is holding the debt instrument to both collect the contractual cash flows and to sell the financial assets.

IFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from IAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, IFRS 9 retains the requirements in IAS 39 for de-recognition of financial assets and financial liabilities.

The Group has commenced its preliminary assessment of the classification and measurement of its financial assets, and does not expect any significant changes to the classification and measurement of its financial assets and liabilities currently measured at amortised cost and fair value through profit or loss upon adoption of the standard.

No financial liabilities are designated at fair value through profit or loss, therefore the Group also do not expect the adoption of the standard would result in any impact to the Group.

Impairment

IFRS 9 introduces a new forward-looking impairment model based on expected credit losses to replace the incurred loss model in IAS 39. This determines the recognition of impairment provisions as well as interest revenue. For financial assets at amortised cost or fair value through other comprehensive income, the Group will now always recognise (at a minimum) 12 months of expected losses in profit or loss. Lifetime expected losses will be recognised on these assets when there is a significant increase in credit risk after initial recognition.

The new impairment requirements are expected to result in changes to and likely increases in impairment loss allowances on trade receivables and other receivables, due to earlier recognition of credit losses. The Group expects to adopt the simplified model for its trade receivables and will record an allowance for lifetime expected losses from initial recognition. For other receivables due from subsidiaries and joint ventures, the Group will initially provide for 12 months expected losses under the three-stage model. The Group is still in the process of determining how it will estimate expected credit losses and the sources of forward-looking data.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation of financial statements (Continued)

New or amended standards and interpretations that have been issued but are not yet effective (Continued)

IFRS 9 – Financial Instruments (Continued)

Hedge accounting

IFRS 9 also introduces a new hedge accounting model designed to allow entities to better reflect their risk management activities in their financial statements. As the Group has ceased hedge accounting, the Group does not expect any impact from the new hedge accounting rules on adoption of IFRS 9.

The Group plans to adopt the standard in the financial year beginning on 1 January 2018 and will include additional disclosures in its financial statements for that financial year. The Group is still assessing the transition choices available.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 introduces a comprehensive model that applies to revenue from contracts with customers and supersedes all existing revenue recognition requirements under IFRSs. The model features a five-step analysis to determine whether, how much and when revenue is recognised, and two approaches for recognising revenue: at a point in time or over time. The core principle is that an entity recognises revenue when control over promised goods or services is transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group currently recognises construction contracts by reference to the stage of completion of the contract activity at the end of the reporting period when the outcome of a construction contract can be estimated reliably. On adoption of IFRS 15, there may be significant impact on the timing of revenue recognition of the Group. Under IFRS 15 the Group would qualify for revenue recognition over time only if there is no alternative use for the vessels constructed under contracts with customers and the Group has an enforceable right to receive payment for performance completed to date. Based on the Group's preliminary assessment the Group's construction contracts may not satisfy these criteria and therefore revenue would be recognised at a point in time on delivery and acceptance of the vessel by the customer when title and risk are transferred to the customer.

The Group are still in the process of assessing the full impact of the application of IFRS 15, including other aspects such as contract modifications, variable consideration and financing components and the transition choices available, and it is not practicable to provide a reasonable financial estimate of the effect until the detailed assessment is completed.

The Group plans to adopt the standard in the financial year beginning on 1 January 2018 with full or cumulative retrospective effect in accordance with the transitional provisions, and will include the required additional disclosures in its financial statements for that financial year.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation of financial statements (Continued)

New or amended standards and interpretations that have been issued but are not yet effective (Continued)

IFRS 16 – Leases

IFRS 16 supersedes IAS 17 Leases and introduces a new single lessee accounting model which eliminates the current distinction between operating and finance leases for lessees. IFRS 16 requires lessees to capitalise all leases on the statement of financial position by recognising a 'right-of-use' asset and a corresponding lease liability for the present value of the obligation to make lease payments, except for certain short-term leases and leases of low-value assets. Subsequently, the lease assets will be depreciated and the lease liabilities will be measured at amortised cost.

From the perspective of a lessor, the classification and accounting for operating and finance leases remains substantially unchanged under IFRS 16. IFRS 16 also requires enhanced disclosures by both lessees and lessors.

On initial adoption of this standard, there may be an impact on the accounting treatment for the Group's leases, particularly rented office premises, which the Group, as lessee, currently accounts for as operating leases. The Group plans to adopt the standard in the financial year beginning on 1 January 2019 with either full or modified retrospective effect in accordance with the transitional provisions, and will include the required additional disclosures in its financial statements for that financial year.

IAS 7 (Amendments) – Disclosure Initiative

The amendments to IAS 7 require companies to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will be applied from 1 January 2017 and the Group will include the additional disclosures in its financial statements for that year.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries are prepared for the same reporting date as that of the parent company.

Accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Group to ensure consistency.

Subsidiaries are consolidated from the date on which control is transferred to the Group up to the effective date on which control ceases, as appropriate.

In preparing the consolidated financial statements, intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment loss of the assets transferred.

Non-controlling interests in subsidiaries relate to the equity in subsidiaries which are not attributable directly or indirectly to the owners of the parent. They are shown separately in the consolidated statements of comprehensive income, financial position and changes in equity.

Non-controlling interests in the acquiree may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the parent.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to accumulated profits) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investments retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or joint ventures.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.3 Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRSs.

Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Business combinations involving entities under common control are accounted for by applying the pooling of-interest method which involves the following:

- The assets and liabilities of the combining entities are reflected at their carrying amounts reported in the consolidated financial statements of the controlling holding company.
- No adjustments are made to reflect the fair values on the date of combination, or recognise any new assets or liabilities.
- No additional goodwill is recognised as a result of the combination.
- Any difference between the consideration paid/transferred and the equity 'acquired' is reflected within the equity as merger reserve.
- The statement of comprehensive income reflects the results of the combining entities for the full year, irrespective of when the combination took place.
- Comparatives are presented as if the entities had always been combined since the date the entities had come under common control.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.4 Interests in subsidiaries

Subsidiaries are entities over which the Group has control. The Group controls an investee if the Group has power over the investee, exposure to variable return from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

2.5 Interests in joint ventures

The Group is a party to a joint arrangement when there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The Group classifies its interests in joint arrangements as either:

- *Joint ventures*: where the group has rights to only the *net assets* of the joint arrangement
- *Joint operations*: where the group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:

- The structure of the joint arrangement
- The legal form of joint arrangements structured through a separate vehicle
- The contractual terms of the joint arrangement agreement
- Any other facts and circumstances (including any other contractual arrangements).

The Group's interest in joint ventures are accounted for using the equity method. Under the equity method, the investment in joint ventures are carried in the statements of financial position at cost plus post-acquisition changes in the Group's share in net assets of the joint ventures. The share of results of the joint ventures are recognised in profit or loss. Where there have been a change recognised directly to equity of the joint ventures, the Group recognises its share of such changes. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the joint ventures.

The Group's share of results and reserves of joint venture acquired or disposed of are included in the financial statements from the date of acquisition up to the date of disposal or cessation of joint control over the relevant activities of the arrangements.

2.6 Interest in an associate

Where the Group has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the consolidated statement of financial position at cost. Subsequently associates are accounted for using the equity method, where the Group's share of post-acquisition profits and losses and other comprehensive income is recognised in the consolidated statement of profit and loss and other comprehensive income (except for losses in excess of the Group's investment in the associate unless there is an obligation to make good those losses).

Profits and losses arising on transactions between the Group and its associate are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.7 Government grants

Government grants relates to an asset, which fair value is recognised as deferred income and classified as non-current sundry payable. Government grants is amortised to profit or loss over the expected useful life of the relevant asset.

2.8 Foreign currencies

Items included in the individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency").

The consolidated financial statements of the Group and the statement of financial position of the Company are presented in Ringgit Malaysia, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements, transactions in currencies other than the entity's functional currency ("foreign currencies") are recorded at the rates of exchange prevailing on the date of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items and on re-translating of monetary items are recognised in profit or loss for the financial year. Exchange differences arising on the re-translation of non-monetary items carried at fair value are recognised in profit or loss for the financial year except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised in other comprehensive income.

For the purposes of presenting consolidated financial statements, the results and financial positions of the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities are translated at the closing exchange rate at the reporting date;
- (ii) income and expenses are translated at average exchange rate for the financial year (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated using the exchange rates at the dates of the transactions); and
- (iii) all resulting foreign currency exchange differences are recognised in other comprehensive income and presented in the foreign currency translation account in equity. Such translation differences are recognised in profit or loss in the period in which the foreign operation disposed of.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.9 Property, plant and equipment and depreciation

Property, plant and equipment are initially recorded at cost. Subsequent to initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and impairment loss, if any.

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the property, plant and equipment.

Subsequent expenditure relating to the property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that the future economic benefits, in excess of the standard of performance of the asset before the expenditure was made, will flow to the Group and the Company and the cost can be reliably measured. Other subsequent expenditure is recognised as an expense during the financial year in which it is incurred.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in profit or loss in the financial year the asset is derecognised.

Depreciation is calculated using the straight-line method to allocate the depreciable amounts of the property, plant and equipment over their estimated useful lives as follows:

	Years
Leasehold land	60
Buildings	50
Launching ways, plant and machinery	10
Furniture, fixtures and office equipment	5 – 10
Motor vehicles	5
Vessels	25
Renovation	10
Signboards	10

Work-in-progress is not depreciated as these assets are not available for use.

The residual values, useful lives and depreciation method are reviewed at each financial year-end to ensure that the residual values, period of depreciation and depreciation method are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, if there is no certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

Fully depreciated assets still in use are retained in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.10 Prepaid land lease payments

Prepaid land lease payments are initially measured at cost. Following initial recognition, prepaid land lease payments are measured at cost less accumulated amortisation. The prepaid land lease payments are amortised on a straight-line basis over their lease terms as below:

	Years
Lot 1 and 2	11.5 to 14.5
Lot 3 and 4	54 to 60

2.11 Investment properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation are initially recognised at cost and subsequently carried at cost less accumulated depreciation and impairment losses. Depreciation is charged, using the straight-line method, so as to write off the cost over their remaining useful lives of 74 years. The residual values, useful lives and depreciation method of investment properties are reviewed and adjusted as appropriate, at the end of each financial year. The effects of any revision are included in profit or loss when the changes arise.

Investment properties are subject to renovations or improvements at regular intervals. The costs of major renovations and improvements are capitalised as additions and the carrying amounts of the replaced components are written off to profit or loss. The costs of maintenance, repairs and minor improvement are charged to profit or loss when incurred.

On disposal or retirement of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss.

2.12 Leases

Operating leases

When the Group is the lessee of operating leases

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the financial year in which termination takes place.

When the Group is the lessor of operating leases

Leases where the Group retains substantially all risks and rewards incidental to the ownership are classified as operating leases.

Assets leased out under operating leases are included in investment properties.

Rental income from operating leases (net of any incentives given to lessees) is recognised in profit or loss on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.13 Impairment of non-financial assets (excluding inventories)

The carrying amounts of non-financial assets (excluding inventories) are reviewed at the end of each reporting period to determine whether there is any indication of impairment loss and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups of assets. Impairment loss is recognised in profit or loss, unless it reverses a previous revaluation, credited to other comprehensive income, in which case it is charged to other comprehensive income up to the amount of any previous revaluation.

The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. Recoverable amount is determined for individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the recoverable amount is determined for the cash-generating unit to which the assets belong. The fair value less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. Value in use is the present value of estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life, discounted at pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the asset or cash-generating unit for which the future cash flow estimates have not been adjusted.

An assessment is made at the end of each reporting period as to whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. An impairment loss recognised in prior periods is reversed only if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised. Reversals of impairment loss are recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal in excess of impairment loss recognised in profit or loss in prior periods is treated as a revaluation increase. After such a reversal, the depreciation or amortisation is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

2.14 Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sales financial assets. The classification depends on the nature and purpose for which these financial assets were acquired and is determined at the time of initial recognition. All financial assets are initially recognised at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially recognised at fair value.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.14 Financial assets (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or where appropriate, a shorter period, to the net carrying amount of the financial instrument. Income and expense are recognised on an effective interest basis for debt instruments other than those financial instruments at fair value through profit or loss.

Loans and receivables

Non-derivative financial assets which have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost, using the effective interest method, less impairment. Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The Group's loans and receivables in the statement of financial position comprise trade and other receivables and cash and cash equivalents.

Held-to-maturity financial assets

Bonds with fixed or determinable payments and fixed maturity dates where the Group has a positive intent and ability to hold to maturity are classified as held-to-maturity financial assets. Held-to-maturity financial assets are recorded at amortised cost using the effective interest method, less impairment, with revenue recognised on an effective yield basis.

Available-for-sale financial assets ("AFS")

Certain investments held by the Group are classified as AFS if they are not classified in any of the other categories. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised directly in the fair value reserve with the exception of impairment losses, interests calculated using the effective interest method and foreign exchange gains and losses. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the fair value reserve is included in profit or loss for the period.

Available-for-sale financial assets are presented as non-current assets unless the investment matures or management intends to dispose of the assets within 12 months after the end of financial year.

Impairment of financial assets

Financial assets, other than FVTPL, are assessed for indicators of impairment at the end of each financial year. Financial assets are impaired where there is objective evidence that the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.14 Financial assets (Continued)

Impairment of financial assets (Continued)

The carrying amounts of all financial assets are reduced by the impairment loss directly with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition, any difference between the carrying amount and the sum of proceeds received and amounts previously recognised in other comprehensive income is recognised in profit or loss.

2.15 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities are classified as at fair value through profit or loss if the financial liability is either held for trading, including derivatives not designated and effective as a hedging instrument; or it is designated as such upon initial recognition. The Group has not designated any financial liabilities as FVTPL upon initial recognition.

Other financial liabilities

Trade and other payables

Trade and other payables, excluding deposits received, are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, where applicable, using the effective interest method.

Loans and borrowings

Interest-bearing loan and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.15 Financial liabilities (Continued)

Financial guarantee contracts

The Company has issued corporate guarantees to banks for borrowings of certain subsidiaries and these guarantees qualify as financial guarantees because the Company is required to reimburse the banks if these subsidiaries breach any repayment term.

Financial guarantee contract liabilities are measured initially at their fair values plus transaction costs and subsequently at the higher of the amount of the obligation under the contract recognised as a provision in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised, less cumulative amortisation in accordance with IAS 18 *Revenue*.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount and the consideration paid is recognised in profit or loss.

2.16 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

2.17 Derivative financial instruments

The Group enters into derivative financial instruments to manage its exposure to foreign exchange rate risk, including forward currency contracts.

Derivatives are initially recognised at their fair values at the date the derivative contract is entered into and are subsequently re-measured to their fair values at the end of each financial year. The method of recognising the resulting gain or loss depends on whether the derivative is designated and effective as a hedging instrument, and if so, the nature of the item being hedged.

Fair value changes on derivatives that are not designated or do not qualify for hedge accounting are recognised in profit or loss when the changes arise.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.17 Derivative financial instruments (Continued)

Hedge accounting

The Group applies hedge accounting for certain hedging relationships which qualify.

At the inception of a hedging relationship, the Group formally designates and documents the hedging relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in profit or loss.

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecasted transactions and firm commitments. The ineffective portion relating to forward currency contracts is recognised in profit or loss. Refer to Note 24 for more details.

Amounts recognised as other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.18 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management. In the statements of financial position, bank overdrafts are presented within loans and borrowings under current liabilities. For the purposes of the statement of cash flows, cash and cash equivalents also includes bank overdrafts and excludes any pledged deposits.

2.19 Construction contracts

The Group principally operates fixed price contracts for its vessels. Contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period (the percentage of completion method), when the outcome of a construction contract can be estimated reliably.

The outcome of a construction contract can be estimated reliably when: (i) total contract revenue can be measured reliably; (ii) it is probable that the economic benefits associated with the contract will flow to the entity; (iii) the costs to complete the contract and the stage of completion can be measured reliably; and (iv) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

When the outcome of a construction contract cannot be estimated reliably (principally during early stages of a contract), contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable and contract costs are recognised as expense in the period in which they are incurred.

An expected loss on the construction contract is recognised as an expense immediately when it is probable that total contract costs will exceed total contract revenue.

In applying the percentage of completion method, revenue recognised corresponds to the total contract revenue (as defined below) multiplied by the actual completion rate based on the proportion of total contract costs (as defined below) incurred to date and the estimated costs to complete.

Contract revenue – Contract revenue corresponds to the initial amount of revenue agreed in the contract and any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue; and they are capable of being reliably measured.

Contract costs – Contract costs include costs that relate directly to the specific contract and costs that are attributable to contract activity in general and can be allocated to the contract. Costs that relate directly to a specific contract comprise: site labour costs (including site supervision); costs of materials used in construction; depreciation of equipment used on the contract; costs of design, and technical assistance that is directly related to the contract.

Provision for foreseeable losses on uncompleted shipbuilding contracts is made in the period in which such losses are determined.

The Group's contracts are typically negotiated for the construction of a single asset or a group of assets which are closely interrelated or interdependent in terms of their design, technology and function. In certain circumstances, the percentage of completion method is applied to the separately identifiable components of a single contract or to a group of contracts together in order to reflect the substance of a contract or a group of contracts.

When the total of costs incurred on construction contracts plus, recognised profits (less recognised losses), exceeds progress billings, the balance is classified as amount due from customers on contracts. When progress billings exceed costs incurred plus, recognised profits (less recognised losses), the balance is classified as amount due to customers on contracts.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.20 Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials: Purchase cost on weighted average basis
- Work in progress: Costs that are directly attributable to the construction of built-to-stock vessels, which comprise, costs of materials used in construction; depreciation of equipment used on the contract; costs of design, and technical assistance

Net realisable value is the estimated selling price at which inventories can be realised in the ordinary course of business, less estimated costs of completion and costs incurred in marketing and distribution. Where necessary, allowance is made for obsolete, slow-moving and defective inventories to adjust the carrying value of those inventories to the lower of cost and net realisable value.

2.21 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Borrowing costs on general borrowings are capitalised by applying a capitalisation rate to construction or development expenditures that are financed by general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred using the effective interest method.

2.22 Employee benefits

Defined contribution plan

Contributions to defined contribution plans are recognised as expenses in profit or loss in the same financial year as the employment that gives rise to the contributions.

2.23 Share-based payments

Employees' share grant plan

The Group operates a share award plan which allows it to issue equity-settled share-based payments to selected employees. For the shares granted to the employees, the fair value of the employee services received in exchange for the grant of the shares is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares granted.

All share-based compensation is recognised as an expense in profit or loss with a corresponding credit to equity share grant reserve, net of deferred tax where applicable. If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share awards expected to vest. Non-vesting conditions and market vesting conditions are included in assumptions about the number of awards that are expected to become exercisable. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.24 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognised.

Construction contracts

Revenue from construction contracts is accounted for by the percentage of completion method as described in Note 2.19 to the financial statement.

Charter income

Revenue from vessels under charter is recognised as services are rendered.

Interest income

Interest income is recognised on an accrual basis using the effective interest rate ("EIR") method. EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

Rental income

Rental income is recognised on a straight-line basis over the term of the relevant lease.

2.25 Income tax

Income tax expense for the financial year comprises current and deferred taxes. Income tax expense is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current income tax is the expected tax payable on the taxable income for the financial year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to income tax payable in respect of previous financial years.

Deferred tax is provided, using the balance sheet liability method, for temporary differences at the end of the reporting period when the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax is measured using the tax rates expected to be applied to the temporary differences when they are realised or settled, based on tax rates enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profits will be available against which the temporary differences can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.25 Income tax (Continued)

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same tax authority and where there is intention to settle the current tax assets and liabilities on a net basis.

Deferred tax liabilities are recognised for all taxable temporary differences associated with investments in subsidiaries and an associate, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.26 Segment reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the chief operating decision maker of the Group who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 39 to the financial statement, including the factors used to identify the reportable segments and the measurement basis of segment information.

2.27 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares are classified as equity and recognised at the fair value of the consideration received. Incremental costs directly attributable to the issuance of new equity instruments are shown in the equity as a deduction from the proceeds.

When shares recognised as equity are reacquired, the amount of consideration paid is recognised directly in equity. Reacquired shares are classified as treasury shares and presented as a deduction from total equity. No gain or loss is recognised in profit or loss on the purchase, sale or cancellation of treasury shares.

When treasury shares are subsequently cancelled, the cost of treasury shares are deducted against the share capital account if the shares are purchased out of capital of the Company, or against the retained earnings of the Company if the shares are purchased out of earnings of the Company.

When treasury shares are subsequently sold or reissued pursuant to the employee share option scheme, the cost of treasury shares is reversed from the treasury share account and the realised gain or loss on sale or reissue, net of any directly attributable incremental transaction costs and related income tax, is recognised within the statement of changes in equity of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.28 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Provisions for warranty-related costs are recognised when the product is sold or service provided to the customer. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

2.29 Dividends

Equity dividend are recognised when they become legally payable. Interim dividend are recorded in the financial year in which they are declared payable. Final dividends are recorded in the financial year in which dividends are approved by shareholders.

3. Significant accounting judgements and estimates

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the accompanying disclosures, and the disclosure of contingent liabilities at the reporting date. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

3.1 Judgements made in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgements which have the most significant effect on the amounts recognised in the consolidated financial statements:

(i) Impairment of financial assets

The Group follows the guidance of IAS 39 in determining whether the financial asset is impaired. This determination requires significant judgement. The Group evaluates, among other factors, the duration and extent to which the fair value of the financial asset is less than its carrying amount and the financial health of and near-term business outlook for the financial asset, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

3. Significant accounting judgements and estimates (Continued)

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

(i) Depreciation of plant and equipment

Plant and equipment are depreciated on a straight-line basis over their estimated useful lives. The management estimates the useful lives of these assets to be within 5 to 25 years. The carrying amount of the Group's plant and equipment as at 31 December 2016 are RM389,077,000 (2015: RM409,696,000). Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

With effect from 1 January 2016, the Group changed its accounting policy on the depreciation of its vessels, by revising the useful life of vessels from 20 years to 25 years to better reflect the expected pattern of consumption of the future economic benefits of these assets. The change in accounting policy has resulted in a decrease in depreciation expenses and correspondingly, a decrease in the Group's loss before tax of approximately RM4,896,000 for the financial year ended 31 December 2016.

(ii) Provision for inventory obsolescence

Inventories are stated at the lower of cost and net realisable value. The cost of inventories determined by management is disclosed in Note 2.20. The management estimates the net realisable value of inventories based on assessment of receipt or committed sales prices and provide for excess and obsolete inventories based on historical usage, estimated future demand and related pricing. In determining excess quantities, the management considers recent sales activities, related margin and market positioning of the products. However, factors beyond its control, such as demand levels, technological advances and pricing competition, could change from period to period. Such factors may require the Group to reduce the value of its inventories. The carrying amount of the Group's inventories as at 31 December 2016 was approximately RM2,398,304,000 (2015: RM1,827,799,000).

(iii) Impairment of trade and other receivables

The management establishes provision for impairment on a case-by-case basis when they believe that payment of amounts owed is unlikely to occur. In establishing these provisions, the management considers the historical experience and changes to the customers' financial position. If the financial conditions of debtors were to deteriorate, resulting in impairment of their abilities to make the required payments, additional provisions may be required. The carrying amounts of the Group's and the Company's trade and other receivables as at 31 December 2016 were approximately RM128,012,000 (2015: RM105,656,000) and RM100,576,000 (2015: RM1,198,273,000) respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

3. Significant accounting judgements and estimates (Continued)

3.2 Key sources of estimation uncertainty (Continued)

(iv) Construction contracts

The Group recognises contract revenue based on the percentage of completion method. The stage of completion is measured by reference to either the costs incurred to-date to the estimated total cost or surveys of work performed certified by a qualified surveyor. Significant judgement is required in determining the stage of completion, the extent of the costs incurred and the estimated total revenue (for contracts other than fixed contracts) and costs. Total contract revenue also includes an estimation of the variation works that are recoverable from the customers. In making the judgment, the Group relies on past experience and work of specialists. As at 31 December 2016, the carrying amount of the Group's work-in-progress, due from customer on contracts and due to customer on contracts were approximately RM2,372,813,000 (2015: RM1,802,006,000), RM462,398,000 (2015: RM522,734,000) and RM3,791,000 (2015: RM16,968,000) respectively.

(v) Impairment of investments in subsidiaries, joint ventures and an associate

At the end of each financial year, an assessment is made on whether there are indicators that the investments in subsidiaries, joint ventures and an associate are impaired. The management's assessment of the recoverable amount is based on the estimation of the value-in-use of the CGU by forecasting the expected future cash flows for a period up to 5 years, using a suitable discount rate in order to calculate the present value of those cash flows or fair value less cost of disposal. The Company's carrying amount of investments in subsidiaries, joint ventures and an associate as at 31 December 2016 was RM2,307,317,000 (2015: RM1,079,188,000), RM10,957,000 (2015: RM8,624,000) and RM74,840,000 (2015: RM88,281,000) respectively.

(vi) Impairment of plant and equipment

The Group carries out impairment assessment on plant and equipment using an estimation of the value-in-use of these plant and equipment. The value-in-use calculations require the entity to estimate the future cash flows expected to arise from these plant and equipment and a suitable discount rate in order to calculate present value. The carrying amount of plant and equipment as at 31 December 2016 was RM389,077,000 (2015: RM409,696,000) and during the year an impairment loss of RM3,554,000 was recognised.

4. Material uncertainty related to going concern

In assessing the appropriateness of the use of the going concern basis of accounting to prepare the financial statements, the Directors considered the following matters:

- (i) For the financial year ended 31 December 2016, the Group experienced a significant decrease in revenue and incurred a net loss of approximately RM42,771,000 due to deferment of the delivery of vessels that had been requested by several customers. The current downturn in the oil and gas industry may continue to add pressure to the Group's financial performance and its operating cash flows.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

4. Material uncertainty related to going concern (Continued)

- (ii) As at 31 December 2016, the Group's loans and borrowings that were classified as current amounted to RM948,720,000 of which RM278,566,000 (\$90 million) pertained to medium term notes that are due for repayment on 28 August 2017 (Note 29). These amounts exceeded the Group's cash and cash equivalents of RM162,618,000 as at 31 December 2016.
- (iii) To strengthen the Group's financial position and ensure the adequacy of funds to meet its external debt obligations and working capital needs, the following measures have been or are in the process of being put in place:
- Subsequent to the end of the financial year, the Group appointed a financial advisor to carry out a review of the financial position of the Group and to assist the Group in developing alternative options and solutions with a view to formulating a debt restructuring plan. As of the date of the financial statements, the Group has commenced and is in the midst of discussion with its bankers.
 - The Group has sufficient unutilised banking facilities granted by its bankers which, subject to the fulfilment of certain conditions precedent, it can draw down for general working capital purposes where necessary.
 - The Group continues to look for potential buyers and charterers for its fleet of vessels and has also tightened cost controls over various operating expense, including deferring certain construction projects, so as to improve its cash flow positions.

The above events and conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's and Company's ability to continue as a going concern, which is highly dependent on the successful implementation of the debt restructuring plan as well as continued support from its bankers and creditors.

In this regard, the Directors have considered the feasibility and effectiveness of the above measures and are of the view that preparing the financial statements using the going concern basis of accounting remains appropriate.

Should the Group and the Company be unable to continue its business as a going concern for the foreseeable future, adjustments would have to be made in the financial statements to write down the values of the assets to their recoverable amounts, to provide for any further liabilities which may arise, and to reclassify non-current assets and non-current liabilities to current assets and liabilities respectively. No such adjustments have been reflected in the financial statements.

5. Revenue

	Group	
	2016	2015
	RM'000	RM'000
Shipbuilding construction contracts	146,414	905,586
Chartering income	24,010	44,444
	170,424	950,030

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

6. Cost of sales

	Group	
	2016	2015
	RM'000	RM'000
Cost of construction contracts	118,366	752,470
Depreciation of property, plant and equipment	20,709	17,877
Chartering cost	22,896	29,680
	<u>161,971</u>	<u>800,027</u>

7. Other income

	Group	
	2016	2015
	RM'000	RM'000
Foreign exchange gain, net	44,287	-
Forfeited deposit received	46,218	-
Gain on disposal of property, plant and equipment	-	64
Interest income	4,979	6,321
Rental income	-	45
Rental income from investment properties	3,267	2,750
Miscellaneous	2,043	1,611
Ineffectiveness on forward currency contracts designated as cash flow hedges	-	7,302
Insurance claims received	1,258	-
Net fair value gain on derivatives	2,378	-
Allowance for trade receivables written back	1,635	-
	<u>106,065</u>	<u>18,093</u>

8. Finance costs

	Group	
	2016	2015
	RM'000	RM'000
Interest expense:		
- Bank borrowings	25,236	13,598
- Medium term notes	58,592	64,029
Total interest expense	83,828	77,627
Amortisation of debt issuance cost	7,071	3,935
Less: Interest capitalised in cost of construction contracts	(75,436)	(57,346)
	<u>15,463</u>	<u>24,216</u>

The interest expense capitalised in the cost of construction contracts was at the weighted average rate of the Group's general borrowings of 5.14% (2015: 4.69%)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

9. (Loss) / Profit before income tax

In addition to the charges and credits disclosed elsewhere in the notes to the financial statements, the above includes the following charges and credits:

	Group	
	2016	2015
	RM'000	RM'000
<i>Selling and administrative expenses</i>		
Audit fees		
– auditor of the Company	273	307
– other auditors	353	334
Non-audit fees		
– auditor of the Company	–	–
– other auditors	–	300
Allowance for third parties trade and other receivables	–	1,702
Loss on disposal of available-for-sale financial assets	2,713	–
Amortisation of prepaid land lease payments	108	108
Depreciation of property, plant and equipment	179	2,621
Depreciation of investment properties	1,298	1,195
Plant and equipment written off	–	18
Operating lease expense	801	765
Employee benefits expense		
– salaries, bonus and other benefits	14,381	23,202
– defined contribution plans	1,339	1,455
– share grant plan	–	704
	<hr/>	<hr/>
<i>Other operating expenses</i>		
Foreign exchange loss, net	–	29,303
Loss on disposal of plant and equipment	3,264	–
Allowance for third parties trade and other receivables	1,196	–
Other receivables written off	15	–
Inventories written down	59,772	–
Prepayments written off	19,929	–
Impairment on investment in an associate	3,445	–
Impairment on property, plant and equipment	3,554	–
	<hr/>	<hr/>
	<u>91,175</u>	<u>29,303</u>

The employee benefits expense include the remuneration of Directors and other key management personnel as disclosed in Note 33 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

10. Income tax expense

	Group	
	2016	2015
	RM'000	RM'000
Current income tax		
- current financial year	144	1,528
- under provision in prior financial years	5	1,380
	<u>149</u>	<u>2,908</u>
Deferred tax		
- current financial year	-	375
- overprovision in prior financial years	-	(254)
	<u>-</u>	<u>121</u>
Total income tax expense recognised in profit or loss	<u>149</u>	<u>3,029</u>

Income tax for various jurisdictions are calculated at the rates prevailing in the respective jurisdictions.

A reconciliation of income tax applicable to profit before income tax at the statutory income tax rate to income tax expense at the effective income tax rate of the Group is as follows:

	Group	
	2016	2015
	RM'000	RM'000
(Loss)/Profit before income tax	(42,622)	30,954
Share of results of equity accounted joint ventures and associate	7,678	25,240
	<u>(34,944)</u>	<u>56,194</u>
Income tax at the applicable tax rates	35,028	22,198
Income not subject to tax	(43,118)	(57,862)
Expenses not deductible for tax purposes	7,130	15,077
Tax exemption	-	(75)
Deferred tax assets not recognised	1,104	22,650
Over provision of deferred tax in previous financial years	-	(254)
Under provision of current income tax in previous financial years	5	1,380
Corporate income tax rebate	-	(85)
Income tax expense for the financial year	<u>149</u>	<u>3,029</u>

Deferred tax assets amounting to RM1,104,000 (2015: RM22,650,000) arising from excess of tax written down value over carrying amount of assets and unabsorbed tax losses brought forward (2015: unabsorbed tax losses brought forward) was not recognised due to the unpredictability of future profit streams.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

11. Earnings per share

Basic earnings per share is calculated by dividing net profit for the financial year attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the financial year.

The weighted average number of ordinary shares used in the basic and diluted earnings per share computation are as follows:

	Group	
	2016 '000	2015 '000
Issued ordinary shares at 1 January	2,096,466	2,096,255
Effect of shares buy-back and release of share awards vested	-	1,663
Weighted average number of ordinary shares during the financial year	<u>2,096,466</u>	<u>2,097,918</u>

The following reflects the income and share data used in the basic and diluted earnings per share computation:

	Group	
	2016	2015
(Loss)/Profit after income tax attributable to owners of the parent (RM'000)	<u>(42,014)</u>	<u>28,516</u>
Weighted average of ordinary shares during the financial year applicable to basic earnings per share ('000)	<u>2,096,466</u>	<u>2,097,918</u>
Basic earnings per share (Sen)	(2.00)	1.36
Diluted earnings per share (Sen)	<u>(2.00)</u>	<u>1.36</u>

For the purpose of calculating diluted earnings per share, profit attributable to equity holders of the parent and the weighted average number of ordinary shares outstanding are adjusted for the effects of all dilutive potential ordinary shares. The Group's Share Grant Plan were assumed to have been fully issued. No adjustment was made to the net profit.

As the Group has no dilutive potential ordinary shares, the diluted earnings per share is equivalent to basic earnings per share for the financial year.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

12. Property, plant and equipment

Group	Leasehold land	Leasehold buildings	Freehold building	Launching plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Vessels	Renovation and signboard	Work-in-progress	Total
Cost	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2015	8,088	29,689	6,803	35,363	5,185	6,914	252,960	591	1,872	347,465
Additions	-	5	-	83	1,024	211	122,934	-	826	125,083
Disposals	-	-	-	-	(37)	(245)	-	-	-	(282)
Written off	-	-	-	-	(127)	-	-	-	-	(127)
Reclassification	-	18	-	52	(64)	-	-	(6)	-	-
Exchange differences	-	-	1,008	(1)	207	616	72,628	-	-	74,458
At 31 December 2015 and 1 January 2016	8,088	29,716	7,811	35,497	6,188	7,496	448,522	585	2,698	546,597
Additions	-	-	-	42	45	-	-	-	-	87
Disposals	-	-	-	(5)	-	(348)	(19,765)	-	-	(20,118)
Reclassification	-	4	-	-	-	-	-	-	(4)	-
Exchange differences	-	-	157	-	36	95	20,217	-	-	20,505
At 31 December 2016	8,088	29,716	7,968	35,534	6,269	7,243	448,974	585	2,694	547,071

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

12. Property, plant and equipment (Continued)

Group	Leasehold land RM'000	Leasehold buildings RM'000	Freehold building RM'000	Launching ways, plant and machinery RM'000	Furniture, fixtures and office equipment RM'000	Motor vehicles RM'000	Vessels RM'000	Renovation and signboard RM'000	Work-in-progress RM'000	Total RM'000
Accumulated depreciation										
1 January 2015	301	3,484	635	26,183	2,497	3,565	28,444	199	-	65,308
Depreciation charge for the financial year	136	614	146	2,845	778	1,065	17,711	59	-	23,354
Recognised in profit or loss	-	614	146	125	778	1,065	17,711	59	-	20,498
Capitalised in construction costs (Note 23)	136	-	-	2,720	-	-	-	-	-	2,856
Disposals	-	-	-	-	(15)	(245)	-	-	-	(260)
Written off	-	-	-	-	(109)	-	-	-	-	(109)
Reclassification	-	7	-	16	(20)	-	-	(3)	-	-
Exchange differences	-	-	103	-	73	286	7,961	-	-	8,423
At 31 December 2015 and 1 January 2016	437	4,105	884	29,044	3,204	4,671	54,116	255	-	96,716
Depreciation charge for the financial year	136	613	158	2,499	782	930	18,216	59	-	23,393
Recognised in profit or loss	-	613	158	130	782	930	18,216	59	-	20,888
Capitalised in construction costs (Note 23)	136	-	-	2,369	-	-	-	-	-	2,505
Disposals	-	-	-	(5)	-	(323)	(7,481)	-	-	(7,809)
Exchange differences	-	-	19	-	17	59	2,625	-	-	2,720
At 31 December 2016	573	4,718	1,061	31,538	4,003	5,337	67,476	314	-	115,020
Impairment										
Impairment made and representing balance at 31 December 2016	-	-	-	-	-	-	3,554	-	-	3,554
Net carrying value										
At 31 December 2016	7,515	24,998	6,907	3,996	2,266	1,906	371,944	271	2,694	428,497
At 31 December 2015	7,651	25,607	6,927	6,453	2,984	2,825	394,406	330	2,698	449,881

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

12. Property, plant and equipment (Continued)

- (a) Net carrying amounts of property, plant and equipment pledged as security for borrowings as at the end of the reporting period are as follows:

	Group	
	2016	2015
	RM'000	RM'000
Assets under loans and borrowings		
Vessels	89,692	103,843
Buildings	6,905	6,925
	<u>96,597</u>	<u>110,768</u>
Assets pledged as securities		
Vessels	89,692	103,843
Building	6,905	6,925
	<u>96,597</u>	<u>110,768</u>

- (b) The cost of fully depreciated property, plant and equipment, which are still in use, as at the end of the reporting period are as follows:

	Group	
	2016	2015
	RM'000	RM'000
Launching ways, plant and machinery	8,577	8,577
Motor vehicles	1,588	1,584
Furniture, fixtures and office equipment	692	692
	<u>10,857</u>	<u>10,853</u>

- (c) Certain motor vehicles of the Group are registered in the name of a director with net carrying amount as at the end of the reporting period as follows:

	Group	
	2016	2015
	RM'000	RM'000
Motor vehicles	35	120

- (d) Assets under construction

The Group's work-in-progress relate to direct expenditure which mainly comprise of materials and labour cost incurred for yard expansion in the course of construction.

- (e) During the financial year, the Group acquired property, plant and equipment at an aggregate cost of RM87,000 (2015: RM125.1 million) of which none (2015: RM91.1 million) was transferred from inventories. Accordingly, the cash outflow on acquisition of property, plant and equipment amounted to RM87,000 (2015: RM34.0 million).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

12. Property, plant and equipment (Continued)

(f) The following express conditions and restrictions on the Group's leasehold land:

- (i) the land shall be used only for industrial purposes;
- (ii) the industrial activity to be carried out as prescribed under the Natural Resource Environment Order 1994;
- (iii) the development or redevelopment and use of the land shall be in accordance with plans, sections and elevations approved by the Government;
- (iv) no residential accommodation other than accommodation for a watchman;
- (v) no transfer affecting the land may be effected without the consent; and
- (vi) no sublease affecting the land may be effected without the consent.

The Group is required by the Government to surrender the leasehold land back upon refund of all payment from the Government made by the Group if the building is not completed within 7 years beginning October 2013. In the previous financial year, the Group has completed the erection of the building on the leasehold land in accordance with detailed drawings and specifications approved by the Miri City Council. The Government had waived payment from the Group amounting to RM2,756,000.

(g) During the year, the Group carried out a review of the recoverable amount of its vessels for chartering segment due to the deterioration in operating results following the market downturn. The review led to the recognition of an impairment loss of RM3,554,000 (2015: RM Nil) that has been recognised in profit or loss and included in other operating expenses. The recoverable amount of the vessels of RM377,944,000 has been determined on the basis of their value in use. The discount rate used in measuring value in use was 5.36%. If the discount rate applied had been 0.1% lower/higher than management's estimate at 31 December 2016, the Group would have recognised a decrease/increase in impairment loss on plant and equipment of RM3,200,000 (2015: RM Nil) in the financial statements.

13. Prepaid land lease payments

	Group	
	2016	2015
	RM'000	RM'000
Cost		
Balance at beginning and end of financial year	10,352	10,352
Accumulated amortisation		
Balance at beginning of financial year	2,679	2,409
Amortisation for the financial year	270	270
- Recognised in profit or loss	108	108
- Capitalised in construction costs	162	162
Balance at end of financial year	2,949	2,679
Carrying amount		
Balance at end of financial year	7,403	7,673

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

13. Prepaid land lease payments (Continued)

The Group has land use rights over four plots of state-owned land in Malaysia where the Group's operations reside. The land use rights are not transferable and have a remaining tenure of 6 to 48 years (2015: 7 to 49 years).

As at 31 December 2016, prepaid land lease payments with a carrying amount of RM6.6 million (2015: RM6.8 million) are pledged for the Group's borrowings.

14. Investment properties

	Group	
	2016	2015
	RM'000	RM'000
Cost		
Balance at beginning of financial year	94,816	82,575
Exchange differences	1,905	12,241
Balance at end of financial year	96,721	94,816
Accumulated depreciation		
Balance at beginning of financial year	2,575	1,131
Depreciation for the financial year	1,298	1,195
Exchange differences	64	249
Balance at end of financial year	3,937	2,575
Carrying amount		
Balance at end of financial year	92,784	92,241

The Group's investment properties were valued as at 31 December 2016 by an independent professional valuation firm with experience in the location and category of the investment properties held by the Group. The valuations of RM80.6 million (2015: RM85.1 million) were arrived based on direct comparison with recent transactions of comparable properties within the vicinity, taken into consideration on prevailing market conditions and have made due adjustments to comparable transactions for differences in location, tenure, size, shape, design and layout, age and condition of buildings, dates of transactions and other factors affecting its value. The resulting fair values of investment properties are considered level 3 recurring fair value measurements and is based on highest and best use.

As at 31 December 2016, the Company's investment properties with a net carrying amount of RM92.8 million (2015: RM92.2 million) has been pledged to a financial institution as security in the interest of a subsidiary, Nam Cheong International Ltd.

All the Group's investment properties are held under leasehold interests.

The following amounts are recognised in profit or loss:

	Group	
	2016	2015
	RM'000	RM'000
Rental income from investment properties	3,254	2,750
Property tax	287	286
Repair and maintenance	217	185

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

14. Investment properties (Continued)

Details of the Group's investment properties as at 31 December 2016 are set out below:

Description	Location	Tenure/ Unexpired term	Approximate floor area (sqm)
Office building	8 Temasek Boulevard #41-01 to #41-03	Leasehold with 72 years expiring in 2088	938

15. Investments in subsidiaries

	Company	
	2016 RM'000	2015 RM'000
Unquoted shares, at cost	1,143,476	1,143,476
Employee's share grant, cost	213	213
Allowance for impairment loss	(64,501)	(64,501)
Balance at end of financial year	<u>1,079,188</u>	<u>1,079,188</u>
Amount due from a subsidiary	<u>1,228,129</u>	-
	<u>2,307,317</u>	<u>1,079,188</u>

Movement in the allowance for impairment loss are as follows:

	Company	
	2016 RM'000	2015 RM'000
Balance at beginning of financial year	(64,501)	-
Impairment loss recognised during the financial year	-	(64,501)
Balance at end of financial year	<u>(64,501)</u>	<u>(64,501)</u>

As at 31 December 2016, the Group carried out a review of the recoverable amount of the investment in Nam Cheong Offshore Pte Ltd, which provided corporate services in Singapore, due to its operating performance which was below expectations. The review led to the recognition of an impairment loss of RM Nil (2015: RM64.5 million) that has been recognised in profit or loss. In the previous financial year, the recoverable amount of the investment of RM84.8 million has been determined on the basis of its value in use. The discount rate used in measuring value in use was 4.8%.

Amount due from a subsidiary is denominated in the following currencies:

	Company	
	2016 RM'000	2015 RM'000
Singapore dollar	1,050,965	-
United States dollar	<u>177,164</u>	-
	<u>1,228,129</u>	-

Amount due from a subsidiary is unsecured and bears interest ranges 5% to 6.5% (2015: 5% to 6.5%) per annum. As the amount is, in substance, a part of the Company's net investment in subsidiaries, it is stated at cost less impairment losses, if any, during the financial year.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

15. Investments in subsidiaries (Continued)

Incorporation of subsidiaries

On 6 July 2015, SK Global Ltd incorporated a wholly-owned subsidiary, SK Prudence Ltd. in Federal Territory of Labuan, Malaysia, with a cash consideration of USD1.

On 6 April 2016, Nam Cheong Dockyard Sdn Bhd incorporated a wholly-owned subsidiary, SK Offshore & Marine Sdn. Bhd. in Malaysia, with a cash consideration of RM2.

On 14 April 2016, SK Global Ltd incorporated two wholly-owned subsidiaries, SK Capital Ltd. and SKOM Ltd. in the Federal Territory of Labuan, Malaysia, with a cash consideration of USD1 respectively.

Details of the Company's subsidiaries are as follows:

Name of subsidiaries	Principal place of business	Principal activities	Proportion of ownership interest		Non-controlling interests ownerships/ voting interest	
			2016 %	2015 %	2016 %	2015 %
Nam Cheong Dockyard Sdn. Bhd. ⁽²⁾	Malaysia	Shipbuilding	100	100	-	-
Nam Cheong Offshore Pte. Ltd. ⁽¹⁾	Singapore	Shipbuilding	100	100	-	-
Nam Cheong Capital Pte. Ltd. ⁽¹⁾	Singapore	Dormant	100	100	-	-
Nam Cheong International Ltd. ⁽²⁾	Federal Territory of Labuan, Malaysia	Shipbuilding	100	100	-	-
S.K. Marine Sdn. Bhd. ⁽²⁾	Malaysia	Vessel chartering	100	100	-	-
Nam Cheong Marine Ltd. ⁽³⁾	The Republic of the Marshall Islands	Dormant	100	100	-	-
Nam Cheong Marine Pte. Ltd. ⁽¹⁾	Singapore	Vessel chartering	100	100	-	-
NC Design Pte. Ltd. ⁽¹⁾	Singapore	Design services	100	100	-	-
Nam Cheong Pioneer Sdn. Bhd. ⁽²⁾	Malaysia	Investment holding	100	100	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

15. Investments in subsidiaries (Continued)

Name of subsidiaries	Principal place of business	Principal activities	Proportion of ownership interest		Non-controlling interests ownerships/ voting interest	
			2016 %	2015 %	2016 %	2015 %
SKOSV Sdn. Bhd. ⁽²⁾	Malaysia	Vessel chartering	70	70	30	30
Nam Cheong (Labuan) Ltd. ⁽²⁾	Federal Territory of Labuan, Malaysia	Vessel chartering	100	100	-	-
Nam Cheong OSV Ltd. ⁽²⁾	Federal Territory of Labuan, Malaysia	Vessel chartering	100	100	-	-
Nam Cheong Venture Ltd. ⁽²⁾	Federal Territory of Labuan, Malaysia	Vessel chartering	100	100	-	-
SK Venture Ltd. ⁽²⁾	Federal Territory of Labuan, Malaysia	Vessel chartering	100	100	-	-
SK Machine Ltd. ⁽²⁾	Federal Territory of Labuan, Malaysia	Trading	100	100	-	-
Nam Cheong Property Pte. Ltd. ⁽¹⁾	Singapore	Investment holding	100	100	-	-
SK Global Ltd. ⁽²⁾	Federal Territory of Labuan, Malaysia	Vessel chartering	100	100	-	-
SK Pride Ltd. ⁽²⁾	Federal Territory of Labuan, Malaysia	Vessel chartering	100	100	-	-
SK Patriot Ltd. ⁽²⁾	Federal Territory of Labuan, Malaysia	Vessel chartering	100	100	-	-
SK Power Ltd. ⁽²⁾	Federal Territory of Labuan, Malaysia	Vessel chartering	100	100	-	-
SK Precious Ltd. ⁽²⁾	Federal Territory of Labuan, Malaysia	Vessel chartering	100	100	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

15. Investment in subsidiaries (Continued)

Name of subsidiaries	Principal place of business	Principal activities	Proportion of ownership interest		Non-controlling interests ownerships/ voting interest	
			2016	2015	2016	2015
			%	%	%	%
SK Prudence Ltd. (2)	Federal Territory of Labuan, Malaysia	Vessel chartering	100	100	-	-
SK Offshore & Marine Sdn. Bhd (2)	Malaysia	Vessel Chartering	100	-	-	-
SK Capital Ltd. (2)	Federal Territory of Labuan, Malaysia	Vessel Chartering	100	-	-	-
SKOM Ltd. (2)	Federal Territory of Labuan, Malaysia	Vessel Chartering	100	-	-	-

(1) Audited by BDO LLP, Singapore

(2) Audited by BDO, Malaysia

(3) Reviewed by BDO, Malaysia

The non-controlling interests of SKOSV Sdn. Bhd. that is not 100% owned by the Group is considered to be insignificant.

16. Investments in joint ventures

	Group	
	2016	2015
	RM'000	RM'000
Unquoted shares, at cost	13,464	13,464
Share of post acquisition results	(2,507)	(4,840)
	<u>10,957</u>	<u>8,624</u>

The Group has interest in joint ventures through separate structure vehicles incorporated and operating in Malaysia and Indonesia. The contractual arrangements provides the Group with only the rights to the net assets of the joint arrangements. Under IFRS 11, these joint arrangements is classified as a joint ventures and have been included in the consolidated financial statements using the equity method.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

16. Investments in joint ventures (Continued)

Details of the joint ventures are as follows:

Name of joint ventures	Principal place of business	Principal activity	Proportion of ownership interest	
			2016 %	2015 %
Synergy Kenyalang Offshore Sdn. Bhd.* ("SKO")	Malaysia	Vessel chartering	40	40
P.T. Bahtera Niaga Indonesia ** ("PTBNI")	Indonesia	Vessel chartering	49	49
Marco Polo Offshore (IV) Pte Ltd *** ("MPO")	Federal Territory of Labuan, Malaysia	Vessel chartering	50	50

* Audited by BDO, Malaysia

** Reviewed by BDO, Malaysia

*** Audited by Mazars, Malaysia

The principal activities of those joint ventures are in line with the Group's strategy to expand the vessel chartering and shipbuilding businesses.

The summarised financial information below reflects the amounts presented in the financial statements of two material joint ventures, SKO and MPO (2015: SKO and MPO), and not the Group's share of those amounts, adjusted for differences in accounting policies between the Group and the joint ventures.

	MPO		SKO		Total	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Assets and liabilities						
Cash and cash equivalents	2,661	2,625	35,723	36,882	38,384	39,507
Trade receivables	25,097	4,222	685	6,715	25,782	10,937
Other current assets	403	512	972	986	1,375	1,498
Current assets	28,161	7,359	37,380	44,583	65,541	51,942
Non-current assets	127,418	129,472	68,725	69,335	196,143	198,807
Total assets	155,579	136,831	106,105	113,918	261,684	250,749
Current liabilities	(34,532)	(106,359)	(56,069)	(27,238)	(90,601)	(133,597)
Non-current liabilities	(74,339)	-	(12,232)	(48,619)	(86,571)	(48,619)
Total liabilities	(108,871)	(106,359)	(68,301)	(75,857)	(177,172)	(182,216)
Net assets	46,708	30,472	37,804	38,061	84,512	68,533
Proportion of the Group's ownership	50%	50%	40%	40%		
Share of net assets	23,354	15,234	15,121	15,225	38,475	30,459

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

16. Investments in joint ventures (Continued)

	MPO		Group		Total	
	2016	2015	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets and liabilities						
(Continued)						
<i>Included in the current and non-current liabilities are:</i>						
Current financial liabilities (excluding trade and other payables and provision)	(33,050)	(106,177)	(45,639)	(17,779)	(78,689)	(123,956)
Non-current financial liabilities (excluding trade and other payables and provision)	(71,149)	-	(12,232)	(48,619)	(83,381)	(48,619)
Income and expenses						
Revenue	24,070	19,981	13,478	25,202	37,548	45,183
Operating expenses	(311)	(217)	(7,068)	(8,273)	(7,379)	(8,490)
Depreciation and amortisation	(7,021)	(6,240)	(4,539)	(4,528)	(11,560)	(10,768)
Interest income	-	-	637	103	637	103
Interest expense	(3,515)	(2,944)	(2,003)	(2,395)	(5,518)	(5,339)
Profit before income tax	13,223	10,580	505	10,109	13,728	20,689
Adjustment for prior year profits	-	-	(520)	(4,162)	(520)	(4,162)
Income tax (expense)/income	(2)	-	(26)	(2,588)	(28)	(2,588)
(Loss)/Profit after income tax, representing total comprehensive income	13,221	10,580	(41)	3,359	13,180	13,939
Proportion of the Group's ownership	50%	50%	40%	40%		
Share of post-tax (losses)/profits	6,610	5,290	(17)	1,343	6,593	6,633

The summarised financial information of immaterial joint ventures, PTBNI is as follows:

	2016	2015
	RM'000	RM'000
Loss from continuing operations	(5,446)	(5,666)
Total comprehensive loss	(5,446)	(5,666)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

16. Investments in joint ventures (Continued)

Reconciliation of summarised financial information presented, to the carrying amount of the Group's interest in joint venture, is as follows:

	MPO		Group		Total	
	2016	2015	SKO	SKO	2016	2015
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Net assets						
At 1 January	15,234	-	15,225	13,882	30,459	13,882
(Loss)/ Profit for the financial year	6,610	5,290	(17)	1,343	6,593	6,633
Foreign exchange differences	1,423	9,944	-	-	1,423	9,944
At 31 December	23,267	15,234	15,208	15,225	38,475	30,459
Elimination of accumulated unrealised profits	(19,322)	(13,639)	(8,196)	(8,196)	(27,518)	(21,835)
Carrying value of material joint venture	3,945	1,595	7,012	7,029	10,957	8,624
<i>Add immaterial joint ventures:</i>						
Carrying value of individually immaterial joint ventures					3,170	8,338
Elimination of unrealised profits					(3,170)	(8,338)
Carrying value of the Group's investment in joint ventures					10,957	8,624

The joint ventures had no contingent liabilities and capital commitments as at 31 December 2016 and 31 December 2015.

The Group has not recognised losses relating to PTBNI where its share of losses exceeds the Group's carrying amount of its investment in the joint venture. The Group's cumulative share of unrecognised losses were RM8,223,000 (2015: RM2,777,000). The Group has no obligation in respect to those losses.

17. Investment in an associate

	Group	
	2016	2015
	RM'000	RM'000
Equity shares, at cost	110,400	110,400
Share of post acquisition results	(32,115)	(22,119)
Allowance for impairment loss	(3,445)	-
	74,840	88,281

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

17. Investment in an associate (Continued)

Movement in the allowance for impairment loss are as follows:

	Group	
	2016 RM'000	2015 RM'000
Balance at beginning of financial year	-	-
Impairment loss recognised during the year	3,445	-
Balance at end of financial year	<u>3,445</u>	<u>-</u>

Details of the associate are as follows:

Name of associate	Principal place of business	Principal activity	Proportion of ownership interest	
			2016 %	2015 %
P.T. Pelayaran Nasional Bina Buana Raya Tbk *	Indonesia	Vessel chartering	30	30

* Audited by Hertanto, Grace & Karunawan, Indonesia

The principal activities of the associate is in line with the Group's strategy to expand the vessel chartering business.

The summarised financial information below reflects the amounts presented in the financial statements of the associate (and not the Group's share of those amounts), adjusted for differences in accounting policies between the Group and the associate.

	Group	
	2016 RM'000	2015 RM'000
Assets and liabilities		
Current assets	31,247	29,344
Non-current assets	583,783	642,452
Total assets	<u>615,030</u>	<u>671,796</u>
Current liabilities	(213,058)	(129,674)
Non-current liabilities	(107,044)	(213,873)
Total liabilities	<u>(320,102)</u>	<u>(343,547)</u>
Net assets	<u>294,928</u>	<u>328,249</u>
Proportion of the Group's ownership	30%	30%
Share of net assets	<u>88,479</u>	<u>98,475</u>

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

17. Investment in an associate (Continued)

	2016 RM'000	2015 RM'000
Income and expenses		
Revenue	111,081	95,727
Operating expenses	(89,138)	(190,340)
Loss on impairment	(20,886)	-
Depreciation and amortisation	(43,662)	(339)
Interest income	7,283	1,395
Interest expense	(10,871)	(12,255)
Loss before income tax	(46,193)	(105,812)
Income tax expense	(1,378)	(1,223)
Loss after income tax	(47,571)	(107,035)
Other comprehensive income	-	792
Loss after income tax, representing total comprehensive income	(47,571)	(106,243)
Proportion of the Group's ownership	30%	30%
Share of post-tax losses	(14,271)	(31,873)

As at 31 December 2016, the fair value of the Group's investment in P.T. Pelayaran Nasional Bina Buana Raya Tbk ("BBR"), which is listed on the Bursa Efek Indonesia (Indonesia Stock Exchange), was RM26.6 million (2015: RM24.5 million). The fair value measurement is classified within Level 1 of the fair value hierarchy. The carrying amount of the Group's investment in the associate was RM74.8 million (2015: RM88.3 million).

The Group carried out a review of the recoverable amount of the investment in BBR as at 31 December 2016 due to significant decline in market price and operating loss in this chartering segment. The recoverable amount of the investment in BBR is approximately RM74.8 million (2015: RM96.0 million), which is lower (2015: higher) than its carrying value, has been determined on the basis of its value-in-use ("VIU") based on cash flow forecast derived from the most recent financial budgets approved by management for the next 5 years. The discount rate used in measuring VIU was 9.26% (2015: 10.1%). The review led to the recognition of an impairment loss of RM3,445,000 (2015: RM Nil) that has been recognised in profit or loss.

If the discount rate applied had been 0.3% lower/higher than management's estimate at 31 December 2016, the Group would have recognised a decrease/increase in impairment loss on investment in an associate of RM3,200,000 (2015: RM Nil) in the financial statements.

Reconciliation of summarised financial information presented, to the carrying amount of the Group's interest in associate, is as follows:

	2016 RM'000	2015 RM'000
Net assets		
At 1 January/At acquisition	98,475	110,400
Loss for the financial year	(14,271)	(31,873)
Foreign exchange differences	4,275	19,948
At 31 December	88,479	98,475
Elimination of accumulated unrealised profits	(10,194)	(10,194)
Impairment loss recognised during the year	(3,445)	-
Carrying value of the Group's investment in associate	74,840	88,281

The investment in associate had no contingent liabilities and capital commitments at 31 December 2016 and 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

18. Held-to-maturity financial assets

	Group	
	2016	2015
	RM'000	RM'000
Unquoted debt securities		
Non-current		
- At amortised cost	-	110,102
Current		
- At amortised cost	-	16,924

During the financial year, held-to-maturity financial assets are reclassified to available-for-sale financial assets as a result of the change in intention or ability of the Group to hold these assets to maturity.

The average effective interest rate of the unquoted debt securities is 4.58% per annum.

As at 31 December 2015, the unquoted debt securities had nominal values amounting to RM127.0 million), with coupon rates ranging from 3.1% to 6.25% per annum and maturity dates ranging from March 2016 to February 2023.

The Group's held-to-maturity financial assets are denominated in Singapore dollar.

19. Available-for-sale financial assets

	Group	
	2016	2015
	RM'000	RM'000
Balance at beginning of financial year	-	-
Reclassified from held-to-maturity financial assets	111,112	-
Disposals	(81,843)	-
Exchange differences	5,889	-
Balance at end of financial year	35,158	-

The available-for-sale financial assets are investments in unquoted debt securities. The average effective interest rate of the unquoted debt securities is 4.85% per annum.

As at 31 December 2016, the unquoted debt securities have fair values amounting to RM35.1 million, with coupon rates ranging from 4.75% to 5.35% per annum and maturity dates ranging from February 2017 to November 2018. The fair value of these securities are based on brokers' price quotations on the last market day of the financial year.

The Group's available-for-sale financial assets are denominated in Singapore dollar.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

20. Inventories

	Group	
	2016 RM'000	2015 RM'000
Raw materials	25,491	25,793
Work-in-progress	2,432,585	1,802,006
	2,458,076	1,827,799
Less: Inventories written down	(59,772)	-
	2,398,304	1,827,799
Inventories recognised as an expense in cost of sales	75,190	721,271

The work-in-progress represents costs incurred for unsold vessels under construction.

Due to the decrease in inventory turnover as a result of the market downturn, the Group carried out a review of the net realisable value of its unsold vessels classified in work-in-progress. The carrying amount of its unsold vessels were compared against latest transacted or indicative selling prices of similar vessels. The review led to the recognition of a written down value of RM59,772,000 (2015: RM Nil) that has been recognised in profit or loss. As at 31 December 2016, the net realisable value of the unsold vessels is RM2,372,813,000.

21. Trade and other receivables

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Trade receivables				
Third parties	50,982	47,179	-	-
Less: Allowance for impairment	(948)	(2,384)	-	-
	50,034	44,795	-	-
Other receivables				
Amounts due from subsidiaries	-	-	100,576	1,198,258
Amounts due from joint ventures	67,864	44,749	-	-
Deposits paid to suppliers and contractors	-	73	-	-
Deposits	1,100	1,085	-	-
Sundry receivables	10,550	15,858	-	15
Less: Allowance for impairment	(1,536)	(904)	-	-
	77,978	60,861	100,576	1,198,273
	128,012	105,656	100,576	1,198,273

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

21. Trade and other receivables (Continued)

Trade and other receivables are denominated in the following currencies:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Ringgit Malaysia	21,042	25,921	706	30,204
Singapore dollar	2,047	9,883	80,411	1,046,482
United States dollar	104,857	68,869	19,459	121,587
Euro	-	11	-	-
Brunei dollar	51	935	-	-
Others	15	37	-	-
	<u>128,012</u>	<u>105,656</u>	<u>100,576</u>	<u>1,198,273</u>

The Group's trading terms with its customers are mainly on credit. The credit period ranges from one to two months (2015: one to two months). The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Trade receivables are non-interest bearing. Sundry receivables are repayable on demand.

The Group has no significant exposure to certain debtors.

The age analysis of trade receivables are as follows:

	Group	
	2016 RM'000	2015 RM'000
Neither past due nor impaired	20,999	7,454
1 to 3 months past due but not impaired	23,105	9,480
3 to 6 months past due but not impaired	728	4,910
More than 6 months past due but not impaired	5,202	22,951
	29,035	37,341
More than 6 months past due and impaired	948	2,384
	<u>50,982</u>	<u>47,179</u>

Receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group. This represents approximately 41% (2015: 16%) of the Group's trade receivables.

None of the Group's trade receivables that are neither past due nor impaired have been renegotiated during the financial year.

Receivables that are past due but not impaired

The Group has trade receivables amounting to RM29.0 million (2015: RM37.3 million) that are past due at the end of the reporting period but not impaired and are unsecured in nature. 24% (2015: 23%) of these amounts were collected subsequent to the end of the reporting period. Accordingly, they are not impaired.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

21. Trade and other receivables (Continued)

Receivables that are impaired

The Group's trade receivables that are impaired at the end of the reporting period and movement of the allowance accounts used to record the impairment are as follows:

	Individually impaired Group	
	2016 RM'000	2015 RM'000
Trade receivables – nominal amounts	948	2,384
Less: Allowance for impairment	(948)	(2,384)
	<u>-</u>	<u>-</u>
Movements in allowance for impairment of trade receivables were as follows:		
Balance at beginning of financial year	2,384	682
Charge for the financial year	164	1,702
Allowance for trade receivables written back	(1,635)	-
Exchange difference	35	-
Balance at end of financial year	<u>948</u>	<u>2,384</u>

Trade receivables that are individually determined to be impaired at the end of the reporting period relate to debtors that may settle their debts beyond the prescribed credit terms.

The receivables that are impaired are not secured by any collateral or credit enhancements.

The Group's other receivables that are impaired at the end of the reporting period and movement of the allowance accounts used to record the impairment are as follows:

	Individually impaired Group	
	2016 RM'000	2015 RM'000
Other receivables – nominal amounts	1,536	904
Less: Allowance for impairment	(1,536)	(904)
	<u>-</u>	<u>-</u>
Movements in allowance for impairment of other receivables were as follows:		
Balance at beginning of financial year	904	1,214
Charge for the financial year	1,032	-
Written off	(400)	(310)
Balance at end of financial year	<u>1,536</u>	<u>904</u>

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

21. Trade and other receivables (Continued)

Receivables that are impaired (Continued)

Other receivables that are individually determined to be impaired at the end of the reporting period relate to debtors that may settle their debts beyond the prescribed credit terms.

Other receivables that are impaired are not secured by any collateral or credit enhancements.

Other receivables amounting to RM15,000 was written off during the financial year subsequent to the recoverability assessment made by the Group.

Amounts due from subsidiaries/joint ventures

The amounts due from subsidiaries/joint ventures are unsecured, interest-free, repayable on demand and are to be settled in cash except the amounts due from subsidiaries amounting to RM97,122,000 (2015: RM1,071,266,000) bears interest ranges 5% to 6.5% (2015: 5% to 6.5%) per annum.

22. Prepayments

The prepayments mainly relate to prepaid amount of inventories and operating expenses.

Prepayments amounting to RM19,929,000 were written off during the year as it relates to long outstanding payments made in prior years to secure inventories which are no longer in use.

23. Due from/(to) customers on contracts

	Group	
	2016 RM'000	2015 RM'000
Construction contract costs incurred to date	709,178	1,039,283
Recognised attributable profits	111,636	156,291
	820,814	1,195,574
Less: Progress billings	(362,207)	(689,808)
	458,607	505,766
Due from customers on contracts	462,398	522,734
Due to customers on contracts	(3,791)	(16,968)
	458,607	505,766

The costs incurred to date on construction contracts include the following charges made during the financial year:

	Group	
	2016 RM'000	2015 RM'000
Amortisation of prepaid land lease payments	162	162
Depreciation of property, plant and equipment	2,505	2,856
Interest expense	75,436	57,346

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

24. Derivatives

	Group	
	2016	2015
	RM'000	RM'000
Derivative financial assets		
Derivatives designated as hedging instrument		
- Forward currency contracts	-	151
	<hr/>	<hr/>
Derivative financial liabilities		
Derivatives designated as hedging instrument		
- Forward currency contracts	-	(9,146)
	<hr/>	<hr/>
Contract/Notional amount	<hr/>	<hr/>
	-	169,278

The derivatives qualify for hedge accounting were designated as cash flow hedges and were entered into for periods consistent with currency transaction exposure.

Forward currency contracts were used to hedge the Group's sales and purchases denominated in USD, SGD, NOK and EUR for which firm commitments and forecast transactions existed at the end of the reporting period.

The maximum exposure to credit risk at the reporting date was the fair value of the derivative assets in the consolidated statement of financial position.

Cash flows hedge

Foreign exchange risk arises when individual group operations enter into transactions denominated in a currency other than their functional currency. Where the risk to the Group was considered to be significant, Group treasury entered into a matching forward currency contract with a reputable bank.

The hedged firm commitments and forecast transactions denominated in foreign currency were expected to occur at various dates within the next 12 months. Gains and losses recognised in the cash flow hedge reserve in equity on forward currency contracts were recognised in the consolidated statement of comprehensive income in the period or periods during which the hedged forecast transaction affects the consolidated statement of comprehensive income.

The notional principal amounts of outstanding forward currency contracts at 31 December 2016 were RM Nil (2015: RM169,278,000). The net fair value gain (2015: loss) at the end of the reporting period is approximately RM2,378,000 (2015: RM8,995,000).

During the year, the Group discontinued its cash flow hedge accounting as the forecasted transactions were no longer expected to occur. The Group reclassified its remaining cash flow hedge reserves of RM6,617,000 to other income and presented the figure as a net gain of RM2,378,000 for the financial year ended 31 December 2016.

In the previous financial year, the ineffective portion recognised in profit or loss that arose from cash flow hedges amounted to RM7,302,000. The net unrealised loss from cash flow hedges that was recognised in other comprehensive income for the financial year ended 31 December 2015 was RM71,696,000.

The amount that was reclassified from equity to profit or loss was disclosed in Note 28 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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25. Cash and cash equivalents

	Group		Company	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Fixed deposits	153,003	67,599	60,508	-
Cash and bank balances	148,490	438,461	1,003	131,483
	<u>301,493</u>	<u>506,060</u>	<u>61,511</u>	<u>131,483</u>

The Group's fixed deposits mature on varying dates between 7 days to 12 months (2015: 11 days to 12 months). The interest rate on the fixed deposits range from 0.2% to 3.1% (2015: 0.81% to 3.10%) per annum.

As at 31 December 2016, the Group has pledged RM62,610,000 (2015: RM64,069,000) of its fixed deposits to bankers as security for borrowings as disclosed in Note 29 to the financial statements and bankers' guarantees granted to the Group as disclosed in Note 38 to the financial statements.

As at 31 December 2016, the Group and the Company has pledged RM 60,508,000 (2015: RM Nil) of its fixed deposits for future coupon payments of the multicurrency medium term notes programme. The deposits are maintained in an Interest Reserve Balance as required by Clause 2.1.9(ix) in the Supplemental Trust Deed dated 1st February 2016. No interest is earned on these amounts in the Interest Reserve Balance.

Cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Ringgit Malaysia	31,402	14,857	-	-
Singapore dollar	233,370	314,653	61,511	131,483
United States dollar	29,923	114,724	-	-
Euro	4,563	16,600	-	-
Pound Sterling	14	16	-	-
Japanese Yen	204	44,282	-	-
Brunei dollar	2,009	921	-	-
Australia dollar	8	7	-	-
	<u>301,493</u>	<u>506,060</u>	<u>61,511</u>	<u>131,483</u>

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

25. Cash and cash equivalents (Continued)

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following as at the end of the reporting period:

	Group	
	2016	2015
	RM'000	RM'000
Fixed deposits	153,003	67,599
Cash and bank balances	148,490	438,461
	<u>301,493</u>	<u>506,060</u>
Less: Bank overdrafts	(15,757)	-
Less: Restricted fixed deposits	(123,118)	(64,069)
	<u>162,618</u>	<u>441,991</u>

26. Share capital and share premium

Share capital

	Group and Company			
	Number of ordinary shares of HK\$0.50 each		Amount	
	2016	2015	2016	2015
	'000	'000	RM'000	RM'000
Authorised share capital				
Ordinary shares	4,000,000	4,000,000	815,727	815,727
Issued and fully paid-up share capital				
Balance at beginning and end of financial year	2,103,144	2,103,144	405,962	405,962

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share without restriction at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

Share premium

	Group		Company	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Balance at beginning and end of financial year	82,347	82,347	82,347	82,347

Share premium is the amount subscribed for share capital in excess of nominal value.

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27. Treasury shares

	Group and Company			
	Number of ordinary shares		Amount	
	2016 '000	2015 '000	2016 RM'000	2015 RM'000
Balance at beginning of financial year	6,678	6,889	4,097	7,090
Acquired during the financial year	-	4,628	-	2,292
Re-issued for share awards vested	-	(4,839)	-	(5,285)
Balance at end of financial year	<u>6,678</u>	<u>6,678</u>	<u>4,097</u>	<u>4,097</u>

In the previous financial year, the Company acquired 4,628,000 of its ordinary shares through purchases in the open market. The total amount paid to acquire the shares was approximately RM2.3 million (equivalent to S\$0.8 million) and had been deducted from shareholders' equity.

The treasury shares had been used and released for share awards vested under the Nam Cheong Group 2013 Share Grant Plan. The difference between the average price paid to acquire treasury shares and the share grant price had been presented within the consolidated statement of changes in equity.

28. Reserves

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Foreign currency translation reserve	327,787	300,716	-	-
Cash flow hedge reserve	-	(6,617)	-	-
Share grant reserve	-	-	-	-
Capital surplus	-	-	778,608	778,608
	<u>327,787</u>	<u>294,099</u>	<u>778,608</u>	<u>778,608</u>

The Group and Company's reserves and the movements therein for the current and previous financial year are presented in the statements of changes in equity of the financial statements.

The nature and purpose of each category of reserve are as follows:

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency. It is also used to record the exchange differences arising from monetary items which form part of the Group's net investment in foreign operations.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

28. Reserves (Continued)

Share grant reserve

In the previous financial year, the conditional shares awarded under the Nam Cheong Group 2013 Share Grant Plan to the selected management staff were described below:

Plan description	Award of fully-paid ordinary shares of the Company, conditional on performance targets set at the start of a one-year performance period based on medium term corporate objectives with some degree of stretch.
Date of grant	18 October 2013
Number of share grant	14,368,000 (maximum)
Market price on grant date	S\$0.28
Performance period	1 January 2013 to 31 December 2013
Vesting condition	Based on meeting stated performance conditions over a one-year performance period, 50% of award will vest. Balance will vest over the subsequent one year with fulfilment of service requirements.
Payout	0% – 200% depending on the achievement of pre-set performance targets over the performance period.

The details of shares awarded pursuant to the Plans were as follows:

Grant date	Balance at beginning of financial year	Cancelled during the financial year	Released during the financial year	Lapsed during the financial year	Balance at end of financial year
18 October 2013					
2015					
- For management of the Group	2,093,898	(172,283)	(1,921,615)	-	-
- For executive director	2,916,945	-	(2,916,945)	-	-
	<u>5,010,843</u>	<u>(172,283)</u>	<u>(4,838,560)</u>	-	-

The fair values of the performance shares were determined by reference to the market price of S\$0.28 on grant date spread over the vesting period on the basis that all performance targets were met.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

28. Reserves (Continued)

Share grant reserve (Continued)

The total amount recognised in the financial statements for share-based payment transactions with employees was summarised as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Employee benefits expense				
- Share grant plan	-	683	-	470

Cash flow hedge reserve

The Group's cash flow hedge reserve contains the effective portion of the cash flow hedges relationship incurred as at the reporting period. RM Nil (2015: RM6.6 million) are made up of the net movements in cash flows hedge and the effective portion of the forward currency contracts as shown below:

	Group	
	2016 RM'000	2015 RM'000
Balance at beginning of financial year	(6,617)	(38,045)
Reclassification during the financial year:		
- Inventories	-	103,124
- Other income	6,617	-
Net unrealised loss on cash flow hedges	-	(71,696)
Balance at end of financial year	-	(6,617)

Capital surplus

The capital surplus represented the difference arising from the reverse takeover exercise in 2011.

Retained earnings

The retained earnings represents all other net gains and losses and transactions with owners not recognised elsewhere. Retained earnings of the Group are distributable.

Movements of retained earnings of the Company are as follows:

	Company	
	2016 RM'000	2015 RM'000
Balance at beginning of financial year	19,855	8,523
Total comprehensive income for the financial year	38,558	98,004
Treasury shares re-issued for share awards vested	-	(1,776)
Dividends paid	-	(84,896)
Balance at end of financial year	58,413	19,855

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

29. Loans and borrowings

		Maturity on borrowings	Group		Company	
			2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Short term borrowings						
Secured:						
Bank overdrafts	RM-Floating rate	On demand	2,268	-	-	-
Bank overdrafts	SGD-Floating rate	On demand	13,489	-	-	-
Project invoice financing	USD-Fixed rate	On demand	588	12,367	-	-
Revolving credit	RM-Floating rate	On demand	112,000	88,000	-	-
Revolving credit	SGD-Floating rate	On demand	155,036	98,685	-	-
Revolving credit	USD-Floating rate	On demand	333,859	385,354	-	-
Trust receipt	RM-Floating rate	On demand	5,633	2,950	-	-
Term loans	RM-Floating rate	2017	5,000	-	-	-
Term loans	RM-Fixed rate	2017	-	4,000	-	-
Term loans	USD-Floating rate	2017	42,281	5,751	-	-
Term loans	SGD-Floating rate	2017	-	12,183	-	-
Unsecured:						
Medium term notes	SGD-Fixed rate	2017	278,566	18,690	294,457	18,690
			<u>948,720</u>	<u>627,980</u>	<u>294,457</u>	<u>18,690</u>
Long term borrowings						
Secured:						
Project invoice financing	USD-Fixed rate	2018	9,435	-	-	-
Project invoice financing	EUR-Fixed rate	2018	4,305	-	-	-
Project invoice financing	JPY-Fixed rate	2018	5,002	-	-	-
Revolving credit	USD-Floating rate	2018	14,018	-	-	-
Term loans	RM-Floating rate	2018-2020	26,000	-	-	-
Term loans	RM-Fixed rate	2018-2020	-	31,000	-	-
Term loans	SGD-Floating rate	2018-2022	-	71,974	-	-
Term loans	USD-Floating rate	2018	-	19,167	-	-
Unsecured:						
Medium term notes	SGD-Fixed rate	2018-2019	816,021	1,059,086	847,228	1,105,256
			<u>874,781</u>	<u>1,181,227</u>	<u>847,228</u>	<u>1,105,256</u>
Total borrowings						
Secured:						
Bank overdrafts			15,757	-	-	-
Project invoice financing			19,330	12,367	-	-
Revolving credit			614,913	572,039	-	-
Trust receipt			5,633	2,950	-	-
Term loans			73,281	144,075	-	-
Unsecured:						
Medium term notes			1,094,587	1,077,776	1,141,685	1,123,946
			<u>1,823,501</u>	<u>1,809,207</u>	<u>1,141,685</u>	<u>1,123,946</u>

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

29. Loans and borrowings (Continued)

Loans and borrowings bear effective interest rates per annum ranging as follows:

	Group		Company	
	2016	2015	2016	2015
	%	%	%	%
Bank overdrafts	4.35 – 6.25	-	-	-
Project invoice financing	1.75 – 3.80	2.15 – 2.68	-	-
Revolving credit	3.55 – 5.98	3.32 – 6.22	-	-
Term loans	3.46 – 4.79	2.71 – 7.41	-	-
Medium term notes	5.00 – 6.50	5.00 – 6.50	5.00 – 6.50	5.00 – 6.50

The remaining maturities of the loans and borrowings as at the end of the reporting period are as follows:

	Group		Company	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
On demand or within one financial year	948,720	627,980	294,457	18,690
More than 1 financial year and less than 2 financial years	267,456	278,762	227,891	271,407
More than 2 financial years and less than 5 financial years	607,325	902,465	619,337	833,849
5 financial years or more	-	-	-	-
	1,823,501	1,809,207	1,141,685	1,123,946

The borrowings are secured by the following:

- (i) all monies facilities agreement between the banks and certain subsidiaries;
- (ii) existing facility agreement, legal assignment of all the rights, interest title and benefits in respect of vessels financed by the banks and two party Master Deed of Assignment of contract proceeds;
- (iii) first, second, third and fourth legal charge over prepaid land leases;
- (iv) letter of undertaking to repay the principal to the banks by certain subsidiaries in the event that the relevant vessels are not completed during the specified period;
- (v) fixed deposits;
- (vi) certain properties and assets of the Group as disclosed in Note 12 to the financial statement; and
- (vii) corporate guarantee by the Company.

Medium term notes ("MTN")

On 5 November 2012, the Company issued S\$110,000,000 6% fixed rate MTN (the "Series 1 Notes") under its S\$200,000,000 multicurrency medium term notes programme. The Series 1 Notes had matured on 5 November 2015.

On 28 August 2013, the Company issued S\$90,000,000 5% fixed rate MTN (the "Series 2 Notes") under its S\$200,000,000 multicurrency medium term notes programme. The Series 2 Notes will mature on 28 August 2017.

On 17 December 2013, the Company's maximum aggregate principle amount of notes which may be issued under the multicurrency medium term notes programme has been increased from S\$200,000,000 to S\$600,000,000.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

29. Loans and borrowings (Continued)

Medium term notes ("MTN") (Continued)

On 26 August 2014, the Company issued S\$200,000,000 5.05% fixed rate MTN (the "Series 3 Notes") under its S\$600,000,000 multicurrency medium term notes programme. The Series 3 Notes will mature on 26 August 2019.

On 23 July 2015, the Company issued S\$75,000,000 6.50% fixed rate MTN (the "Series 4 Notes") under its S\$600,000,000 multicurrency medium term notes programme. The Series 4 Notes will mature on 23 July 2018.

The MTN are classified as debt instruments and hence are reported as liabilities.

	Group		Company	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
The MTN are accounted for in the statements of financial position as follows:				
Balance at beginning of financial year				
- Principal of MTN	1,084,292	1,023,734	1,130,462	1,074,690
- Unamortised transaction cost	(6,516)	(7,653)	(6,516)	(7,653)
	1,077,776	1,016,081	1,123,946	1,067,037
Proceeds from issuance of MTN	-	213,039	-	210,239
Repayment	-	(275,077)	-	(275,077)
Exchange differences	21,373	117,402	22,301	115,416
Less: Unamortised transaction costs	(12,056)	(2,798)	(12,056)	(2,798)
	1,087,093	1,068,647	1,134,191	1,114,817
Interest expense recognised in statements of comprehensive income:				
- Principal of MTN	58,592	64,029	58,592	64,029
- Amortised transaction cost	7,071	3,935	7,071	3,935
	65,663	67,964	65,663	67,964
Interest expense on the MTN paid:				
Paid during the financial year	(58,169)	(58,835)	(58,169)	(58,835)
Balance at end of financial year				
- Principal of MTN	1,106,088	1,084,292	1,153,186	1,130,462
- Unamortised transaction cost	(11,501)	(6,516)	(11,501)	(6,516)
Amount included in loan and borrowings	1,094,587	1,077,776	1,141,685	1,123,946

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For the financial year ended 31 December 2016

30. Deferred tax liabilities

	Group	
	2016 RM'000	2015 RM'000
Balance at beginning of financial year	1,478	1,344
Recognised in profit and loss	-	119
Exchange differences	2	15
Balance at end of financial year	<u>1,480</u>	<u>1,478</u>

Deferred tax liabilities of the Group

	Accelerated capital allowances	
	2016 RM'000	2015 RM'000
Balance at beginning of financial year	1,478	1,344
Recognised in profit and loss	-	119
Exchange differences	2	15
Balance at end of financial year	<u>1,480</u>	<u>1,478</u>

As at 31 December 2016, the aggregate amount of temporary differences associated with undistributed earnings of the subsidiaries, joint ventures and associate for which deferred tax liabilities have not been recognised is RM77,677,000 (2015: RM45,341,000). No deferred tax is recognised in respect of the differences with the subsidiaries and joint ventures as the Group is in a position to control the timing of the reversal of temporary differences and it is probable that such differences will not reverse in the foreseeable future. The deferred tax liability arising from taxable temporary differences associated with the investment in an associate is not recognised as the amount is insignificant to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

31. Trade and other payables

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Current				
Trade payables				
Third parties	824,398	702,216	-	-
Other payables				
Accruals	4,488	5,731	1,750	1,751
Deposits	59,907	18,019	-	-
Amounts due to subsidiaries	-	-	4,743	766
Sundry payables	9,870	8,130	-	50
	<u>74,265</u>	<u>31,880</u>	<u>6,493</u>	<u>2,567</u>
Current, total	<u>898,663</u>	<u>734,096</u>	<u>6,493</u>	<u>2,567</u>
Non-current				
Sundry payables	2,637	2,692	-	-
Total trade and other payables	<u>901,300</u>	<u>736,788</u>	<u>6,493</u>	<u>2,567</u>

Trade and other payables are denominated in the following currencies:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Ringgit Malaysia	26,747	30,823	-	11
Singapore dollar	5,582	5,975	6,493	2,556
United States dollar	868,878	699,746	-	-
Euro	86	187	-	-
Others	7	57	-	-
	<u>901,300</u>	<u>736,788</u>	<u>6,493</u>	<u>2,567</u>

(a) Trade payables

Trade payables are non-interest bearing and the normal trade credit term granted to the Group ranges from 30 to 60 days (2015: 30 to 60 days).

(b) Sundry payables

These amounts are non-interest bearing. Sundry payables are normally settled on an average term of six months (2015: average term of six months).

The non-current sundry payables is related to waived payments payable to the Government of Malaysia ("Government") for the Group's leasehold land as disclosed in Note 12 to the financial statements. The waiver constitutes a government grant.

(c) Amount due to subsidiaries

The amounts due to subsidiaries are unsecured, interest-free, repayable on demand and are to be settled in cash.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

32. Provisions

	Group	
	2016	2015
	RM'000	RM'000
Maintenance warranties		
Balance at beginning and end of financial year	<u>200</u>	<u>200</u>

A provision is recognised for expected warranty claims on vessels sold during the last two financial years, based on past experience of the level of repairs. It is expected that most of these costs will be incurred in the next financial year and all will have been incurred within one financial year after the completion date. Assumptions used to calculate the provision for warranties were based on technical estimates of the cost required to be incurred for repairs, replacements material cost, servicing, past experience and recent trend analysis based on the 12 months defect warranties for its vessels.

33. Significant related party disclosures

A related party is defined as follows:

- (a) A person or a close member of that person's family is related to the Group and Company if that person:
 - (i) Has control or joint control over the Company;
 - (ii) Has significant influence over the Company;
 - (iii) Is a member of the key management personnel of the Group or Company or of a parent of the Company.

- (b) An entity is related to the Group and the Company if any of the following conditions applies:
 - (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint ventures of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company is itself such a plan, the sponsoring employers are also related to the Company.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a);
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

33. Significant related party disclosures (Continued)

In addition to the related party information disclosed elsewhere in the financial statements, the following were significant related party transactions at rates and terms agreed between the parties during the financial year:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Subsidiaries				
- Interest charge	-	-	63,160	66,192
- Dividends	-	-	37,395	104,280
- Payment on behalf of the Company	-	-	1,191	2,314
- Payment on behalf by the Company	-	-	4,861	5,554
- Advances to subsidiaries	-	-	244,782	618,001
Joint venture ⁽¹⁾				
- sales of vessels	-	-	-	-
Associate ⁽²⁾				
- sale of vessels	-	139,942	-	-
Other related parties in which directors/ key management have interest				
- purchases ⁽³⁾	584	1,144	-	-

The sales and purchases of vessels were made according to the prices and conditions similar to those offered to the major customers of the Group.

(1) As at 31 December 2016, the outstanding amount was approximately RM67,864,000 (2015: RM44,749,000).

(2) As at 31 December 2016, the outstanding amount was approximately RM14,247,000 (2015: RM13,635,000).

(3) Mr Tiong Chiong Soon, a key executive of the Company and the son of Tan Sri Datuk Tiong, has a direct interest of more than 30% in Top Line Works (2008) Sdn. Bhd. ("TOP"). During the financial year, Nam Cheong Dockyard Sdn. Bhd. ("NCD"), a subsidiary of the Company, purchased shipbuilding materials from TOP. As at 31 December 2016, the outstanding amount was approximately RM88,512 (2015: RM74,525).

The remuneration of Directors and other members of key management during the financial year are as follows:

	Group	
	2016 RM'000	2015 RM'000
Short-term employee benefits	14,367	16,482
Pension benefits	653	431
Share grant plan	-	470
	<u>15,020</u>	<u>17,383</u>

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For the financial year ended 31 December 2016

33. Significant related party disclosures (Continued)

Compensation of key management personnel

These include the following Directors' remuneration:

	Group	
	2016 RM'000	2015 RM'000
Directors of the Company	5,790	6,960
Directors of subsidiaries	2,114	3,195
	<u>7,904</u>	<u>10,155</u>

34. Commitments and contingent liabilities

34.1 Capital commitments

Capital expenditure contracted for as at the end of the reporting period but not recognised in the financial statements are as follows:

	Group	
	2016 RM'000	2015 RM'000
Contracted and approved amount	3,604	4,272
Less: Actual cost incurred to date	-	(668)
Capital commitments in respect of property, plant and equipment	<u>3,604</u>	<u>3,604</u>

34.2 Operating lease commitments – as lessee

In addition to the prepaid land lease payments disclosed in Note 13 to the financial statements, the Group has entered into operating leases for office premises. These leases have an average tenure of between one and three financial years with options to renew.

Future minimum rentals payable under non-cancellable operating leases (excluding prepaid land lease payments) at the reporting date are as follows:

	Group	
	2016 RM'000	2015 RM'000
Within one financial year	263	454
After one financial year but within five financial years	<u>573</u>	<u>73</u>
	<u>836</u>	<u>527</u>

34.3 Operating lease commitments – as lessor

In addition to the investment properties disclosed in Note 14 to the financial statements, the Group lease out its investment properties to third parties under non-cancellable operating leases. These leases have an average tenure of between one and two financial years with options to renew.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

34. Commitments (Continued)

34.3 Operating lease commitments – as lessor (Continued)

Future minimum rentals receivables under non-cancellable operating leases at the reporting date are as follows:

	Group	
	2016 RM'000	2015 RM'000
Within one financial year	3,607	2,764
After one financial year but within five financial years	4,098	5,201
	<u>7,705</u>	<u>7,965</u>

35. Fair value of assets and liabilities

35.1 Fair value of financial instruments that are measured at fair value

The Group classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

	Quoted prices in active markets for identical instruments (Level 1) RM'000	Significant other observable inputs (Level 2) RM'000	Significant unobservable inputs (Level 3) RM'000	Total RM'000
Group				
2016				
Financial assets				
Available-for-sale financial assets	-	-	35,158	35,158
Derivatives				
- Forward currency contracts	-	-	-	-
	<u>-</u>	<u>-</u>	<u>35,158</u>	<u>35,158</u>
Financial liabilities				
Derivatives				
- Forward currency contracts	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

35. Fair value of assets and liabilities (Continued)

35.1 Fair value of financial instruments that are measured at fair value (Continued)

	Quoted prices in active markets for identical instruments (Level 1) RM'000	Significant other observable inputs (Level 2) RM'000	Significant unobservable inputs (Level 3) RM'000	Total RM'000
Group				
2015				
Financial assets				
Derivatives				
- Forward currency contracts	-	151	-	151
Financial liabilities				
Derivatives				
- Forward currency contracts	-	9,146	-	9,146

Determination of fair value of derivatives

Forward currency contracts were valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques included forward pricing using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

There had been no transfers between level of fair value measurements during the financial year ended 31 December 2015 and 2016.

35.2 Fair value of investment properties

The fair value of investment properties have been determined based on the direct comparison with recent transactions of comparable properties within the vicinity, taken into consideration on prevailing market conditions and have made due adjustments to comparable transactions for differences in location, tenure, size, shape, design and layout, age and condition of buildings, dates of transactions and other factors affecting its value. The properties are held for the Group's investment purpose in Singapore which represents the asset's highest and best use.

35.3 Fair value of financial instruments by class that are not measured at fair value

The Group's and The Company's financial assets and financial liabilities include cash and cash equivalents, trade and other receivables, trade and other payables, loans and borrowings.

The carrying amount of these financial assets and liabilities are a reasonable approximation of fair values, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the end of the reporting period.

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value due to the insignificant impact on discounting:

	Note
Trade and other receivables	21
Cash and cash equivalents	25
Trade and other payables	31
Loans and borrowings	29

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

35. Fair value of assets and liabilities (Continued)

35.3 Fair value of financial instruments by class that are not measured at fair value (Continued)

The non-current portion of financial instruments:

	Carrying amount RM'000	Fair value		
		Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
2016				
Group				
Financial assets				
Held-to-maturity financial assets	-	-	-	-
Financial liabilities				
Loan and borrowings	874,781	-	-	874,781
Company				
Financial liabilities				
Loan and borrowings	847,228	-	-	847,228
2015				
Group				
Financial assets				
Held-to-maturity financial assets	110,102	-	-	110,102
Financial liabilities				
Loan and borrowings	1,181,227	-	-	1,181,227
Company				
Financial liabilities				
Loan and borrowings	1,105,256	-	-	1,105,256

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

35. Fair value of assets and liabilities (Continued)

35.3 Fair value of financial instruments by class that are not measured at fair value (Continued)

The fair values of non-current financial assets and non-current liabilities are estimated by discounting expected future cash flows at market incremental lending rate for similar types of lending, borrowing or leasing arrangements at the reporting date and considered level 3 fair value measurements. Significant inputs to the valuations include adjustments to the discount rate for credit risk associated with the Company. The carrying amounts of the non-current portion of financial assets and liabilities are reasonable approximations of their fair values due to the insignificant impact of discounting.

35.4 Categories of financial instruments carried at amortised cost

The following table sets out the financial instruments carried at amortised cost as at the end of the reporting period:

	Group		Company	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Financial assets				
Held-to-maturity financial assets	-	127,026	-	-
Loans and receivables	429,505	611,643	162,087	1,329,756
Financial liabilities				
Other financial liabilities, at amortised cost	2,664,894	2,527,976	1,148,178	1,126,513

36. Financial risk management objectives and policies

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its credit risk, liquidity risk, interest rate risk and foreign currency risk.

The Board of Directors reviews and agrees policies and procedures for the management of these risks, which are executed by the Chief Financial Officer.

The Group enters into derivative financial instruments to manage its exposure to foreign exchange rate risk, including foreign currency contracts.

It is, and has been throughout the current and previous financial year, the Group's policy that no trading in derivatives for speculative purpose be undertaken.

There has been no change to the Group's exposure to these financial risks or manner in which it manages and measures the risks.

The following sections provide details regarding the Group's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

36. Financial risk management objectives and policies (Continued)

36.1 Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's exposure to credit risk arises primarily from trade and other receivables, available-for-sale financial assets and cash and cash equivalents.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure.

The Group's credit risk is primarily attributable to trade receivables. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Trade receivables that are neither past due nor impaired are substantially companies with good collection track record with the Group. The Group's historical experience in the collection of receivables falls within the recorded allowances.

The credit risk of the Group's other financial assets, which comprise available-for-sale financial assets and cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these financial assets.

Financial assets that are neither past due nor impaired

Information regarding trade receivables that are neither past due nor impaired is disclosed in Note 21 to the financial statements. Deposits with banks are placed with or entered into with reputable financial institutions with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Information regarding trade receivables that are either past due or impaired is disclosed in Note 21 to the financial statements.

Credit risk from balances with banks is managed by the Group's finance department in accordance with the Group's policy. Investments of surplus funds are made only with reputable or bank with high credit ratings banks. The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2016 and 2015 are the carrying amounts as disclosed in Note 21 to the financial statements.

36.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities.

The Group's liquidity risk management policy is to maintain sufficient liquid financial assets and standby credit facilities with the principal bankers. At the reporting date, approximately 52% (2015: 35%) of the Group's loans and borrowings will mature in less than one financial year based on the carrying amount reflected in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

36. Financial risk management objectives and policies (Continued)

36.2 Liquidity risk (Continued)

Analysis of the financial instruments by remaining contractual maturities:

The following table summarises the maturity profile of the Group's and the Company's financial assets and liabilities at the reporting date based on contractual undiscounted repayment obligations:

	Within one financial year RM'000	After one financial year but within five financial years RM'000	Over five financial years RM'000	Total RM'000
Group				
2016				
Financial assets				
Non-interest bearing				
- Trade and other receivables	128,012	-	-	128,012
- Cash and bank balances	148,490	-	-	148,490
- Fixed deposits	60,508	-	-	60,508
Interest bearing				
- Available-for-sale financial assets	5,434	30,968	-	36,402
- Fixed deposits	94,021	-	-	94,021
Total undiscounted financial assets	<u>436,465</u>	<u>30,968</u>	-	<u>467,433</u>
Financial liabilities				
Non-interest bearing				
- Trade and other payables	838,756	-	-	838,756
Interest bearing				
- Loans and borrowings	992,736	924,496	-	1,917,232
Total undiscounted financial liabilities	<u>1,831,492</u>	<u>924,496</u>	-	<u>2,755,988</u>

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

36. Financial risk management objectives and policies (Continued)

36.2 Liquidity risk (Continued)

Analysis of the financial instruments by remaining contractual maturities: (Continued)

	Within one financial year RM'000	After one financial year but within five financial years RM'000	Over five financial years RM'000	Total RM'000
Group				
2015				
Financial assets				
Non-interest bearing				
- Trade and other receivables	105,583	-	-	105,583
- Cash and bank balances	438,461	-	-	438,461
Interest bearing				
- Held-to-maturity financial assets	17,087	88,852	34,222	140,161
- Fixed deposits	68,921	-	-	68,921
Total undiscounted financial assets	<u>630,052</u>	<u>88,852</u>	<u>34,222</u>	<u>753,126</u>
Financial liabilities				
Non-interest bearing				
- Trade and other payables	716,077	-	-	716,077
Interest bearing				
- Loans and borrowings	653,107	1,348,794	-	2,001,901
Total undiscounted financial liabilities	<u>1,369,184</u>	<u>1,348,794</u>	<u>-</u>	<u>2,717,978</u>

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

36. Financial risk management objectives and policies (Continued)

36.2 Liquidity risk (Continued)

Analysis of the financial instruments by remaining contractual maturities: (Continued)

	Within one financial year RM'000	After one financial year but within five financial years RM'000	Over five financial years RM'000	Total RM'000
Company				
2016				
Financial assets				
Non-interest bearing				
- Trade and other receivables				
- Cash and bank balances	1,003	-	-	1,003
- Fixed deposits	60,508	-	-	60,508
Interest bearing				
- Trade and other receivables	1,367,317	-	-	1,367,317
Total undiscounted financial assets	1,428,828	-	-	1,428,828
Financial liabilities				
Non-interest bearing				
- Trade and other payables	6,493	-	-	6,493
Interest bearing				
- Loans and borrowings	309,585	1,032,954	-	1,342,539
Total undiscounted financial liabilities	316,078	1,032,954	-	1,349,032
2015				
Financial assets				
Non-interest bearing				
- Trade and other receivables	30,731	-	-	30,731
- Cash and bank balances	131,483	-	-	131,483
Interest bearing				
- Trade and other receivables	1,211,651	-	-	1,211,651
Total undiscounted financial assets	1,373,865	-	-	1,373,865
Financial liabilities				
Non-interest bearing				
- Trade and other payables	2,567	-	-	2,567
Interest bearing				
- Loans and borrowings	19,841	1,314,678	-	1,334,519
Total undiscounted financial liabilities	22,408	1,314,678	-	1,337,086

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

36. Financial risk management objectives and policies (Continued)

36.2 Liquidity risk (Continued)

Analysis of the financial instruments by remaining contractual maturities: (Continued)

The disclosed amounts for the financial guarantee contracts in Note 38 to the financial statements represent the maximum amount of issued financial guarantees in the earliest time period for which the guarantees could be called upon in the contractual maturity analysis.

The following table details the liquidity analysis for derivative financial instruments. The table has been drawn up based on the undiscounted gross inflows and outflows on those derivatives that require gross settlement.

	Within one financial year RM'000	After one financial year but within five financial years RM'000	Over five financial years RM'000	Total RM'000
Group				
2016				
Gross settled:				
Gross inflows	-	-	-	-
Gross outflows	-	-	-	-
	-	-	-	-
2015				
Gross settled:				
Gross inflows	169,278	-	-	169,278
Gross outflows	(178,273)	-	-	(178,273)
	(8,995)	-	-	(8,995)

36.3 Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. As the Group has no significant interest-bearing financial assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest-bearing financial assets are mainly short term in nature and have been mostly placed in fixed deposits.

The Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings at floating rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group manages its interest rate exposure by maintaining a mix of fixed and floating rate borrowings.

The Group's borrowings at variable rates are denominated in United States dollar, Ringgit Malaysia and Singapore dollar. If the interest rates increase/decrease by 25 (2015: 25) basis points, with all other variables including tax rate being held constant, the profits will be lower/higher by approximately RM4,558,000 for the financial year ended 31 December 2016 (2015: RM4,523,000) as a result of higher/lower interest expense on borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

36. Financial risk management objectives and policies (Continued)

36.4 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group is exposed to transactional currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States dollar (USD), Singapore dollar (SGD), Norwegian Kroner (NOK), Euro (EUR), Pound Sterling (GBP), Brunei dollar (BND), Japanese Yen (JPY) and Renminbi (RMB).

The Group monitors its foreign currency exchange risks closely and maintains funds in various currencies to minimise currency exposure due to timing differences between sales and purchases. Currency translation risk arises when commercial transactions, recognised assets and liabilities and net investment in foreign operations are denominated in a currency that is not the entity's functional currency. It is not the Group's policy to take speculative positions in foreign currencies.

Approximately 84% and 97% (2015: 75% and 96%) of the Group's trade and other receivables and trade and other payables balances are denominated in foreign currencies. The Group's sales and purchases at the reporting date have similar exposures.

The Group also holds cash and cash equivalents denominated in foreign currencies for working capital purposes. At the reporting date, such foreign currency balances amount to RM270.1 million (2015: RM491.2 million).

Exposure to foreign currency risk is monitored on an ongoing basis in accordance with the Company's risk management policies to ensure that the net exposure is at an acceptable level.

In the previous financial year, the Group managed its currency exposure centrally and hedged the value of future receipt and payment flows in foreign currencies using forward contracts. The Group reviewed on a regular basis its exposure and reserved the right to enter into hedges to maintain financial stability and, accordingly, hedging was undertaken only on contracted and firm flows, whereof the major part were realised within six months. It was the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

The Group is also exposed to currency translation risk arising from its net investments in Labuan and foreign operations, including Singapore and Marshall Islands. The Group's net investments in Singapore and Marshall Islands are not hedged as currency positions in SGD and USD are considered to be long-term in nature.

Sensitivity analysis for foreign currency risk based on monetary assets and liabilities:

The following table demonstrates the sensitivity of the Group's profit before income tax and equity to a reasonably possible change in the SGD, USD, EUR, BND and JPY exchange rates against the respective functional currencies of the Group entities, with all other variables held constant.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

36. Financial risk management objectives and policies (Continued)

36.4 Foreign currency risk (Continued)

Sensitivity analysis for foreign currency risk based on monetary assets and liabilities:
(Continued)

Group		Profit before income tax	
		2016 RM'000	2015 RM'000
SGD/RM	Strengthened by 5% (2015:11%)	(101,163)	(86,594)
	Weakened by 5% (2015: 11%)	101,163	86,594
USD/RM	Strengthened by 5% (2015: 21%)	(60,515)	(193,139)
	Weakened by 5% (2015: 21%)	60,515	193,139
EUR/RM	Strengthened by 5% (2015: 1%)	9	47
	Weakened by 5% (2015: 1%)	(9)	(47)
GBP/RM	Strengthened by 7% (2015:11%)	(1)	1
	Weakened by 7% (2015: 11%)	1	(1)
BND/RM	Strengthened by 5% (2015: 10%)	104	194
	Weakened by 5% (2015: 10%)	(104)	(194)
JPY/RM	Strengthened by 7% (2015: 5%)	(337)	(2,293)
	Weakened by 7% (2015: 5%)	337	2,293
USD/NOK	Strengthened by 2% (2015: 22%)	-	(1)
	Weakened by 2% (2015: 22%)	-	1
CNY/RM	Strengthened by 0% (2015: 18%)	-	(5)
	Weakened by 0% (2015:19%)	-	5
Company			
SGD/RM	Strengthened by 5% (2015:11%)	(51,073)	5,468
	Weakened by 5% (2015: 11%)	51,073	(5,468)
USD/RM	Strengthened by 5% (2015: 21%)	1,051	25,014
	Weakened by 5% (2015: 21%)	(1,051)	(25,014)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

36. Financial risk management objectives and policies (Continued)

36.5 Offsetting financial assets and financial liabilities

	Company	
	2016	2015
	RM'000	RM'000
Gross amount of recognised financial assets		
– Amount due from subsidiaries	243,419	1,336,557
Gross amount of recognised financial liabilities set off		
– Amount due to subsidiaries	(142,843)	(138,299)
Net amount of financial assets presented in the statement of financial position	100,576	1,198,258

36.6 Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the financial year ended 31 December 2015.

The Group monitors capital using a gearing ratio, which is loans and borrowings divided by total capital. The Group's policy is to keep the gearing ratio below 1.5 times. Capital includes equity attributable to the owners of the parent.

		Group	
	Note	2016	2015
		RM'000	RM'000
Loans and borrowings	29	1,823,501	1,809,207
Equity attributable to the owners of the parent, representing total capital		1,368,813	1,377,139
Gearing ratio (times)		1.33	1.31

Collateral

The Group has pledged part of its short-term deposits in order to fulfil the collateral requirements for the derivatives in place. At 31 December 2015 and 2016, the fair values of the short-term deposits pledged were RM64,069,000 and RM123,118,000 respectively. The counterparties have an obligation to return the securities to the Group. There are no other significant terms and conditions associated with the use of collateral.

The Group did not hold any third party collateral at 31 December 2015 and 2016.

The Group and the Company are in compliance with externally imposed capital requirements relating to financial covenants on its borrowings for the financial year ended 31 December 2015 and 2016.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

37. Dividends

	Company	
	2016	2015
	RM'000	RM'000
Final dividend of S\$ Nil cents (2015: S\$0.015 cents) per ordinary share proposed and paid during the financial year relating to the previous financial year's results	-	84,896

38. Financial guarantees

As at 31 December 2016, the Company had given guarantees amounting to RM5,100.6 million (2015: RM3,573.6 million) to certain banks in respect of banking facilities granted to the subsidiaries and joint ventures.

The maximum amount of the Company could be forced to settle under the guarantees obligation if the full guaranteed amount is claimed by the counterparties to the guarantees, is RM1,776.5 million (2015: RM873.2 million). The earliest period that the guarantees could be called is within 1 year (2015: 1 year). The Company has not recognised any liability in respect of the guarantees given to the banks for banking facilities granted to the subsidiaries and joint ventures as the Company's directors have assessed that the likelihood of the immediate holding company defaulting on repayment of its loan is remote.

As at the end of the financial year, the Company had also given undertakings to certain subsidiaries to provide continued financial support to these subsidiaries to enable them to operate as going concerns and to meet their obligations as and when they fall due for at least 12 months from the financial year end.

39. Segment information

For management purposes, the group is organised into business units based on their products and services and has two reportable segments as follows:

- (i) Shipbuilding; and
- (ii) Vessel chartering.

Except as indicated above, no operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Income taxes are managed by the management of respective entities within the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

39. Segment information (Continued)

The accounting policies of the operating segments are the same of those described in the summary of significant accounting policies. There is no asymmetrical allocation to reportable segments. Management evaluates performance on the basis of profit or loss from operation before tax expense.

Inter segment sales and transfers are carried out on arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise corporate assets and expenses.

Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash, and exclude income tax recoverable and deferred tax assets. Segment liabilities comprise operating liabilities and exclude items such as income tax payable and deferred tax liabilities.

Segment additions to non-current assets is the total cost incurred during the financial year to acquire segment assets that are expected to be used for more than one financial year.

	Shipbuilding RM'000	Chartering RM'000	Others RM'000	Eliminations RM'000	Total RM'000
Group					
2016					
Revenue					
External revenue	146,414	24,010	-	-	170,424
Inter segment	55,253	32,369	-	(87,622)	-
Results					
Interest income	1,746	3,211	22	-	4,979
Depreciation of property, plant and equipment	(1,509)	(18,426)	(953)	-	(20,888)
Depreciation of investment properties	-	-	(1,298)	-	(1,298)
Amortisation of prepaid land lease payments	-	(108)	-	-	(108)
Finance costs	(6,086)	(6,057)	(3,320)	-	(15,463)
Share of results of joint ventures	-	-	6,593	-	6,593
Share of loss on investment in associate	-	-	(14,271)	-	(14,271)
Profit/(Loss) before income tax	20,320	(36,008)	(26,934)	-	(42,622)
Additions to non-current assets	40	40	7	-	87
Investment in joint ventures	-	-	10,957	-	10,957
Available-for-sale financial assets	-	-	35,158	-	35,158
Investment in an associate	-	-	74,840	-	74,840
Segment assets	3,238,496	531,243	326,892	-	4,096,631
Segment liabilities	1,565,444	62,482	1,100,866	-	2,728,792

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

39. Segment information (Continued)

	Shipbuilding RM'000	Chartering RM'000	Others RM'000	Eliminations RM'000	Total RM'000
Group					
2015					
Revenue					
External revenue	905,586	44,444	-	-	950,030
Inter segment	294,766	46,065	-	(340,831)	-
Results					
Interest income	1,866	4,059	396	-	6,321
Depreciation of property, plant and equipment	(1,522)	(17,929)	(1,047)	-	(20,498)
Depreciation of investment properties	-	-	(1,195)	-	(1,195)
Amortisation of prepaid land lease payments	-	(108)	-	-	(108)
Finance costs	(1,910)	(12,270)	(10,036)	-	(24,216)
Share of results of joint ventures	-	-	6,633	-	6,633
Share of loss on investment in associate	-	-	(31,873)	-	(31,873)
Profit before income tax	40,257	1,909	(11,212)	-	30,954
Additions to non-current assets	2,018	123,053	12	-	125,083
Investment in joint ventures	-	-	8,624	-	8,624
Held-to-maturity financial assets	-	-	127,026	-	127,026
Investment in an associate	-	-	88,281	-	88,281
Segment assets	2,976,882	571,819	401,458	-	3,950,159
Segment liabilities	1,412,614	31,098	1,128,597	-	2,572,309

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

39. Segment information (Continued)

For management purposes, the revenue and non-current assets are grouped into the country or region that exhibit similar economic environment. Revenue and non-current assets information based on the geographical location of customers and assets respectively are as follows:

	Group	
	2016 RM'000	2015 RM'000
Malaysia	37,480	398,287
United Arab Emirates	-	29,736
Singapore	-	101,329
China	49,150	49,550
Marshall Islands	78,787	103,081
Nigeria	-	115,298
Indonesia	-	37,152
India	-	89,759
Thailand	5,007	-
Others	-	25,838
	170,424	950,030

The Group trades with countries shown above. In presenting information on the basis of geographical segments, segment revenue is based on the countries in which customers are invoiced.

	Group	
	2016 RM'000	2015 RM'000
Non-current assets		
Malaysia	496,646	544,798
Singapore	117,835	101,902
	614,481	646,700

Non-current assets information presented above consist of the following items as presented in the consolidated statement of financial position.

	Group	
	2016 RM'000	2015 RM'000
Property, plant and equipment	428,497	449,881
Prepaid land lease payments	7,403	7,673
Investment properties	92,784	92,241
Investment in joint ventures	10,957	8,624
Investment in an associate	74,840	88,281
	614,481	646,700

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

40. Outstanding arbitration

As at 31 December 2016, Nam Cheong International Ltd, a subsidiary of the Group, is the plaintiff in two legal cases brought to court against the respective defendants.

In the first case, the subsidiary is claiming rightful forfeiture of vessel deposits previously paid by the defendant due to the defendant's failure to pay the 2nd tranche of the deposit and balance purchase price of the vessel. The counterclaim by the defendant amounted to RM4,890,000.

In the second case, the subsidiary is claiming rightful forfeiture of vessel deposits previously paid by the defendant due to wrongful termination of vessel sales contract by failing to take delivery of the vessel and pay the balance purchase price of the vessel. The counterclaim by the defendant amounted to RM37,682,000.

In the event that the subsidiary loses these legal cases, there are contingent liabilities of RM42,572,000, excluding legal costs which have not been included in the financial statements. In the opinion of the management, which is supported by legal advice, an unfavourable outcome appears remote for both cases, subject to the inherent uncertainty of litigation.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of Nam Cheong Limited (the "Company") will be held at Grand Copthorne Waterfront Hotel, Waterfront Ballroom, Level 2, 392 Havelock Road, Singapore 169663 on Monday, 24 April 2017 at 10.00 a.m. to transact the following business:–

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Statement and the Financial Statements of the Company for the financial year ended 31 December 2016 together with the Auditors' Report thereon. **(Resolution 1)**

2. To re-elect the following Directors retiring pursuant to the Company's Bye-Laws:–
 - 2.1 Yee Kit Hong (retiring pursuant to Bye-Laws (86(1))) **(Resolution 2)**
 - 2.2 Kan Yut Keong, Benjamin (retiring pursuant to Bye-Laws (86(1))) **(Resolution 3)**

3. To approve the payment of Directors' fees of S\$503,000 for the financial year ended 31 December 2016. (2015: S\$503,000) **(Resolution 4)**

4. To re-appoint Messrs BDO LLP as the Company's Auditors and to authorise the Directors to fix their remuneration. **(Resolution 5)**

5. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

6. AUTHORITY TO ISSUE SHARES

That pursuant to Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited (**SGX-ST**), the directors of the Company (**Directors**) be authorised and empowered to:

- (a)
 - (i) issue shares in the Company (**shares**) whether by way of rights, bonus or otherwise; and/or
 - (ii) make or grant offers, agreements or options (collectively, Instruments) that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares, at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and

- (b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instruments made or granted by the Directors while this Resolution was in force,

NOTICE OF ANNUAL GENERAL MEETING

provided that:

- (1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) to be issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a pro-rata basis to shareholders of the Company shall not exceed twenty per centum (20%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);
- (2) (subject to such calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the total number of issued shares (excluding treasury shares) shall be based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:
 - (a) new shares arising from the conversion or exercise of any convertible securities;
 - (b) new shares arising from exercising share options or vesting of share awards which are outstanding or subsisting at the time of the passing of this Resolution; and
 - (c) any subsequent bonus issue, consolidation or subdivision of shares;
- (3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Bye-Laws of the Company; and
- (4) unless revoked or varied by the Company in a general meeting, such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (i)]

(Resolution 6)

By Order of the Board

Claudia Teo Kwee Yee
Company Secretary

Singapore, 23 March 2017

NOTICE OF ANNUAL GENERAL MEETING

Explanatory Notes:

- (i) The Ordinary Resolution 6 in item 6 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a General Meeting, whichever is the earlier, to issue shares, make or grant Instruments convertible into shares and to issue shares pursuant to such Instruments, up to a number not exceeding, in total, fifty per centum (50%) of the total number of issued shares (excluding treasury shares) in the capital of the Company, of which up to twenty per centum (20%) may be issued other than on a pro-rata basis to shareholders.

For determining the aggregate number of shares that may be issued, the total number of issued shares (excluding treasury shares) will be calculated based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time this Ordinary Resolution is passed after adjusting for new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time when this Ordinary Resolution is passed and any subsequent bonus issue, consolidation or subdivision of shares.

Notes:

1. Unless The Central Depository (Pte) Limited ("**CDP**") specifies otherwise in a written notice to the Company, CDP shall be deemed to have appointed as CDP's proxies to vote on behalf of CDP at the Annual General Meeting ("**AGM**") each of the Depositors who are individuals and whose names are shown in CDP's records as at a time not earlier than forty-eight (48) hours prior to the time of the AGM. Therefore, such Depositors who are individuals can attend and vote at the AGM without the lodgement of any Depositor Proxy Form (as defined below).
2. Such a Depositor registered and holding Shares through CDP who is an individual but is unable to attend the AGM personally and wishes to appoint a nominee to attend and vote on his/her behalf as CDP's proxy must complete, sign and return the proxy form which is despatched together with this Annual Report to Depositors ("**Depositor Proxy Form**") completed by CDP in accordance with the instructions printed thereon and deposit the duly completed Depositor Proxy Form at the office of the Company's Singapore Share Transfer Agent, RHT Corporate Advisory Pte. Ltd. at 9 Raffles Place #29-01, Republic Plaza Tower 1, Singapore 048619, not less than forty-eight (48) hours before the time appointed for holding the AGM. Similarly, a Depositor which is a corporation and which wishes to attend the AGM must submit the Depositor Proxy Form for the appointment of nominee(s) to attend and vote at the AGM on its behalf as CDP's proxy.
3. If a Shareholder (who is not a Depositor) is unable to attend the AGM and wishes to appoint a proxy to attend and vote at the AGM in his/her stead, then he/she should complete and sign the proxy form despatched to Shareholders who are not Depositors ("**Shareholder Proxy Form**") and deposit the duly completed Shareholder Proxy Form at the office of the Company's Singapore Share Transfer Agent, RHT Corporate Advisory Pte. Ltd. at 9 Raffles Place #29-01, Republic Plaza Tower 1, Singapore 048619, not less than forty-eight (48) hours before the time appointed for holding the AGM. Such proxy need not be a member of the Company.
4. To be effective, the Depositor Proxy Form or the Shareholder Proxy Form must be duly completed and deposited by a Depositor or a Shareholder (as the case may be) at the office of the Company's Singapore Share Transfer Agent, RHT Corporate Advisory Pte. Ltd. at 9 Raffles Place #29-01, Republic Plaza Tower 1, Singapore 048619, not less than forty-eight (48) hours before the time appointed for holding the AGM in accordance with the instructions stated herein.
5. The completion and return of the Depositor Proxy Form or the Shareholder Proxy Form by a Depositor or a Shareholder, as the case may be, will not prevent such Depositor or Shareholder, as the case may be, from attending and voting in person at the AGM if he/she wishes to do so, in place of his/her/its nominee or proxy, as the case may be.

PERSONAL DATA PRIVACY

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM and/or any adjournment thereof, a Depositor or a Shareholder of the Company (i) consents to the collection, use and disclosure of the Depositor's or the Shareholder's personal data by the Company (or its agents or service providers) for the purpose of the processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the Depositor or the Shareholder discloses the personal data of the Depositor's or the Shareholder's proxy(ies) and/or representative(s) to the Company (or its agents or service providers), the Depositor or the Shareholder has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the Depositor or the Shareholder will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the Depositor's or the Shareholder's breach of warranty.

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