



2017 ANNUAL REPORT

**QUALITY,
RELIABILITY,
DELIVERY.**



DELIVERING POSSIBILITIES

**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.**

04	CORPORATE PROFILE & BUSINESS OVERVIEW
07	CORPORATE INFORMATION
08	CHAIRMAN'S STATEMENT
12	FINANCIAL & OPERATIONS REVIEW
14	BOARD OF DIRECTORS
17	KEY EXECUTIVES
19	CORPORATE STRUCTURE
20	CORPORATE MILESTONES
23	CORPORATE SOCIAL RESPONSIBILITY
24	SHAREHOLDERS' INFORMATION
26	CORPORATE GOVERNANCE REPORT
46	DIRECTORS' STATEMENT
50	INDEPENDENT AUDITOR'S REPORT
53	CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
54	STATEMENTS OF FINANCIAL POSITION
56	CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
58	CONSOLIDATED STATEMENT OF CASH FLOWS
61	NOTES TO THE FINANCIAL STATEMENTS







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.



CORPORATE PROFILE

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

**QUALITY,
RELIABILITY,
DELIVERY.**

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.

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.

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.

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 vessels based on standard proven designs, which are widely accepted, and specifications that are able to meet the requirements of its customers.





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

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.

SHIP CHARTERING

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

The Group currently has a fleet of more than 20 vessels, comprising AHTS vessels, PSV, SSVs, and landing crafts, 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, the Group has entered into time charter contracts with various charterers, where it provides 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 cum
Finance Director)
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

RENUMERATION COMMITTEE

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

COMPANY SECRETARY

Claudia Teo Kwee Yee

ASSISTANT SECRETARY

Conyers Corporate Services
(Bermuda) Limited

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS

140 Paya Lebar Road
#07-02, AZ@Paya Lebar
Singapore 409105
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

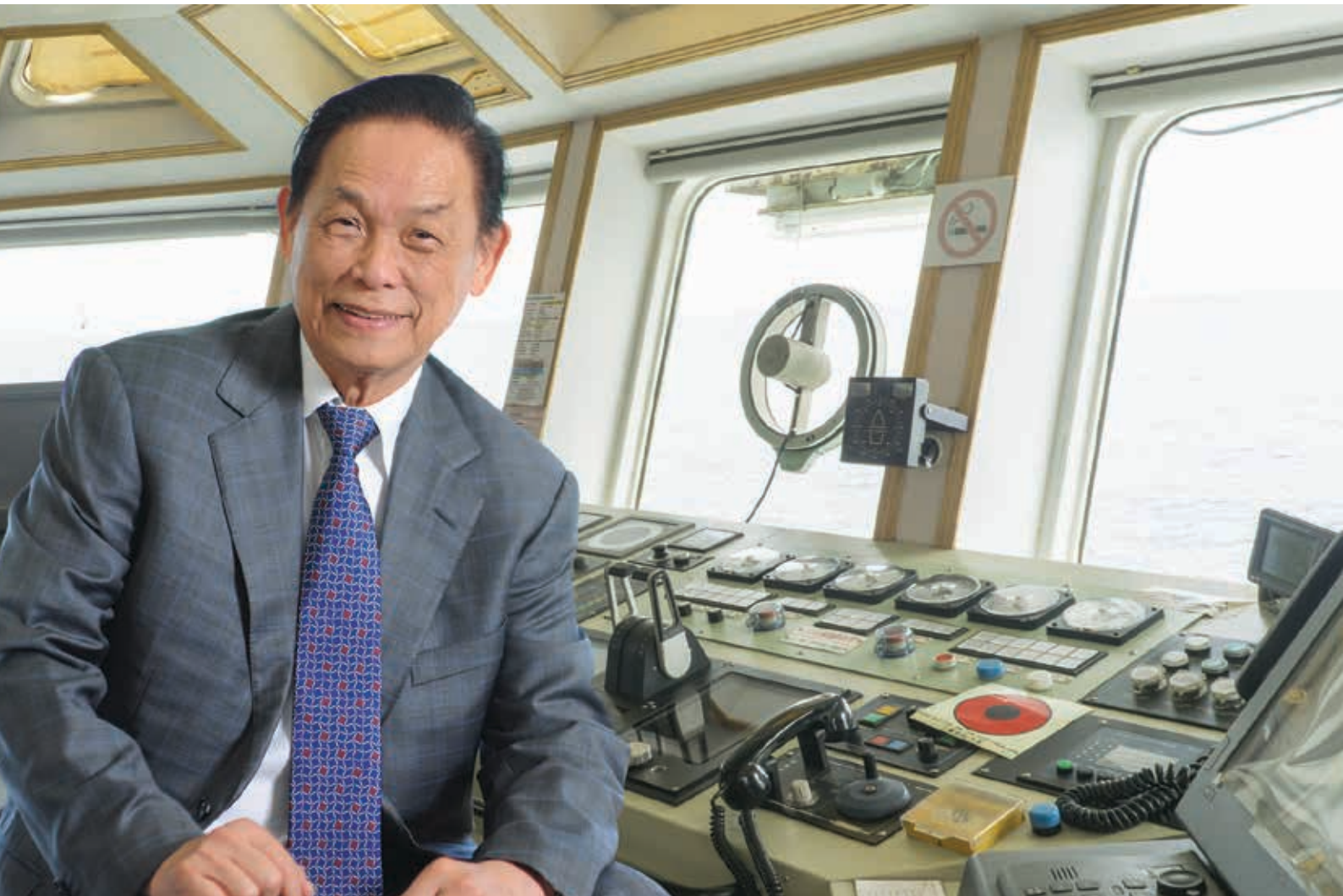
RHT Corporate Advisory Pte. Ltd.
9 Raffles Place #29-01
Republic Plaza Tower 1
Singapore 048619
Tel: (65) 6381 6888
Fax: (65) 6381 6899

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)

CHAIRMAN'S STATEMENT



To withstand the difficult environment, we have positioned ourselves to grow our vessel chartering business whilst at the same time, maintaining a lean structure. With these strategies in place, we believe that we will emerge from this protracted industry cycle stronger, as we look ahead towards longer-term prospects for this segment.

Dear Valued Shareholders,

On behalf of the Board of Directors, I present to you Nam Cheong's Annual report for the full year ended 31 December 2017 ("FY 2017").

The past year continued to be challenging for the offshore and marine industry despite signs of modest recovery taking place in the market. Though oil prices improved to US\$60 per barrel by the end of the year¹, the oversupply of offshore vessels and low charter rates persisted in the sector.

¹ Crude oil prices increase in 2017, and Brent-WTI spread widened – US Energy Information Administration, 3 January 2018

DESPITE A PICKUP IN ACTIVITY LEVEL IN THE SECTOR IN FY 2017, OPERATING CONDITIONS REMAIN CHALLENGING

Nam Cheong recorded revenue of RM319.6 million in FY 2017 as compared to RM170.4 million in the previous corresponding financial year ("FY 2016"). The 88% higher revenue was primarily due to the higher revenue contribution from both of the Group's shipbuilding and vessel chartering segments. During the financial year under review, the shipbuilding segment sold and delivered three vessels, resulting in the segment's revenue to increase by 96% to RM239.4 million. At the same time, the vessel chartering segment also lifted its revenue by 65% to RM80.2 million following the addition of four vessels to its chartering fleet in FY 2017.

Overall, the Group's gross profit quadrupled from RM8.5 million in FY 2016 to RM35.8 million in FY 2017, which was due mainly to the improved gross profit generated by the vessel chartering segment of RM41.0 million, against gross loss of RM25.6 million in FY 2016. Meanwhile, the gross profit margin stabilised at 11% in FY 2017.

Despite the improved topline and gross profit, Nam Cheong recorded a net loss after tax of RM3.0 billion in FY 2017. This is due largely to the assets impairment and writing down of RM2.8 billion undertaken in FY 2017 to reflect the current market value in a difficult market condition.

With respect to the Group's cash flow, it generated net cash flow from operations of RM49.1 million in FY 2017 which was due mainly to the collection from the sale and delivery of three vessels. In FY 2016, Nam Cheong posted a net cash flow used in operations of RM238.7 million.

RESTRUCTURING FOR GREATER RESILIENCE

During the year, we are heartened to have crossed some hurdles, notably with the majority approval of our Schemes of Arrangement in January 2018.

This overwhelming majority approval from Creditors is indeed gratifying and signifies the crossing of a key obstacle in the restructuring exercise. We are very thankful for the strong support and trust placed by the Creditors through their vote of confidence in the Schemes.

The collective effort of all Creditors is and continues to play an important role in the successful restructuring of the Company. Meanwhile, we are doing our best to fulfil the condition precedents to enable the Schemes to be effective as soon as possible.

As part of our restructuring exercise, we have also disposed two of our non-core assets in Paya Lebar and Suntec Tower Three Singapore, thereby raising a total of S\$29.54 million which has gone towards the settlements of credit facilities granted by the bank. In addition, as a demonstration of my commitment as a major shareholder of Nam Cheong, I have made an irrevocable undertaking for the Proposed Rights Issue² and the deposit of a committed sum of RM 50 million into an escrow account for the purposes of fulfilling obligations pursuant to the irrevocable undertaking.

We remain confident and committed to turning around the business and seeing the gradual resurgence of Nam Cheong's growth.

² Nam Cheong is proposing a renounceable non-underwritten rights issue of up to 2,096,465,885 new ordinary shares in the capital of the Company at an issue price of S\$0.014 for each Rights Share on the basis of one Rights Issue for every one ordinary share in the capital of the Company



CHAIRMAN'S STATEMENT



LOOKING AHEAD

Backed by the growing confidence in the health of the oil market, oil prices have been trending above US\$60 per barrel since the last quarter of 2017. With the better oil prices, capital expenditure among the world's largest oil and gas companies is expected to increase 11.5% year-on-year in 2018, largely driven by national oil companies in Asia, the Middle East and Latin America³. Supported by strong growth in developed and emerging economies in the first quarter of 2018, global oil demand is expected to increase from last year by 1.65 million barrels a day to 98.85 million barrels a day⁴.

While there is a growing optimism in the gradual recovery of the industry, the operating environment in the offshore sector is expected to remain challenging.

To withstand the difficult environment, we have positioned ourselves to grow our vessel chartering business whilst at the same time, maintaining a lean structure. With these strategies in place, we believe that we will emerge from this protracted industry cycle stronger, as we look ahead towards longer-term prospects for this segment.

WORDS OF APPRECIATION

I would like to express my heartfelt appreciation to my fellow Board members for their wise counsel and guidance in navigating Nam Cheong through 'choppy waters' these past few years with a focused strategic direction. I would also like to thank all our shareholders for their unstinting faith in Nam Cheong amidst uncertain times. We look forward to your continued support as we steer through the weak macro-environment.

I would like to thank our management team and staff for your tenacity and dedication in helping the Group overcome its challenges during the year. I would also like to express my gratitude to our customers, bankers, consultants, suppliers, partners and business associates for their unwavering support.

We will remain firmly focused on staying resilient, with a strong drive towards operational excellence whilst prudently capitalising on compelling opportunities to build a sustainable business that generates value for Nam Cheong's investors.

Yours Faithfully

TAN SRI DATUK TIONG SU KOUK

Executive Chairman
18 July 2018

³ CAPEX among world's largest O&G firms to rise to just under \$500B in 2018, Rigzone, April 17, 2018

⁴ OPEC raises oil supply forecast on surging US output but warns about global growth uncertainty, cnbc.com, May 14, 2018



FINANCIAL & OPERATIONS REVIEW



REVENUE AND PROFITABILITY

Revenue for the financial year ended 31 December 2017 ("FY 2017") of RM319.6 million was RM149.2 million, or 88%, higher as compared to RM170.4 million recorded during the financial year ended 31 December 2016 ("FY 2016"). The shipbuilding segment recorded revenue of RM239.4 million for FY 2017, representing an increase of 96% as compared to RM121.9 million recorded for FY 2016. This was mainly attributed to the sale and delivery of three vessels in FY 2017.

The vessel chartering segment also registered an increase in revenue of RM31.7 million, or 65%, from RM48.5 million for FY 2016 to RM80.2 million for FY 2017, which was mainly attributed to the addition of four vessels to the chartering fleet in FY 2017.

Overall, the Group's gross profit quadrupled from RM8.5 million in FY 2016 to RM35.8 million in FY 2017, which was due mainly to the improved gross profit generated by the vessel chartering segment of RM41.0 million, against gross loss of RM25.6 million in FY 2016. Meanwhile, the gross profit margin stabilised at 11% in FY 2017.

Primarily due to the absence of a foreign exchange gain of RM44.3 million and forfeited deposit received of RM46.2 million which was recorded in FY 2016, other income in FY 2017 declined 77% to RM24.2 million.

Selling and administrative expenses decreased by 21% to RM33.8 million during FY 2017, mainly due to the decrease in banking facilities expenses of RM7.9 million. Finance cost increased

by RM57.9 million in FY 2017 compared to FY 2016, as a result of lower interest expense being capitalised in cost of construction.

During FY 2017, the Group provided for assets impairment and writing down of RM2.8 billion, which consist of impairment on property, plant and equipment, investment in associate, investment properties, amount due from customers on contracts and trade and other receivables of RM638.1 million as well as inventories written down and prepayment written off of RM2.19 billion. Subsequent to FY 2017, as a result of the successful cancellation of certain shipbuilding contracts in February 2018, the Group's payables amounting to RM558.2 million will be waived.



Mainly as a result of the assets impairment and writing down of RM2.8 billion, the Group recorded a net loss after taxation of RM3.02 billion in FY 2017.

BUSINESS SEGMENTS

Shipbuilding segment continues to be the main revenue generator, contributing RM239.4 million or 75% of the total Group's revenue of RM319.6 million in FY 2017. The remaining 25% of the Group's revenue in FY 2017 was attributed to the chartering segment, which was consistent with FY 2016.

SHARE OF RESULTS FROM JOINT VENTURES AND ASSOCIATE

Share of result in joint ventures and associate recorded a loss of RM4.9 million and RM46.6 million respectively in FY 2017 due to lower vessel utilisation rate.

CASH FLOWS

Net cash flows from operating activities of RM49.1 million for FY 2017 was mainly due to the collection from the sale and delivery of 3 vessels in FY 2017.

Net cash flows from investing activities of RM43.8 million for FY 2017 was mainly attributed to the proceeds from disposal of available-for-sale financial assets of RM25.8 million.

Net cash flows used in financing activities of RM59.6 million for FY 2017 was mainly due to the repayment of bank borrowings of RM179.1 million which was partially funded with the fixed deposits pledged of RM101.2 million.

TOTAL ASSETS

Total assets of the Group decreased by RM2.98 billion from RM4.10 billion as at 31 December 2016 ("FY2016") to RM1.11 billion as at 31 December 2017 ("FY 2017") mainly due to assets impairment and writing down of RM2.8 billion in FY 2017.

TOTAL LIABILITIES

Total liabilities of the Group increased by RM43.3 million from RM2.73 billion in FY2016 to RM2.77 billion in FY 2017, mainly due to the increase in the trade and other payables of RM199.8 million, which was offset with the decrease in loans and borrowings of RM184.3 million in FY 2017.

BOARD OF DIRECTORS



TAN SRI DATUK TIONG SU KOUK

Executive Chairman

Date of Appointment: 28 April 2011

In 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 over 20 years of experience in the shipbuilding industry. He is responsible for the Group's strategic direction and shipbuilding operations in the Company's shipyard located at Miri 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 building of offshore support vessels ("OSVs"), transforming 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 in Malaysia. In addition, he sits on various school boards and boards of other private limited companies.

Tan Sri Datuk Tiong was awarded the Pingat Bintang Sarawak by the head of the Sarawak state in 1987 and Johan Setia Mahkota by Seri Paduka Baginda Yang di-Pertuan Agong in 2000 for his contributions to the community.

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 Foochow Association, Permanent Honorary Chairman, Inaugurator of The World Zhang Clan Association, Honorary Life President 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 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 joined the Board of Directors in 1993. He 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"), where he oversees the overall management and operations of the CCK Group. Mr Tiong is instrumental in transforming the CCK Group's operations into one of the pioneer poultry producer in Malaysia.

Mr Tiong is primarily responsible for the Group'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 had further 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, Mr Tiong was appointed as the Executive Vice Chairman of 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.

Mr Tiong was appointed as the Financial Director of the Group in 2017. As the Finance Director, he guides 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.

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



MR LEONG SENG KEAT

Chief Executive Officer

Date of Appointment: 21 May 2013

Mr Leong Seng Keat joined the Group in 2005. He is the Chief Executive Officer of the Group and a member of the Board of Directors. He graduated from the Chrisholm Institute of Technology, Australia in 1990 with a Bachelor of Engineering degree, majoring in Electrical and Computing.

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

Mr Leong joined Group as an Executive Director in the early days 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, Mr Leong was appointed as the Chief Executive Officer for the Group. He spearheads the Group in working towards the visions of the Group. Under his leadership, the Group progresses steadily in its expansion of global market sales and innovation in price performance vessels with fuel efficient features. He also determines the Group's corporate and strategic directions, working closely with the members of the management team intrinsically for significant expansion of market share and operations. He predominantly guides the Group towards maintaining a steady performance in the dynamic industry. In 2016, Mr Leong has established a ship management arm for Group, creating yet another significant milestone for Nam Cheong.

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

Mr Leong 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 joined the Board of Directors in 2011. Having graduated from the University of London in 1974 with a Bachelor of Law (Honours) degree, he was later 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. Mr Hari Dass has set up Haridass Ho & Partners in 1985, of which he is now the Consultant for the firm. He is also an independent director of SembCorp Marine Ltd and Sembcorp Industries Ltd, companies listed on the Mainboard of the SGX-ST.

Mr Hari Dass has over 40 years of extensive legal experience, specializing predominantly in admiralty matters, both litigious and non-litigious, from ship sale and purchase, the financing aspects of such transactions, marine insurances to general commercial and banking litigation.

Mr Hari Dass is 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 (KLIRCA). 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 Mediator at Criminal Relational Disputes, State Courts, a Commissioner for Oaths, a 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 joined the Board of Directors in 2011. Mr Yee is a qualified professional accountant who holds a Bachelor of Accountancy (University of Singapore). He is a fellow of the Institute of Chartered Accountant, England and Wales, the Institute of Singapore Chartered Accountants and a full member of the Institute of Directors. He is presently 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 over 30 years of extensive experience in the field of audit, management consultancy, accountancy and taxation.

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

Mr Yee also sits on the board of two 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 Kan Yut Keong, Benjamin 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 Member 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, Mr Kan joined PricewaterhouseCoopers, Singapore, started as the staff-in-charge of the Insolvency Unit for over 3 years before being transferred to the management consulting unit. After spending about 5 years with the consulting unit, he developed a new business unit within the consulting arm 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 and applied 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 Kan has over 34 years of extensive experience working in professional accounting, consulting and corporate finance engagements in the Asian region and the United Kingdom. His clients include the public sector, multinational corporations, government linked companies as well as local companies.

Mr Kan is also appointed a member of Competition and Consumer Commission of Singapore since August 2016. In January 2018, Mr Kan has been appointed a member of the Securities Industry Council. In June 2018, Mr Kan joins the board of PropNex Limited.

KEY EXECUTIVES



MR TIONG CHIONG SOON (JOSEPH)
Group General Manager

Mr Joseph Tiong joined the Group as the Group General Manager in 2009. He oversees the Group's shipbuilding operation, vessels' chartering and 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 in 1994, of which he holds a Bachelor of Business. He started his career with CCK Consolidated Holdings Berhad, where he is primarily 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.

Mr Joseph Tiong also 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 leads several teams that are responsible in ship designing and product development, engineering, procurement and project management of the Group's newbuilding of offshore support vessels and other related services, and technical services support of the Group's fleet of vessels.

Mr Kwan 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).

Mr Kwan has over 40 years of experiences in new shipbuilding, ship repairs, ship design and development, marine engineering systems, procurement of equipment, project management and many other related services.

Prior to his current appointment, Mr Kwan 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. Mr Kwan had also served as the Engineer Officer on board foreign-going merchant ships for more than 8 years, including the rank of Chief Engineer with Neptune Orient Lines Limited, Singapore.

KEY EXECUTIVES



MR GREGORY FLINT

General Manager
(Marine Operations)

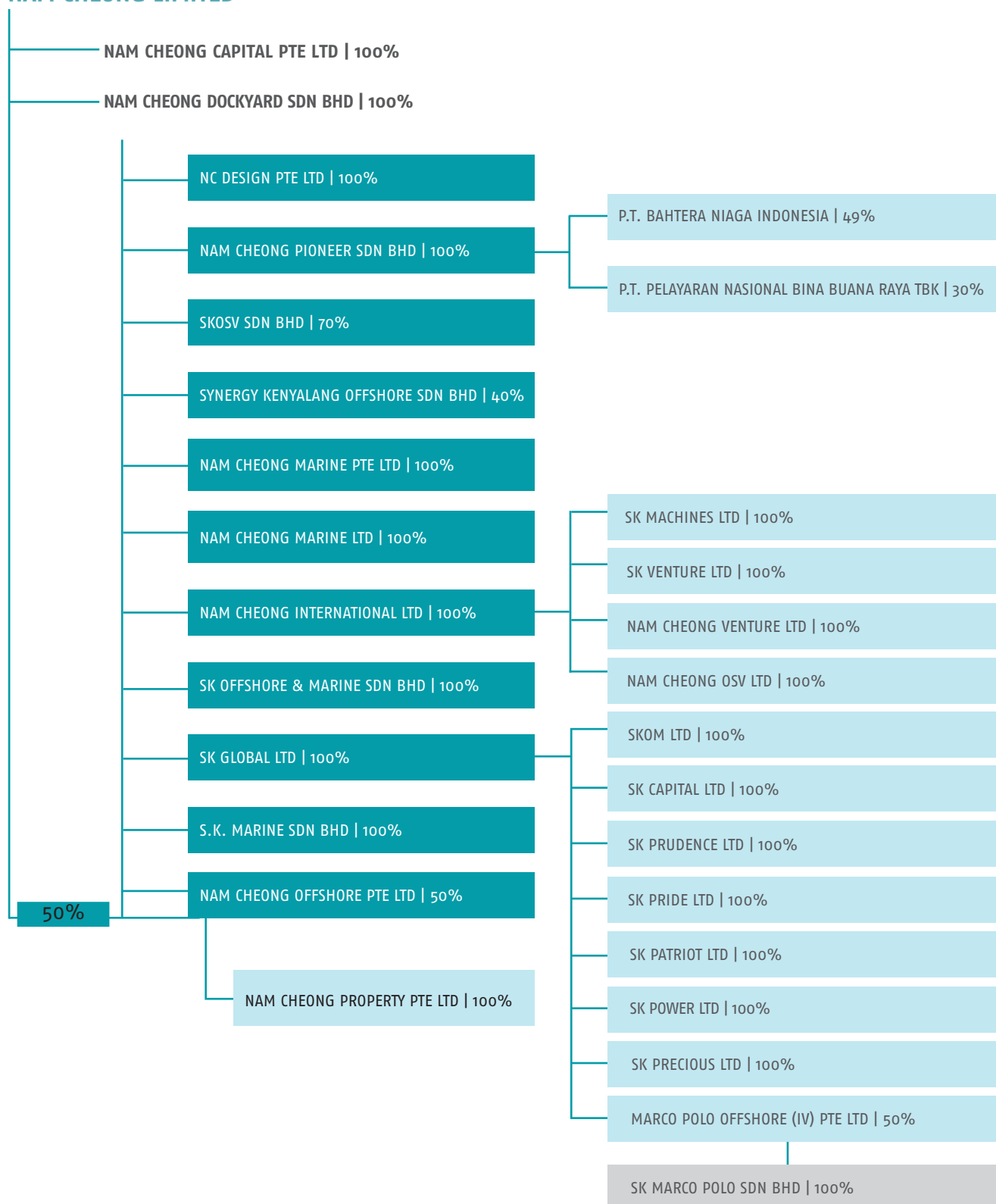
Mr Gregory Flint joined the Group in February 2016 as the Head of Marine Operations. With nearly 40 years in the marine industry with the last 16 years in the oil and gas industry, Mr Flint was tasked to establish SK Offshore and Marine Sdn Bhd ("SKOM") as the ship management arm of Nam Cheong. In a short time, SKOM has grown to be a proven vessels operator with over 15 active vessels under his current management. Originally from an engineering background, Mr Flint also holds qualifications as a Ships Master and a Marine Warranty Surveyor. He brings to the Group extensive knowledge of vessels management and operations. Mr Flint was recently appointed as General Manager of Marine Operations.

Mr Flint commenced his seagoing career as a Marine Engineer in Australia before obtaining deck qualifications. After coming ashore, he took on managerial roles in general cargo operations, marine construction and ship repair companies before venturing into the oil and gas industry. He was initially the Country Manager in Papua New Guinea for Tidewater Marine, and then subsequently acted in a similar capacity for Tidewater Marine in Malaysia and Thailand. Mr Flint next joined GAC, a Swedish logistics company and stayed for 8 years, firstly as General Manager based in Turkmenistan, where he managed the operation of up to 20 vessels, operated a shipping agency and initiated Turkmenistan's first dedicated supply base. He also spearheaded in developing the marine operations in Kazakhstan. He then served as GAC Regional Marine Manager for Africa, Mediterranean, Central Asia and Russia, where he was based in Cairo, Egypt, responsible primarily for the commercial operations of up to 30 vessels in the various locations. Mr Flint then joined Topaz Marine as their Marine Operations Manager based in Nigeria, where he was predominantly responsible for all West African vessel operations, from Angola to Ivory Coast, before joining Nam Cheong.

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

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 Singapore Institute of Directors (SID)
- Received the Most Transparent Company Award-Runner-up from SIAS

2016

- SK Offshore & Marine (SKOM) established to venture into chartering and marine operation
- Received Silver for the Best IR Award from SID



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.

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.



SHAREHOLDERS' INFORMATION

STATISTICS OF SHAREHOLDINGS AS AT 16 JULY 2018

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 – 99	1,975	16.98	84,273	0.00
100 – 1,000	4,303	36.99	1,280,536	0.06
1,001 – 10,000	1,745	15.00	10,681,560	0.51
10,001 – 1,000,000	3,534	30.38	327,694,114	15.63
1,000,001 AND ABOVE	76	0.65	1,756,725,402	83.80
TOTAL	11,633	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.	180,785,963	8.62
4	TIONG SU KOUK	88,836,517	4.24
5	CGS-CIMB SECURITIES (SINGAPORE) PTE. LTD.	75,155,152	3.58
6	UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED	63,398,360	3.02
7	UOBM NOMINEES (TEMPATAN) SDN BHD	57,654,847	2.75
8	DBS NOMINEES (PRIVATE) LIMITED	49,576,920	2.36
9	CITIBANK NOMINEES SINGAPORE PTE LTD	41,117,991	1.96
10	LAU LIONG KII	40,195,342	1.92
11	MAYBANK KIM ENG SECURITIES PTE LTD	18,445,069	0.88
12	TIONG SU KOUK OR TIONG CHIONG HIIUNG	16,100,000	0.77
13	WONG BAK HEE	15,420,430	0.74
14	PHILLIP SECURITIES PTE LTD	14,848,920	0.71
15	TIONG CHIONG HIIUNG	14,259,240	0.68
16	RHB SECURITIES SINGAPORE PTE. LTD.	12,067,380	0.58
17	OCBC SECURITIES PRIVATE LIMITED	11,360,760	0.54
18	HENG SIEW ENG	9,107,000	0.43
19	UOB KAY HIAN PRIVATE LIMITED	8,656,360	0.41
20	RAFFLES NOMINEES (PTE.) LIMITED	8,547,460	0.41
TOTAL		1,619,831,396	77.26

SHAREHOLDERS' INFORMATION

LIST OF SUBSTANTIAL SHAREHOLDERS AS AT 16 JULY 2018

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 16 July 2018, approximately 42.4% of the issued ordinary shares of the Company is held in public hands, therefore, Rule 723 of the Listing Manual issued by the SGX-ST is complied with.

CORPORATE GOVERNANCE REPORT

The Board and the Management of Nam Cheong Limited ("the Company", and together with its subsidiaries, "the Group") firmly believe that full commitment to the highest standards of corporate governance is essential to the sustainability of the Group's businesses and performance. The Group strictly generally adheres to the principles and guidelines set out in the Code of Corporate Governance 2012 ("Code") to promote the Group's corporate transparency. Where there have been deviations from the Code, the Company has sought to provide an appropriate explanation for each deviation in this report.

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

The following describes the Group's corporate governance processes and structures that are in place during the financial year ended 31 December 2017 ("FY 2017"), 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 of the Company to achieve this objective and the Management remains accountable to the Board.*

To ensure the Group's effective and efficient performances, The Company's Board comprises of Directors with extensive and invaluable experiences, skills and qualities in the fields of shipbuilding and vessel chartering, business development, business management, financial, legal and accounting. The diversity of skills, experiences and qualities warrants the Board to be well equipped when dealing with various 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 management personnel 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;

CORPORATE GOVERNANCE REPORT

- (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 undertakes 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 schedule of all the Board and Board Committee meetings as well as the AGM for the next calendar year is planned well in advance. The Board meets every quarterly and on special warranted meetings by particular circumstances. To enhance 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.

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") to assist in the execution of its responsibilities and to strengthen the Board's effectiveness. Each committee has its own defined terms of reference and operating procedures to undertake 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, the Company also works closely with professionals as and when appropriate to provide its Directors with updates in changes to relevant laws, regulations and accounting standards. During FY2017, the Company's external auditors updated the Board on the new financial reporting standards.

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, particularly on relevant new laws, regulations and changing commercial risks, at the expense of the Group.

BOARD COMPOSITION AND GUIDANCE

Principle 2: *There should be a strong, independent and transparent 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 of whom three are Independent Directors:

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.

CORPORATE GOVERNANCE REPORT

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 subsidiaries, 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, adhering to the Code's definition, determines annually on the Independent Directors' independence. The NC has assessed the independence of each Independent 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 also 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 good combination of skills and experiences, given the nature and scope of the Group's operations.

The Board has a healthy proportion of independent directors, where 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 to its shareholders and 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. To facilitate a more effective check on the Management, the Independent Directors also meet on a need-be basis without the presence of the Management.

The NC has noted the results of a study done on the percentage of female representation on SGX-listed boards and female representation in boardrooms globally. Although generally supportive of gender diversity on the board, the NC would require more time to consider the same including possible recommendations and guidelines that may be issued by the authorities on the subject.

The profile of each Director is set out on pages 14 to 16 of this Annual Report.

CORPORATE GOVERNANCE 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, are the pillars in propelling the growth of Nam Cheong and provide strong leadership and strategic vision for Nam Cheong. They undertake the formulation and execution of overall business strategies and policies and charter 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;
- (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 primarily in 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 reviewed and approved by the Board.

Mr Ajaib Hari Dass, the Lead Independent Director of the Company is responsible for co-ordinating and leading the Independent Directors, providing non-executive perspectives and contributing well balanced viewpoints, to enable the Board to exercise independent decision making and to further ensure that an appropriate balance of power and authority in the spirit of good corporate governance are executed.

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

CORPORATE GOVERNANCE REPORT

The Independent Directors, led by the Lead Independent Director also meets amongst themselves without the presence of the other Directors where necessary and the Lead Independent Director will provide feedback to the Executive Chairman after such meetings, where appropriate.

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 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 2017 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, taking into account of 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.

CORPORATE GOVERNANCE REPORT

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 ("AGM") 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 Tan Sri Datuk Tiong Su Kouk and Mr Ajaib Hari Dass who are retiring under the Company's Bye-Law 86(1) at the forthcoming 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 opines that in assessing the performances of the Directors in carrying out their duties and whether they are able to devote sufficient time in discharging the same, the contributions and commitments of the Directors to the Board and relevant Board Committees as well as their attendances at meetings of the Board should instead be taken into account. The NC is of the view that the capacity of the Directors should not be determined by restricting the number of listed company board representations of each Director. Comparatively, other determining factors such as whether the Director is able to devote and commit sufficient time and attention to the affairs of the Company shall also be considered. As such, the Board has not imposed a restriction on the 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 and diligently.

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.

The profiles of the Directors are set out on pages 14 to 16 of this Annual Report.

The shareholdings of the individual Directors are set out on pages 46 to 47 of this Annual 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;

CORPORATE GOVERNANCE REPORT

- (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 to assess the overall effectiveness of the Board as a whole and its Board Committees and further 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 before the same is being 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 2017. 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 fully recognises that it should be provided with complete information in a timely manner prior to Board meetings and on an on-going basis as it is critical for the Board to be effective in discharging of its duties.

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. As a general rule, Board papers are sent to Directors in advance of Board meetings so that Directors are well-versed with matters put before the meetings, ensuring that discussions are focused on matters tabled. Board papers include sufficient financial, business and corporate information for the Board members to be effectively engaged on matters to be discussed at Board meetings. The Management and external advisers are invited to attend Board meetings to provide additional insights and professional views.

CORPORATE GOVERNANCE REPORT

The Board has separate and independent access to the Company Secretary. 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 Company 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.

Under direction of the Executive Chairman, the Company Secretary's responsibilities include ensuring good information flows within the Board and its board committees and between the Management and the Independent Directors, advising the Board of all governance matters, facilitating orientation and assisting the professional development as required and the 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 expenses, concerning any aspect of the Group's operations or undertakings in order to fulfil his duties and responsibilities as a Director.

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 authority, 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 management personnel of the Group, taking into account the environment and circumstances faced by the Group in which it operates.

The recommendations of the RC would be submitted for review and approval 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 also reviews the Company's obligations arising in the event of termination of the Executive Directors and key management personnel's contracts of service to ensure that such contracts of service contain fair and reasonable termination clauses which are not overly generous.

The RC has full authority to engage any independent, external professional advice on matters relating to the remuneration as and when the need arises. During FY 2017, the RC did not require the service of an external remuneration consultant.

CORPORATE GOVERNANCE REPORT

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 manage the Company.*

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

In designing the remuneration packages, the RC ensure that the level and mix remuneration is competitive, relevant and appropriate to strike a balance in remunerating the Board, the Company and the key management personnel. The RC takes into consideration the salary payment and employment experiences within the same industry, in comparable companies, the performance of the Group and the performance of the relevant individual. In structuring the compensation framework, the RC also takes into account the risk policies of the Group, the need for the compensation to be symmetric with the risk outcomes, and the time horizon of risks.

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 and to promote the long-term success of the Group. Directors' fees are tabled annually for shareholders' approval at the AGM.

The Non-Executive and Independent Directors do not have any service agreements with the Company. They are paid with Directors' fees, which are determined by the Board, appropriate to the level of their contribution, taking into consideration factors such as the responsibilities, effort and time spent for serving the Board and Board Committees. Non-Executive Directors' fees comprise of a basic fee, fees in respect of service on Board Committees and attendance fees, and are subject to the approval of shareholders at the AGM. Other than the Directors' fees, the Non-Executive Directors and Independent Directors do not receive any other remuneration from the Company.

Save for the Nam Cheong Group 2013 Share Grant Plan, the Group has no share-based compensation scheme or any long-term scheme involving the offer of shares or options in place.

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.

Having reviewed and considered the variable component of the Executive Directors and the key management personnel, the RC is of the view that there is no requirement to institute contractual provisions to allow the Group to reclaim incentive components of their remuneration paid in prior years in exception circumstance of misstatement of financial results, or of misconduct resulting in financial loss. In addition, the Executive Directors owe a fiduciary duty to the Company. The Group should be able to avail itself to remedies against the Executive Directors in the event of such breach of fiduciary duties.

CORPORATE GOVERNANCE REPORT

The RC has recommended to the Board a total amount of S\$282,400 as Directors' Fees for FY 2017. This recommendation has been endorsed by the Board and would be tabled at the forthcoming AGM for shareholders' approval. The Board concurred with the RC that the proposed Director's Fees for FY 2017 is appropriate and not excessive, taking into consideration the level of contributions by the Directors and factors such as the responsibilities, effort and time spent for serving the Board and Board Committees. 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 their performances.

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

DISCLOSURE ON REMUNERATION OF DIRECTORS (INCLUDING CEO) FOR FY 2017

Remuneration	Salary SGD	Director's Fees & Meeting Allowances SGD	Variable or Performance Related Income/Bonus and Benefits-In-Kind SGD	Total Compensation SGD
Directors				
Tan Sri Datuk Tiong Su Kouk	-	55,000	-	55,000
Mr Tiong Chiong Hiiung	283,090	68,000	-	351,090
Mr Leong Seng Keat, CEO	441,600	55,000	276,000	772,600
Mr Ajaib Hari Dass	-	115,000	-	115,000
Mr Yee Kit Hong	-	114,000	-	114,000
Mr Kan Yut Keong, Benjamin	-	96,000	-	96,000

CORPORATE GOVERNANCE REPORT

The remuneration of the top 5 key management personnel (who are not also directors or the CEO) is disclosed as follows in the respective bands:

DISCLOSURE ON REMUNERATION OF TOP 5 KEY MANAGEMENT PERSONNEL FOR FY 2017

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	0	100
S\$250,000 and below			
Pradeep Kumar Datar	100	0	100
Kwan Seng Fatt	99.15	0.85	100
Zee Ie Ming	90.75	9.25	100
Gregory John Flint	100	0	100

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

For FY 2017, the aggregate total remuneration for the key management personnel (who are not also directors or the CEO) amounted to S\$1,155,008.

The RC ensures the remuneration paid to the CEO, Directors, and key management personnel 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, while the remuneration remains at a practical level. The individual performance target is aligned to the overall strategic, financial, and operational goals of the Group, ensuring that the Group and its people grow together. The performance target, while differs individually, is 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 performances that support 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), there is 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 2017. Mr Tiong Chiong Soon (Joseph) is the son of Tan Sri Datuk Tiong Su Kouk, the Executive Chairman, the brother of Mr Tiong Chiong Hiiung, the Executive Vice Chairman cum Finance Director, and the brother-in-law of Mr Leong Seng Keat, the CEO.

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

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT

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

The Board is accountable to all shareholders for the management of the Group and to provide a balanced and understandable assessment of the Group's performance, position and prospects which extends to interim and other price sensitive public reports. The Board updates shareholders on the operations and financial position of the Group through quarterly and full year results announcements in addition to the timely announcements of other matters as prescribed by the relevant rules and regulations.

The Board has also undertaken 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 Company is accountable to the Board by providing the Board with the necessary updates in relation to the performance of the Group. The Board emphasize on transparency in the conduct of the Company's affairs, whilst preserving the Company's commercial interests.

The Management provides the Board with information including management accounts, 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 Company 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 strategy, financial, operational, human resource, legal 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 Audit Committee ("AC").

The Risk Management exercise is conducted 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. Key risks were assessed and risk action plans were developed for the top 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.

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 available information.

CORPORATE GOVERNANCE REPORT

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.

Based on the internal controls established and maintained by the Group, work performance by the internal and external auditors, and reviews performed by Company 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 2017.

The Board has received assurances from the Executive Vice Chairman cum Finance Director and the CEO 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, and that the Group's risk management and internal control are adequate and effective.

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 authority, 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;

CORPORATE GOVERNANCE REPORT

- (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 assessments, review and discuss on 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 and necessary 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 the 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 properly. 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 2017, the AC has reviewed and is satisfied with the external auditor's independence and objectivity.

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 FY 2017, the AC had:

- (a) held 4 meetings during the year, which were attended by the Executive Chairman, Executive Vice Chairman cum Finance Director, CEO, 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;

CORPORATE GOVERNANCE REPORT

- (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;
- (e) reviewed all services provided by external auditors given that the aggregate amount of audit fees paid to the external auditors FY 2017 was RM466,000. No non-audit fees were paid to the external auditors for FY 2017. 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 2017; and
- (h) reviewed the interested person transactions pursuant to Chapter 9 of the SGX-ST Listing Manual as set out in this Report.

No former partner or director of the Group's existing auditing firm or audit corporation is a member of the AC.

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. The audit work carried out by Axcelasia Columbus is guided by the International Standards for the Professional Practice of Internal Auditors laid down in the International Professional Practices Framework issued by the Institute of Internal Auditors.

The hiring, removal, evaluation and compensation of Axcelasia Columbus is approved by the AC.

The Board recognises that it is responsible for maintaining a system of internal control to safeguard shareholders' investments and the Group's businesses and assets, while the Management is responsible for establishing and implementing the internal control procedures in a timely and appropriate manner. The role of the IA is to assist the AC in ensuring that the controls are effective and functioning as intended, to undertake investigations as directed by the AC and to conduct regular in-depth audits of high risk areas.

CORPORATE GOVERNANCE REPORT

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.

During the period of audit, 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 to perform its function effectively, and in addition, is staffed by suitably qualified and experienced professionals with the relevant experience and has appropriate standing within the Group.

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.*

The Company practises fair and equitable treatment to all shareholders and stakeholders and to facilitate the exercise of ownership rights, the Company provides all material information which would materially affect the price or value of the Company's shares in an accurate and timely manner via SGXNET, so as to enable shareholders to make informed decisions.

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.*

The Company is fully committed in 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 the Company so as to ensure that all shareholders have access to material information at the same time. In addition, shareholders can access to the Company's 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 salient 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. In the event where there is inadvertent disclosure made to a select group, the Company endeavours to made the same disclosure publicly to all others as promptly as possible.

CORPORATE GOVERNANCE REPORT

Shareholders are entitled to and encouraged to attend all general meetings to stay informed of the Group's goals and strategies and to ensure a high level of accountability. The Board is satisfied that 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. 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.

The Bye-Laws of the Company currently do not allow a Shareholder to vote in absentia. The Company has not amended the Bye-laws to provide for other methods of voting in absentia due to security and integrity concerns. The Company noted that provision for such other methods of voting in absentia would also require a costly system of authentication to ensure the integrity of information and the identity of Shareholders in telephonic and electronic media.

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 2017 due to volatile market conditions.

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

The AGM is the principal forum for dialogue with its shareholders. The Group encourages its shareholders to participate at general meetings to enhance a high level of accountability and transparency 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 the AGM.

At the AGM, shareholders are given the opportunity to communicate their views and direct questions to Directors and the 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 AGM to address any queries from the shareholders regarding the conduct of audit and the preparation and content of the auditors' report.

CORPORATE GOVERNANCE 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.

CORPORATE GOVERNANCE REPORT

For FY 2017, 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\$119,739	Not applicable

Note:

(1) Mr Tiong Chiong Soon (Joseph), a key management personnel of the Company and the son of Tan Sri Datuk Tiong Su Kouk the Executive Chairman, the brother of Mr Tiong Chiong Hiiung, the Executive Vice Chairman cum Finance Director, and the brother-in-law of Mr Leong Seng Keat, the CEO, 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\$119,739.

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 2017 or if not then subsisting, entered into since the end of the previous financial year.

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 2017 and the statement of financial position of the Company as at 31 December 2017.

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 2017, 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 a going concern, 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, Tan Sri Datuk Tiong Su Kouk and Ajaib Hari Dass retire and being eligible, offer 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 HK0.10 each (2016: HK0.50 each)					
	Direct interest			Deemed interest		
	At the beginning of the financial year	At the end of the financial year	At 21 January 2018	At the beginning of the financial year	At the end of the financial year	At 21 January 2018
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	16,815,790	16,815,790	81,815,987	75,886,187	75,886,187

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, employees, especially key executives, with the interests of Shareholders.

(i) Eligibility

The eligibility of Group Participant 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 to be 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. No rewards are granted to any participants during the financial year.

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 auditors' 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.

On behalf of the Board of Directors

Tan Sri Datuk Tiong Su Kouk
Director

Leong Seng Keat
Director

Singapore
17 July 2018

INDEPENDENT AUDITOR'S REPORT

To the Members of Nam Cheong Limited

INDEPENDENT AUDITOR'S REPORT

To the Members of Nam Cheong Limited

Disclaimer of Opinion

We were engaged to audit the financial statements of Nam Cheong Limited (the "Company") and its subsidiaries (the "Group") as set out on pages 53 to 132, which comprise:

- the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2017;
- 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.

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

Basis for Disclaimer of Opinion

Going concern

As disclosed in Note 4 to the financial statements, the Group has various obligations owed to bank lenders and trade creditors that have fallen due and will fall due from time to time in the near future. These obligations include the Group's loan and borrowings amounted to RM1,639,247,000 and amount payables to shipyards of RM1,051,012,000 that are included in the Group's trade payables exceeded the Group's cash and bank balances and fixed deposits of RM224,417,000 as at 31 December 2017. In addition, the Group and the Company are in net capital deficit of RM1,660,411,000 and RM1,577,803,000 respectively as at 31 December 2017.

The accompanying financial statements have been prepared on a going concern basis, the validity of which is premised on a key assumption that favourable outcomes will be collectively achieved for the Schemes of Arrangement, the Master Framework Agreement entered with certain shipyards, negotiations with other shipyards and that sufficient cash inflows will be generated by the Group. Based on the cash flow forecast prepared by management for the next 18 months from the financial year end, the Group would not have sufficient cash flows to meet their debt obligations should any of the key assumptions further discussed in Note 4 fail to materialise as envisaged.

INDEPENDENT AUDITOR'S REPORT

To the Members of Nam Cheong Limited

Basis for Disclaimer of Opinion (Continued)

Going concern (Continued)

These conditions, together with other matters disclosed in Note 4 to the financial statements, indicate the existence of material uncertainties that may cast significant doubt on the Group's and Company's ability to continue as a going concern.

We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves on certain key assumptions supporting the cash flow forecast. In particular, we were unable to evaluate the validity, feasibility and effectiveness of the debt settlement arrangement with the other shipyards as we were not provided with supporting documents to corroborate management's representation on the terms of the arrangement and status of the negotiations.

Consequently, we were unable to conclude whether the use of going concern basis in the preparation of these accompanying financial statements is appropriate. If the Group and the Company are unable to continue in operational existence for the foreseeable future, the Group and the Company may be unable to discharge their liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised in a manner other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the statements of financial position. In addition, the Group and the Company may need to reclassify non-current assets and liabilities to current assets and liabilities. No such adjustments have been made to the accompanying financial statements.

Responsibilities of Management and Directors for the Financial Statements

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

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

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

INDEPENDENT AUDITOR'S REPORT

To the Members of Nam Cheong Limited

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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 July 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Note	2017 RM'000	2016 RM'000
Revenue	5	319,578	170,424
Cost of sales	6	(283,758)	(161,971)
Gross profit		35,820	8,453
Other income	7	24,194	106,065
Selling and administrative expenses		(33,766)	(42,824)
Other operating expenses		(2,919,899)	(91,175)
Loss from operations		(2,893,651)	(19,481)
Finance costs	8	(73,391)	(15,463)
Share of results of equity accounted joint ventures, net of tax		(4,936)	6,593
Share of results of equity accounted associate, net of tax		(46,610)	(14,271)
Loss before income tax	9	(3,018,588)	(42,622)
Income tax credit/(expense)	10	813	(149)
Loss for the financial year		(3,017,775)	(42,771)
Other comprehensive income			
<i>Items that will or may be reclassified subsequently to profit or loss</i>			
Exchange differences on translating foreign operations		(6,801)	27,071
Changes to cash flow hedge reserves		-	6,617
Fair value loss on available-for-sale financial assets		(2,372)	-
Other comprehensive income for the financial year, net of tax		(9,173)	33,688
Total comprehensive loss for the financial year		(3,026,948)	(9,083)
Loss for the financial year attributable to:			
Owners of the parent		(3,020,051)	(42,014)
Non-controlling interests		2,276	(757)
		(3,017,775)	(42,771)
Total comprehensive loss attributable to:			
Owners of the parent		(3,029,224)	(8,326)
Non-controlling interests		2,276	(757)
		(3,026,948)	(9,083)
Loss per share			
Basic (in sen)	11	(144.05)	(2.00)
Diluted (in sen)	11	(144.05)	(2.00)

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

STATEMENTS OF FINANCIAL POSITION

As At 31 December 2017

		Group		Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
ASSETS					
Non-current assets					
Property, plant and equipment	12	268,703	428,497	-	-
Prepaid land lease payments	13	7,133	7,403	-	-
Investment properties	14	-	92,784	-	-
Investments in subsidiaries	15	-	-	-	2,307,317
Investments in joint ventures	16	4,041	10,957	-	-
Investment in an associate	17	23,840	74,840	-	-
Available-for-sale financial assets	18	3,226	30,442	-	-
Trade and other receivables	19	16,797	-	-	-
		<u>323,740</u>	<u>644,923</u>	<u>-</u>	<u>2,307,317</u>
Current assets					
Available-for-sale financial assets	18	-	4,716	-	-
Inventories	20	382,043	2,398,304	-	-
Trade and other receivables	19	65,079	128,012	-	100,576
Prepayments	21	4,724	156,785	28	7
Current income tax recoverable		1,526	1,674	-	-
Due from customers on contracts	22	38,484	462,398	-	-
Fixed deposits	23	28,677	153,003	22,939	60,508
Cash and bank balances	23	195,740	148,490	288	1,003
		<u>716,273</u>	<u>3,453,382</u>	<u>23,255</u>	<u>162,094</u>
Asset-held-for-sale	24	74,676	-	-	-
Total assets		<u>1,114,689</u>	<u>4,098,305</u>	<u>23,255</u>	<u>2,469,411</u>
EQUITY AND LIABILITIES					
Equity					
Share capital	25	81,192	405,962	81,192	405,962
Share premium	25	82,347	82,347	82,347	82,347
Treasury shares	26	(4,097)	(4,097)	(4,097)	(4,097)
Reserves	27	318,614	327,787	778,608	778,608
(Accumulated losses)/Retained earnings	27	(2,138,467)	556,814	(2,515,853)	58,413
Equity attributable to owners of the parent		<u>(1,660,411)</u>	<u>1,368,813</u>	<u>(1,577,803)</u>	<u>1,321,233</u>
Non-controlling interests		<u>1,496</u>	<u>(780)</u>	<u>-</u>	<u>-</u>
Total equity		<u>(1,658,915)</u>	<u>1,368,033</u>	<u>(1,577,803)</u>	<u>1,321,233</u>

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

STATEMENTS OF FINANCIAL POSITION

As At 31 December 2017

		Group		Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Liabilities					
Non-current liabilities					
Loans and borrowings	28	–	874,781	–	847,228
Deferred tax liabilities	29	220	1,480	–	–
Trade and other payables	30	2,582	2,637	–	–
		<u>2,802</u>	<u>878,898</u>	<u>–</u>	<u>847,228</u>
Current liabilities					
Due to customers on contracts	22	700	3,791	–	–
Loans and borrowings	28	1,639,247	948,720	1,114,322	294,457
Trade and other payables	30	1,098,475	898,663	2,336	6,493
Provisions	31	32,380	200	484,400	–
		<u>2,770,802</u>	<u>1,851,374</u>	<u>1,601,058</u>	<u>300,950</u>
Total liabilities		<u>2,773,604</u>	<u>2,730,272</u>	<u>1,601,058</u>	<u>1,148,178</u>
Total equity and liabilities		<u>1,114,689</u>	<u>4,098,305</u>	<u>23,255</u>	<u>2,469,411</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 2017

	Note	Share capital (Note 25) RM'000	Share premium (Note 25) RM'000	Treasury shares (Note 26) RM'000	Foreign currency translation reserve (Note 27) RM'000	Available-for-sale reserve (Note 27) RM'000	Retained earnings/ (Accumulated losses) (Note 27) RM'000	Equity attributable to owners of the parent RM'000	Non-controlling interests RM'000	Total equity RM'000
At 1 January 2017		405,962	82,347	(4,097)	327,787	-	556,814	1,368,813	(780)	1,368,033
Loss for the financial year		-	-	-	-	-	(3,020,051)	(3,020,051)	2,276	(3,017,775)
Other comprehensive income for the financial year										
Exchange differences on translating foreign operations		-	-	-	(6,801)	-	-	(6,801)	-	(6,801)
Fair value loss on available-for-sale		-	-	-	-	(2,372)	-	(2,372)	-	(2,372)
Total other comprehensive income for the financial year, net of tax		-	-	-	(6,801)	(2,372)	-	(9,173)	-	(9,173)
Total comprehensive loss for the financial year		-	-	-	(6,801)	(2,372)	(3,020,051)	(3,029,224)	2,276	(3,036,948)
Other transaction										
Capital reorganisation	25	(324,770)	-	-	-	-	324,770	-	-	-
Total other transaction		(324,770)	-	-	-	-	324,770	-	-	-
At 31 December 2017		81,192	82,347	(4,097)	320,986	(2,372)	(2,138,467)	(1,660,411)	1,496	(1,658,915)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2017

	Share capital (Note 25) RM'000	Share premium (Note 25) RM'000	Treasury shares (Note 26) RM'000	Foreign currency translation Reserve (Note 27) RM'000	Cash flow hedge reserve (Note 27) RM'000	Retained earnings (Note 27) 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
Total comprehensive loss for the financial year	-	-	-	27,071	6,617	(42,014)	(8,326)	(757)	(9,083)
At 31 December 2016	4,05,962	82,347	(4,097)	327,787	-	556,814	1,368,813	(780)	1,368,033

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2017

	Note	2017 RM'000	2016 RM'000
Operating activities			
Loss before income tax		(3,018,588)	(42,622)
Adjustments for:			
Interest income		(5,444)	(4,979)
Interest expense		73,391	15,463
Unrealised loss/(gain) on foreign exchange, net		36,766	(42,751)
Net fair value gain on derivatives		–	(2,378)
Amortisation of prepaid land lease payments		108	108
Depreciation of property, plant and equipment		19,214	20,888
Depreciation of investment properties		930	1,298
(Gain)/Loss on disposal of property, plant and equipment		(7,081)	3,264
Plant and equipment written off		482	–
Allowance for trade and other receivables		71,732	1,196
Share of post-tax results of equity accounted joint ventures		4,936	(6,593)
Share of post-tax results of equity accounted associate		46,610	14,271
Bad debts written off		3,389	15
Prepayments for inventories written off		105,899	19,929
Contract termination expenses relating to prepayments for inventories		8,363	–
Loss on disposal of available-for-sale financial assets		1,170	2,713
Impairment on investment in an associate		5,237	3,445
Impairment of property, plant and equipment		346,767	3,554
Impairment on investment properties		15,233	–
Impairment on amount due from customers on contracts		198,660	–
Allowance for trade receivables written back		(2)	(1,635)
Inventories written off		639	–
Inventories written down		2,085,877	59,772
Total adjustments		3,012,876	87,580
Operating cash flows before working capital changes		(5,712)	44,958
Changes in working capital:			
Increase in inventories		(433,204)	(305,236)
Increase in receivables		(35,006)	(38,590)
Decrease in prepayments		30,960	43,895
Decrease/(Increase) in amount due from customers on contracts		202,317	(83,206)
Increase in payables		300,176	129,688
Increase in provision		32,180	–
Decrease in amount due to customers on contracts		(2,868)	(13,639)
Total changes in working capital		94,555	(267,088)
Cash flows from/(used in) operations		88,843	(222,130)

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2017

	Note	2017 RM'000	2016 RM'000
Operating activities (continued)			
Cash flows from/(used in) operations		88,843	(222,130)
Interest paid		(39,483)	(15,462)
Taxes paid, net of refund		(297)	(1,079)
Net cash flows from/(used in) operating activities		<u>49,063</u>	<u>(238,671)</u>
Investing activities			
Acquisition of property, plant and equipment		(2,922)	(87)
Interest received		5,444	4,979
Proceeds from maturity of held-to-maturity financial assets		-	15,914
Proceeds from disposal of available-for-sale financial assets		25,760	79,130
Proceeds from disposal of property, plant and equipment		7	5,050
(Repayment from)/Advances to joint ventures		(3,685)	23,115
Sundry receivables relating to sales of leasehold property		13,857	-
Deposit received relating to asset-held-for-sale		5,313	-
Net cash flows from investing activities		<u>43,774</u>	<u>128,101</u>
Financing activities			
Proceeds from revolving credit		42,432	316,840
Proceeds from trust receipt		8,802	5,633
Proceeds from term loans		-	45,533
Proceeds from project invoice financing		4,462	23,047
Repayments of revolving credit		(123,196)	(315,695)
Repayments from trust receipt		(14,159)	(2,950)
Repayments of term loans		(41,732)	(97,689)
Repayments of project invoice financing		-	(17,227)
Repayments of medium term notes		(5,818)	-
Decrease/(Increase) in fixed deposits pledged		101,187	(59,048)
Interest paid		(31,627)	(75,436)
Net cash flows used in financing activities		<u>(59,649)</u>	<u>(176,992)</u>
Net increase/(decrease) in cash and cash equivalents		33,188	(287,562)
Effects of exchange rate changes on cash and cash equivalents		(12,783)	8,189
Cash and cash equivalents at beginning of financial year		162,618	441,991
Cash and cash equivalents at end of financial year	23	<u>183,023</u>	<u>162,618</u>

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2017

Note A: Reconciliation of liabilities arising from financing activities

			Non-cash changes		
	2016	Cash flows	Foreign exchange differences	Accretion of interest	2017
	RM'000	RM'000	RM'000	RM'000	RM'000
Revolving credit	594,887	(80,764)	(31,781)	-	482,342
Trust receipt	5,633	(5,357)	(276)	-	-
Term loans	93,307	(41,732)	(3,950)	-	47,625
Project invoice financing	19,330	4,462	(1,036)	-	22,756
Medium term notes	1,094,587	(5,818)	(26,032)	5,570	1,068,307
Fixed deposits pledged	(123,118)	101,187	(1,246)	-	(23,177)
	<u>1,684,626</u>	<u>(28,022)</u>	<u>(64,321)</u>	<u>5,570</u>	<u>1,597,853</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

These notes form an integrated part of and should be read in conjunction with the accompanying 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 ultimate controlling party is Tan Sri Datuk Tiong Su Kouk. Related companies in these financial statements refer to members of the Group.

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 2017 were authorised for issue in accordance with a Directors' resolution dated 17 July 2018.

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 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 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 except as detailed below.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation of financial statements (Continued)

IAS 7 (Amendments) *Disclosure Initiative*

The amendments require the entity to include an additional disclosure in their financial statements to provide users with information that enables them to evaluate changes in liabilities arising from financing activities. This reconciliation provides information on changes that arise from cash flows and non-cash flows such as the effects of acquisitions and disposals, exchange rates and fair value movements.

The Group adopted these amendments on 1 January 2017 and the additional disclosures have been included in the consolidated statement of cash flows.

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 ¹
IFRS 4 (Amendments)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts ¹
IFRS 9	Financial Instruments ¹
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 ¹
IFRS 15 (Amendments)	Clarifications to IFRS 15 Revenue from Contracts with Customers ¹
IFRS 16	Leases ²
IFRS 17	Insurance Contracts ³
IAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures ²
IAS 40 (Amendments)	Transfer of Investment Property ¹
IFRS (Amendments)	Annual Improvements 2014 – 2016 Cycle ¹
IFRS (Amendments)	Annual Improvements 2015 – 2017 Cycle ²
IFRIC 22	Foreign Currency Transactions and Advance Consideration ¹
IFRIC 23	Uncertainty over Income Tax Treatments ²

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

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after 1 January 2021

⁴ To be determined

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

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 completed its assessment of the classification and measurement of its financial assets, and expect that financial assets currently measured at amortised cost will continue to qualify for measurement at amortised cost under IFRS 9.

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 and the Company are currently finalising the policies and procedures in determining how to estimate expected credit losses and the sources of forward-looking data, and evaluating the tax implications arising from the above change in impairment model.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

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 with retrospective effect in accordance with the transitional provisions and intends to elect not to restate comparatives for the previous financial year.

IFRS 9 also requires additional financial statements disclosures which the Group will include in its financial statements in the financial year when the standard is adopted.

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 assessment, the Group's construction contracts did 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.

On the adoption of IFRS 15, the Group estimates that the revenue recognised in previous years under the stage of completion method but the title and risks are not yet transferred to customers will be reduced by RM215,897,000, the work-in-progress and the deposit received from contract customers will be increased by RM258,626,000 and RM50,067,000 respectively. The Group is currently finalising the above transition adjustments and evaluating the tax implication arising from the above changes in timing.

The Group plans to adopt the standard in the financial year beginning on 1 January 2018 with 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 2017

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. The Group is still assessing the possible financial impact upon adopting this new standard, more disclosure will be made upon completion of the assessment.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

2. Summary of significant accounting policies (Continued)

2.2 Basis of consolidation (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

2. Summary of significant accounting policies (Continued)

2.3 Business combinations (Continued)

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 circumstance 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.

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. In the Company's financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

2. Summary of significant accounting policies (Continued)

2.5 Interests in joint ventures (Continued)

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.

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. Subsequently, it is measured at amortised cost, where applicable, using the effective interest method.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

2. Summary of significant accounting policies (Continued)

2.8 Foreign currencies (Continued)

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.

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
Leasehold buildings	50
Freehold building	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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

2. Summary of significant accounting policies (Continued)

2.9 Property, plant and equipment and depreciation (Continued)

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.

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 70 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 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of the asset's previous carrying amount and fair value less costs to sell. The assets are not depreciated or amortised while classified as held for sale. Any impairment loss on initial classification and subsequent measurement is recognised as an expense. Any subsequent increase in fair value less costs to sell (not exceeding the accumulated impairment loss that has been previously recognised) is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

2. Summary of significant accounting policies (Continued)

2.13 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.

2.14 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

2. Summary of significant accounting policies (Continued)

2.14 Impairment of non-financial assets (excluding inventories) (Continued)

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.

2.15 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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

2. Summary of significant accounting policies (Continued)

2.15 Financial assets (Continued)

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.

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.

2.16 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

2. Summary of significant accounting policies (Continued)

2.16 Financial liabilities (Continued)

Other financial liabilities (Continued)

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.

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.

2.17 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.

2.18 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

2. Summary of significant accounting policies (Continued)

2.19 Construction contracts (Continued)

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, 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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

2. Summary of significant accounting policies (Continued)

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 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 statements.

Sales of built-to-stock vessels and equipment

Revenue from sales of goods is recognised when goods are delivered to the customer and the significant risks and rewards of ownership has been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably.

Charter income

Revenue from vessels under charter is recognised as services are rendered. Income from time charter, which comprise short term operating leases, are recognised on a straight-line basis over the period of the charter and the leases are cancellable.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

2. Summary of significant accounting policies (Continued)

2.24 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.

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, an associate and joint ventures, 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.

2.25 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 37 to the financial statements, including the factors used to identify the reportable segments and the measurement basis of segment information.

2.26 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

2. Summary of significant accounting policies (Continued)

2.26 Equity instruments (Continued)

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.

2.27 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.

2.28 Contingencies

A contingent liability is:

- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
- (b) a present obligation that arises from past events but is not recognised because:
 - (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - (ii) the amount of the obligation cannot be measured with sufficient reliability.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

2. Summary of significant accounting policies (Continued)

2.28 Contingencies (Continued)

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingencies are not recognised on the statements of financial position, except for contingent liabilities assumed in a business combination that are present obligations and for which the fair value can be reliably determined.

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.

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) 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 committed sales prices, estimated future pricing, recent sales activities and market positioning of the products. Such factors may require the Group to reduce the value of its inventories to net realisable value. However, factors beyond its control, such as demand levels, technological advances and pricing competition, could change from period to period. The carrying amount of the Group's inventories as at 31 December 2017 was approximately RM382,043,000 (2016: RM2,398,304,000).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

3. Significant accounting judgements and estimates (Continued)

3.2 Key sources of estimation uncertainty (Continued)

(ii) 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 2017 were approximately RM81,876,000 (2016: RM128,012,000) and Nil (2016: RM100,576,000) respectively.

(iii) Construction contracts

The Group recognises contract revenue based on the percentage of completion method and when the outcome of a construction contract can be estimated reliably. Significant judgement is required in determining the stage of completion and the probability that the economic benefits associated with the contract will flow to the entity. In making the judgment, the Group rely on past experience and work of specialists. The Group assess the work-in-progress with any indication of foreseeable losses. As at 31 December 2017, the carrying amount of the Group's work-in-progress, due from customer on contracts and due to customer on contracts were approximately RM360,913,000 (2016: M2,372,813,000), RM38,484,000 (2016: RM462,398,000) and RM700,000 (2016: RM3,791,000) respectively.

(iv) 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 higher of the value-in-use of the CGU by forecasting the expected future cash flows for a period up to 5 years, and determining the terminal value based on suitable growth rate and 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 2017 was Nil (2016: RM2,307,317,000), RM4,041,000 (2016: RM10,957,000) and RM23,840,000 (2016: RM74,840,000) respectively.

(v) Impairment of property, plant and equipment

The Group carries out impairment assessment on property, plant and equipment using higher of value-in-use and fair value less cost of disposal 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 2017 was RM237,128,000 (2016: RM389,077,000) and during the year an impairment loss of RM346,767,000 (2016: RM3,554,000) was recognised.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

4. Material uncertainty related to going concern

In the financial year ended 31 December 2017, the Group received several letters of demand as well as reservation of rights letters from its bank lenders and trade creditors. The Group has various obligations owed to bank lenders and trade creditors that have fallen due and will fall due from time to time in the near future. These obligations include the Group's loan and borrowings that were classified as current liabilities amounted to RM1,639,247,000 and amount payables to shipyards of RM1,051,012,000 that are included in the Group's trade payables exceeded the Group's cash and bank balances and fixed deposits of RM224,417,000 as at 31 December 2017. In addition, the Group and the Company are in net capital deficit of RM1,660,411,000 and RM1,577,803,000 respectively as at 31 December 2017.

In assessing whether the Group can meet its debt obligations for at least the next 12 months, management has prepared cash flows forecasts for the next 18 months with the following key assumptions:

- (i) The Schemes (as disclosed below) relating to loans and borrowings owing to banks and MTN holders have been approved by a majority of more than 80% of creditors present and voting at the Court convened meetings and the Group had obtained sanction of the NCD Scheme and NCI Scheme by The High Court of Malaya ("Malaya Court") and had applied for sanction of the NCL Scheme by The High Court of the Republic of Singapore ("Singapore Court"). As at the date of the financial statements, the Group is in the process of satisfying certain condition precedents to the Schemes in order for the Schemes to be effective.
- (ii) Subsequent to the financial year (Note 39 to the financial statements), the Group entered into a Master Framework Agreement ("MFA") with certain shipyards to restructure its debt obligations. The Company's obligations under the MFA are subject to the sanction of the NCL Scheme (as disclosed below) by Singapore Court and the effectiveness of the NCL Scheme.
- (iii) The Group is in the process of discussing a debt settlement arrangement with other shipyards. The Group believe that they are able to restructure the debt obligations subsequent to the financial year.
- (iv) The Group has sufficient cash inflows generated by its shipbuilding and chartering segment based on certain projected revenue.

The above events and conditions indicate the existence of material uncertainties that may cast significant doubt on the Group's and Company's ability to continue as going concern.

The Directors of the Company are of the opinion that it is appropriate to prepare the financial statements of the Group and the Company on a going concern basis on the assumption that the Schemes become effective and no claims from the Group's trade creditors, which are not part of the Schemes, that are reasonably likely to have a material effect on the Group's financial conditions and operations are brought against the Group, and taking into account the Group's internal resources, operating cashflows, working capital facilities and the estimated proceeds from the proposed rights issue related to the NCL Scheme.

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

4. Material uncertainty related to going concern (Continued)

Schemes of arrangement

As at 31 December 2017, the loans and borrowings owing to banks and multicurrency medium term notes holders amounted to RM1,639,247,000 (Note 28 to the financial statements).

Since early 2017, the Company appointed financial and legal advisors to advise and assist the Group in developing options and solutions for it to fully meet its debt obligations. Schemes of Arrangement ("Schemes") were proposed by the Group to the creditors. Below are the key milestones achieved by the Group in connection to the Schemes:

- (a) The Company had successfully sought an order from the Singapore Court pursuant to an application made to the Singapore Court under Section 211B(1) of the Companies Act (Cap.50) and/or the inherent jurisdiction of the Singapore Court that, among other things, for a period of six months from 6 October 2017 or until further order, no action or proceedings in Singapore or elsewhere shall be commenced or continued against Nam Cheong Limited and no step to enforce any security over any property of the Company shall be taken or continued in Singapore or elsewhere, except with the consent of the Company or the leave of the Singapore Court and subject to such terms as the Singapore Court imposes ("Moratorium");
- (b) Pursuant to an application to the Singapore Court under Section 210 and 211B of the Singapore Companies Act (Cap 50) on 27 October 2017, the Company received the Court's approval to convene a meeting of its creditors to consider, and if thought fit approve, a proposed Scheme of Arrangement with its creditors ("NCL Scheme") within three months from the hearing date. On 24 January 2018, the Company held its meeting with its creditors and obtained their approval of the NCL Scheme. A majority of 97.047% in number representing 94.13% of the value of the Company's creditors voted for the NCL Scheme;
- (c) Pursuant to an application to Malaya Court under Sections 366 and 369 of the Malaysia Companies Act 2016 on 15 November 2017, Nam Cheong Dockyard Sdn Bhd and Nam Cheong International Limited received the Malaya Court's approval to convene the meeting of their respective creditors to consider, and if thought fit approve, the proposed Scheme of Arrangement between NCI and its creditors ("NCI Scheme") and the proposed Scheme of Arrangement between NCD and its creditors ("NCD Scheme") within ninety days from the hearing date. On 22 January 2018, NCD and NCI each held their meeting with their respective creditors and obtained their approval of the NCI Scheme and NCD Scheme. A majority of 80.954% of the total value of the creditors have voted for the NCI Scheme and a majority of 95.407% of the total value of the creditors have voted for the NCD Scheme;
- (d) On 19 January 2018, the major shareholder of the Company deposited the Committed Sum of RM50 million into the escrow account for the purposes of fulfilling his obligations pursuant to the irrevocable undertaking as per the NCL Scheme; and
- (e) On 3 April 2018, the Company successfully obtained an order from the Singapore Court extending the Moratorium for a period of four months until 6 August 2018 or until further order.

Other than the above, the Group is in the process of satisfying certain condition precedents to the Schemes in order for the Schemes to be effective, including sanction of the NCL Scheme by the Singapore Court.

The Schemes are expected to be implemented in 2018. The successful implementation of the Schemes will enable the Group to strengthen its financial position.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

5. Revenue

	Group	
	2017	2016
	RM'000	RM'000
Shipbuilding		
- build-to-stock	238,739	82,273
- build-to-order	640	39,660
	239,379	121,933
Chartering income	80,199	48,491
	<u>319,578</u>	<u>170,424</u>

In 2016, included in the shipbuilding revenue was chartering income amounting to RM24,481,000. To better reflect the nature of the transactions, the Group reclassified the revenue to chartering income in the current financial year. The reclassification did not have any impact on the Group's revenue, but only affected the revenue classification disclosed in Note 37 on segment information.

	As previously reported	Group Reclassification	As above
	RM'000	RM'000	RM'000
Shipbuilding	146,414	(24,481)	121,933
Chartering income	24,010	24,481	48,491
	<u>170,424</u>	<u>-</u>	<u>170,424</u>

6. Cost of sales

	Group	
	2017	2016
	RM'000	RM'000
Shipbuilding		
- cost of construction	225,817	118,366
- depreciation of property, plant and equipment	18,767	20,709
Chartering cost	39,174	22,896
	<u>283,758</u>	<u>161,971</u>

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

7. Other income

	Group	
	2017	2016
	RM'000	RM'000
Foreign exchange gain, net	–	44,287
Forfeiture deposit received	5,828	46,218
Gain on disposal of freehold property	7,081	–
Interest income	5,444	4,979
Rental income from investment properties	3,602	3,267
Miscellaneous	2,237	2,043
Insurance claims received	–	1,258
Net fair value gain on derivatives	–	2,378
Allowance for trade receivables written back	2	1,635
	<u>24,194</u>	<u>106,065</u>

8. Finance costs

	Group	
	2017	2016
	RM'000	RM'000
Interest expense:		
– Bank borrowings	42,074	25,236
– Medium term notes	56,880	58,592
Total interest expense	98,954	83,828
Amortisation of debt issuance cost	6,064	7,071
Less: Interest capitalised in cost of construction (Note 22)	(31,627)	(75,436)
	<u>73,391</u>	<u>15,463</u>

The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 1.20% (2016: 3.80%), which is the effective interest rate of the specific borrowings.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

9. Loss 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	
	2017	2016
	RM'000	RM'000
<i>Selling and administrative expenses</i>		
Audit fees		
– auditor of the Company	239	273
– other auditors	227	353
Non-audit fees		
– auditor of the Company	–	–
– other auditors	–	–
Loss on disposal of available-for-sale financial assets	1,170	2,713
Amortisation of prepaid land lease payments	108	108
Depreciation of property, plant and equipment	447	179
Depreciation of investment properties	930	1,298
Operating lease expense	484	801
Employee benefits expense		
– salaries, bonus and other benefits	15,354	22,145
– defined contribution plans	1,016	1,479
<i>Other operating expenses</i>		
Foreign exchange loss, net	33,375	–
Loss on disposal of plant and equipment	–	3,264
Allowance for trade and other receivables	71,732	1,196
Bad debts written off	3,389	15
Inventories written down	2,085,877	59,772
Prepayments for inventories written off	105,899	19,929
Contract termination expenses relating to prepayments for inventories	8,363	–
Impairment on investment in an associate	5,237	3,445
Impairment on property, plant and equipment	346,767	3,554
Plant and equipment written off	482	–
Dry docking expenses	2,719	–
Impairment on investment properties	15,233	–
Impairment on amount due from customers on contracts	198,660	–
Inventories written off	639	–
Restructuring expenses	8,708	–
Provision for corporate guarantee	32,380	–

The employee benefits expense include the remuneration of Directors and other key management personnel as disclosed in Note 32 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

10. Income tax (credit)/expense

	Group	
	2017	2016
	RM'000	RM'000
Current income tax		
– current financial year	100	144
– under provision in prior financial years	345	5
	<u>445</u>	<u>149</u>
Deferred tax		
– current financial year	(598)	–
– overprovision in prior financial years	(660)	–
	<u>(1,258)</u>	<u>–</u>
Total income tax (credit)/expense recognised in profit or loss	<u>(813)</u>	<u>149</u>

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

A reconciliation of income tax applicable to loss before income tax at the statutory income tax rate to income tax (credit)/expense at the effective income tax rate of the Group is as follows:

	Group	
	2017	2016
	RM'000	RM'000
Loss before income tax	(3,018,588)	(42,622)
Share of results of equity accounted joint ventures and associate	51,546	7,678
	<u>(2,967,042)</u>	<u>(34,944)</u>
Income tax at the applicable tax rates	(455,815)	35,028
Income not subject to tax	(266)	(43,118)
Expenses not deductible for tax purposes	421,668	7,130
Deferred tax assets not recognised	36,157	1,104
Deferred tax expenses relating to reversal of temporary difference	(117)	–
Utilisation of previously unrecognised deferred tax assets	(2,114)	–
Over provision of deferred tax in previous financial years	(660)	–
Under provision of current income tax in previous financial years	345	5
Corporate income tax rebate	(11)	–
Income tax (credit)/expense for the financial year	<u>(813)</u>	<u>149</u>

Unrecognised deferred tax assets

	Group	
	2017	2016
	RM'000	RM'000
Balance at beginning of financial year	12,208	11,104
Deferred tax assets not recognised	36,157	1,104
Utilisation of previously unrecognised deferred tax assets	(2,114)	–
Balance at end of financial year	<u>46,251</u>	<u>12,208</u>

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

10. Income tax (credit)/expense (Continued)

Unrecognised deferred tax assets (Continued)

The unrecognised deferred tax assets are attributable to the following temporary differences:

	Group	
	2017	2016
	RM'000	RM'000
Unutilised tax losses	38,013	9,917
Unabsorbed capital allowance	8,238	2,291
	<u>46,251</u>	<u>12,208</u>

As at 31 December 2017, the Group has unutilised tax losses of approximately RM158,388,000 (2016: RM41,319,000) and unabsorbed capital allowances of approximately RM34,326,000 (2016: RM9,549,000) which is available for offset against future taxable profits which has no expiry date and subject to the agreement by the tax authorities and provisions of the tax legislations of Malaysia. These deferred tax assets have not been recognised as there is no certainty that there will be sufficient future taxable profits to realise these future benefits. Accordingly, these deferred tax assets have not been recognised in the financial statements in accordance with the accounting policy in Note 2.24 to the financial statements.

11. Loss per share

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

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

	Group	
	2017	2016
Loss after income tax attributable to owners of the parent (RM'000)	<u>(3,020,051)</u>	<u>(42,014)</u>
Weighted average of ordinary shares during the financial year applicable to basic and diluted loss per share ('000)	<u>2,096,466</u>	<u>2,096,466</u>
Basic loss per share (in sen)	(144.05)	(2.00)
Diluted loss per share (in sen)	<u>(144.05)</u>	<u>(2.00)</u>

For the purpose of calculating diluted loss per share, loss 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.

As the Group has no dilutive potential ordinary shares, the diluted loss per share is equivalent to basic loss 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 2017

12. Property, plant and equipment

Group	Leasehold land	Leasehold buildings	Freehold building	Launching ways, 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 2016	8,088	29,712	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 and 1 January 2017	8,088	29,716	7,968	35,534	6,269	7,243	448,974	585	2,694	547,071
Transferred from inventories	-	-	-	138	95	-	243,135	-	-	243,135
Additions	-	-	-	-	(25)	(45)	2,132	557	-	2,922
Disposals	-	-	(7,877)	-	-	-	-	-	-	(7,947)
Written off	-	(238)	-	-	(292)	-	-	(427)	-	(957)
Reclassification	-	-	-	146	-	-	-	-	(146)	-
Exchange differences	-	-	(91)	-	(50)	(107)	(38,228)	-	-	(38,476)
At 31 December 2017	8,088	29,478	-	35,818	5,997	7,091	656,013	715	2,548	745,748

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

12. Property, plant and equipment (Continued)

	Group									
	Accumulated depreciation and accumulated impairment losses									
1 January 2016										
Depreciation charge for the financial year										
Recognised in profit or loss										
Capitalised in construction costs (Note 22)										
Disposals										
Impairment loss for the financial year										
Exchange differences										
At 31 December 2016 and 1 January 2017										
Depreciation charge for the financial year										
Recognised in profit or loss										
Capitalised in construction costs (Note 22)										
Disposals										
Written off										
Impairment loss for the financial year										
Exchange differences										
At 31 December 2017										
	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
	437	4,105	884	29,044	3,204	4,671	54,116	255	-	96,716
	136	613	158	2,499	782	930	18,216	59	-	23,393
	-	613	158	130	782	930	18,216	59	-	20,888
	136	-	-	2,369	-	-	-	-	-	2,505
	-	-	-	(5)	-	(323)	(7,481)	-	-	(7,809)
	-	-	-	-	-	-	3,554	-	-	3,554
	-	-	19	-	17	59	2,625	-	-	2,720
	573	4,718	1,061	31,538	4,003	5,337	71,030	314	-	118,574
	136	613	118	1,754	732	863	16,675	65	-	20,956
	-	613	118	148	732	863	16,675	65	-	19,214
	136	-	-	1,606	-	-	-	-	-	1,742
	-	-	(1,168)	-	(15)	(45)	-	-	-	(1,228)
	-	(49)	-	-	(207)	-	-	(219)	-	(475)
	-	-	-	476	812	-	342,990	450	2,039	346,767
	-	-	(11)	-	(31)	(81)	(7,426)	-	-	(7,549)
	709	5,282	-	33,768	5,294	6,074	423,269	610	2,039	477,045

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

12. Property, plant and equipment (continued)

Net carrying value

At 31 December 2017	Leasehold land RM'000	Leasehold buildings RM'000	Freehold building RM'000	Launching 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
	7,379	24,196	-	2,050	703	1,017	232,744	105	509	268,703
At 31 December 2016	7,515	24,998	6,907	3,996	2,266	1,906	377,944	271	2,694	428,497

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

12. Property, plant and equipment (Continued)

- (a) Net carrying amounts of property, plant and equipment pledged as security for borrowings (Note 28) as at the end of the reporting period are as follows:

	Group	
	2017	2016
	RM'000	RM'000
Assets under loans and borrowings		
Vessels	45,047	89,692
Buildings	–	6,905
	<u>45,047</u>	<u>96,597</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	
	2017	2016
	RM'000	RM'000
Launching ways, plant and machinery	24,086	8,577
Motor vehicles	1,593	1,588
Furniture, fixtures and office equipment	1,287	692
	<u>26,966</u>	<u>10,857</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	
	2017	2016
	RM'000	RM'000
Motor vehicles	<u>14</u>	<u>35</u>

- (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 increased property, plant and equipment at an aggregate cost of RM246,057,000 (2016: RM87,000) of which RM243,135,000 (2016: RM Nil) was transferred from inventories. Accordingly, the cash outflow on acquisition of property, plant and equipment was amounted to RM2,922,000 (2016: RM87,000).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

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 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 2015, the Group had completed the erection of the building on the leasehold land in accordance with detailed drawings and specifications approved by the Miri City Council. In the previous financial years, the Government had waived payment from the Group amounting to RM2,756,000.

- (g) In the previous financial 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 that had been recognised in profit or loss and included in other operating expenses. The recoverable amount of the vessels of RM377,944,000 had 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 in the financial statements.

Due to the recent debt restructuring exercise and to reflect the value of the asset that may need to be realised to discharge its liabilities, the Group has appointed an independent professional valuation firm to value chartering segment vessels held by the Group based on "as is, where is" sales at their current locations, between a willing buyer and a willing. The valuation method involves understanding of vessel's specification and general arrangement, review vessels historical valuation record including previous and recent actual sales transaction in the market, consideration of market conditions and inherent values of the vessels. The fair value measurement is categorised as level 3 under the fair value hierarchy. The valuation conforms to International Valuation Standards. With reference to the valuation report, the fair value of the vessels is RM232,744,000. This led to the recognition of an impairment loss of RM342,990,000 (2016: Nil) that has been recognised in profit or loss and included in other operating expenses.

- (h) During the current financial year, due to the reasons as mentioned above, the Group also carried out an assessment of the recoverable amount of other property, plant and equipment in the shipbuilding segment based on the valuation done by independent professional valuation firms. The valuation were prepared based on market value of the assets, including consideration of the location, accessibility and neighborhood. The fair value measurement is categorized as level 3 under the fair value hierarchy. The valuation conforms to International Valuation Standards. The review led to the recognition of an impairment loss of RM3,777,000 (2016: Nil) that has been recognised in profit or loss and included in other operating expenses.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

13. Prepaid land lease payments

	Group	
	2017	2016
	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	2,949	2,679
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	3,219	2,949
Net carrying amount		
Balance at end of financial year	7,133	7,403

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 5 to 47 years (2016: 6 to 48 years).

As at 31 December 2017, prepaid land lease payments with a net carrying amount of RM6.5 million (2016: RM6.6 million) are pledged for the Group's borrowings (Note 28).

14. Investment properties

	Group	
	2017	2016
	RM'000	RM'000
Cost		
Balance at beginning of financial year	96,721	94,816
Transferred to asset-held-for-sale	(95,611)	–
Exchange differences	(1,110)	1,905
Balance at end of financial year	–	96,721
Accumulated depreciation and impairment losses		
Balance at beginning of financial year	3,937	2,575
Depreciation for the financial year	930	1,298
Impairment loss for the financial year	15,233	–
Transferred to asset-held-for-sale	(20,055)	–
Exchange differences	(45)	64
Balance at end of financial year	–	3,937
Net carrying amount		
Balance at end of financial year	–	92,784

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

14. Investment properties (Continued)

On 21 September 2017, the Company entered into sale and purchase agreement with a third party purchaser to dispose its investment properties at a consideration of RM75,556,000 (equivalent to S\$25,040,560). The transaction was completed on 9 February 2018.

Upon the commitment to dispose the investment properties, the investment properties was classified as asset-held-for-sale (Note 24) and written down to its recoverable amount of RM75,556,000 based on fair value less cost to sell. The resulting fair values of investment properties are considered level 1 recurring fair value measurements and is based on sales consideration. Consequently, an impairment loss of RM15,233,000 (equivalent to S\$4,970,034) has been recognised in other operating expenses.

In the previous financial year, 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 RM80,600,000 (equivalent to S\$26,000,000) 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 was based on highest and best use.

As at 31 December 2017 and 31 December 2016, the Group's properties with a net carrying amount of RM74,676,000 (Note 24) and RM92,784,000 respectively had been pledged to a financial institution as security for bank facilities granted to a subsidiary, Nam Cheong International Limited.

The Group's investment properties were held under leasehold interests.

The following amounts are recognised in profit or loss:

	Group	
	2017	2016
	RM'000	RM'000
Rental income from investment properties	3,602	3,267
Property tax	255	287
Repair and maintenance	198	217

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

15. Investments in subsidiaries

	Company	
	2017	2016
	RM'000	RM'000
Unquoted shares, at cost	1,143,476	1,143,476
Employee's share grant, cost	213	213
Allowance for impairment loss	(1,143,689)	(64,501)
Balance at end of financial year	-	1,079,188
Amount due from a subsidiary	1,228,129	1,228,129
Allowance for impairment loss	(1,228,129)	-
	-	1,228,129
Total	-	2,307,317

Movement in the allowance for impairment loss are as follows:

	Company	
	2017	2016
	RM'000	RM'000
Balance at beginning of financial year	64,501	64,501
Impairment loss recognised during the financial year	2,307,317	-
Balance at end of financial year	2,371,818	64,501

As at 31 December 2017, the Group carried out a review of the recoverable amount of the investment in Nam Cheong Dockyard Sdn Bhd, the shipbuilding segment due to its continued loss making performance and facing financial difficulty in debt settlement, and other subsidiaries that provided corporate services in Singapore. The review led to the recognition of an impairment loss of RM2,307,317,000 (2016: RM Nil) that has been recognised in profit or loss. As the subsidiaries are in net liabilities position, the management has determined that the recoverable amount which is based on fair value less cost of disposal to be nil.

Gross amount due from a subsidiary is denominated in the following currencies:

	Company	
	2017	2016
	RM'000	RM'000
Singapore dollar	1,050,965	1,050,965
United States dollar	177,164	177,164
	1,228,129	1,228,129

Amount due from a subsidiary is unsecured and bears interest ranges 5% to 6.5% (2016: 5% to 6.5%) per annum. The settlement is neither planned nor likely to occur in the foreseeable future. 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 2017

15. Investments in subsidiaries (Continued)

Details of the subsidiaries are as follows:

Name of subsidiaries	Country of incorporation and principal place of business	Principal activities	Proportion of ownership interest		Non-controlling interests ownerships/ voting interest	
			2017 %	2016 %	2017 %	2016 %
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	-	-
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 Machines Ltd. ⁽²⁾	Federal Territory of Labuan, Malaysia	Trading	100	100	-	-
Nam Cheong Property Pte. Ltd. ⁽¹⁾	Singapore	Investment holding	100	100	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

15. Investments in subsidiaries (Continued)

Name of subsidiaries	Country of incorporation and principal place of business	Principal activities	Proportion of ownership interest		Non-controlling interests ownerships/ voting interest	
			2017 %	2016 %	2017 %	2016 %
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	-	-
SK Prudence Ltd. ⁽²⁾	Federal Territory of Labuan, Malaysia	Vessel chartering	100	100	-	-
SK Offshore & Marine Sdn. Bhd ⁽²⁾	Malaysia	Vessel Chartering	100	100	-	-
SK Capital Ltd. ⁽²⁾	Federal Territory of Labuan, Malaysia	Vessel Chartering	100	100	-	-
SKOM Ltd. ⁽²⁾	Federal Territory of Labuan, Malaysia	Vessel Chartering	100	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	
	2017 RM'000	2016 RM'000
Unquoted shares, at cost	13,464	13,464
Share of post-acquisition results	(9,423)	(2,507)
	<u>4,041</u>	<u>10,957</u>

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

16. Investments in joint ventures (continued)

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.

Details of the joint ventures are as follows:

Name of joint ventures	Country of incorporation and principal place of business	Principal activity	Proportion of ownership interest	
			2017 %	2016 %
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.

The summarised financial information below reflects the amounts presented in the financial statements of two material joint ventures, 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		Group		Total	
	2017 RM'000	2016 RM'000	SKO 2017 RM'000	SKO 2016 RM'000	2017 RM'000	2016 RM'000
Assets and liabilities						
Cash and cash equivalents	657	2,661	22,215	35,723	22,872	38,384
Trade receivables	7,632	25,097	3,720	685	11,352	25,782
Other current assets	—	403	—	972	—	1,375
Current assets	8,289	28,161	25,935	37,380	34,224	65,541
Non-current assets	20,238	127,418	60,338	68,725	85,498	196,143
Total assets	28,527	155,579	86,273	106,105	119,722	261,684

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

16. Investments in joint ventures (Continued)

	MPO		Group		Total	
	2017	2016	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets and liabilities (continued)						
Current liabilities	(36,095)	(34,532)	(26,091)	(56,069)	(61,764)	(90,601)
Non-current liabilities	(64,760)	(74,339)	(29,804)	(12,232)	(94,564)	(86,571)
Total liabilities	(100,855)	(108,871)	(55,895)	(68,301)	(156,328)	(177,172)
Net assets	(72,328)	46,708	30,378	37,804	(36,606)	84,512
Proportion of the Group's ownership	50%	50%	40%	40%		
Share of net assets/(liabilities)	(36,164)	23,354	12,151	15,121	(21,341)	38,475
Joint ventures losses in excess of equity interest	36,164	-	-	-	33,492	-
	-	23,354	12,151	15,121	12,151	38,475
<i>Included in the current and non-current liabilities are:</i>						
Current financial liabilities (excluding trade and other payables and provision)	(36,095)	(33,050)	(7,813)	(45,639)	(43,486)	(78,689)
Non-current financial liabilities (excluding trade and other payables and provision)	(64,760)	(71,149)	(29,804)	(12,232)	(94,564)	(83,381)
Income and expenses						
Revenue	6,252	24,070	10,817	13,478	17,069	37,548
Operating expenses	(117,297)	(311)	(17,759)	(7,068)	(129,422)	(7,379)
Depreciation and amortisation	(5,493)	(7,021)	-	(4,539)	(5,493)	(11,560)
Interest income	-	-	7	637	7	637
Interest expense	(4,094)	(3,515)	(1,590)	(2,003)	(5,684)	(5,518)
Profit before income tax	(120,632)	13,223	(8,525)	505	(123,523)	13,728
Adjustment for prior year profits	-	-	-	(520)	-	(520)
Income tax (expense)/income	(19)	(2)	1,099	(26)	1,080	(28)
(Loss)/Profit after income tax, representing total comprehensive income	(120,651)	13,221	(7,426)	(41)	(122,443)	13,180
Proportion of the Group's ownership	50%	50%	40%	40%		
Share of post-tax (losses)/profits	(60,326)	6,610	(2,970)	(17)	(60,479)	6,593
Joint ventures losses in excess of equity interest	58,360	-	-	-	55,543	-
Net share of post-tax (losses)/profits	(1,966)	6,610	(2,970)	(17)	(4,936)	6,593

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

16. Investments in joint ventures (Continued)

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

	2017 RM'000	2016 RM'000
Loss from continuing operations	(5,036)	(5,446)
Total comprehensive loss	(5,036)	(5,446)

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

	MPO		Group		Total	
	2017 RM'000	2016 RM'000	SKO 2017 RM'000	SKO 2016 RM'000	2017 RM'000	2016 RM'000
Net assets						
At 1 January	23,267	15,234	15,208	15,225	38,475	30,459
(Loss)/Profit for the financial year	(1,966)	6,610	(2,970)	(17)	(4,936)	6,593
Foreign exchange differences	(1,979)	1,423	-	-	(1,979)	1,423
At 31 December	19,322	23,267	12,328	15,208	31,560	38,475
Elimination of accumulated unrealised profits	(19,322)	(19,322)	(8,197)	(8,196)	(27,519)	(27,518)
Carrying value of material joint venture	-	3,945	4,041	7,012	4,041	10,957
<i>Add immaterial joint ventures:</i>						
Carrying value of individually immaterial joint ventures					1,888	3,170
Elimination of unrealised profits					(1,888)	(3,170)
Carrying value of the Group's investment in joint ventures					4,041	10,957

The joint ventures had no contingent liabilities and capital commitments as at 31 December 2017 and 31 December 2016.

The Group has not recognised losses relating to MPO and 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 RM71,619,000 (2016: RM8,223,000). The Group has no obligation in respect to those losses.

17. Investment in an associate

	Group	
	2017 RM'000	2016 RM'000
Equity shares, at cost	110,400	110,400
Share of post-acquisition results	(77,878)	(32,115)
Allowance for impairment loss	(8,682)	(3,445)
	23,840	74,840

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

17. Investment in an associate (Continued)

Movement in the allowance for impairment loss are as follows:

	Group	
	2017	2016
	RM'000	RM'000
Balance at beginning of financial year	3,445	-
Impairment loss recognised during the year	5,237	3,445
Balance at end of financial year	8,682	3,445

Details of the associate are as follows:

Name of associate	Country of incorporation and principal place of business	Principal activity	Proportion of ownership interest	
			2017	2016
			%	%
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	
	2017	2016
	RM'000	RM'000
Assets and liabilities		
Current assets	22,193	31,247
Non-current assets	376,820	583,783
Total assets	399,013	615,030
Current liabilities	(179,918)	(213,058)
Non-current liabilities	(80,350)	(107,044)
Total liabilities	(260,268)	(320,102)
Net assets	138,745	294,928
Proportion of the Group's ownership	30%	30%
Share of net assets	41,623	88,479

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

17. Investment in an associate (Continued)

	2017 RM'000	2016 RM'000
Income and expenses		
Revenue	100,593	111,081
Operating expenses	(206,267)	(89,138)
Loss on impairment	–	(20,886)
Depreciation and amortisation	(41,766)	(43,662)
Interest income	397	7,283
Interest expense	(10,759)	(10,871)
Loss before income tax	(157,802)	(46,193)
Income tax expense	(2,220)	(1,378)
Loss after income tax	(160,022)	(47,571)
Other comprehensive income	–	–
Loss after income tax, representing total comprehensive income	(160,022)	(47,571)
Proportion of the Group's ownership	30%	30%
Share of post-tax losses	(47,703)	(14,271)

As at 31 December 2017, 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 RM23.8 million (2016: RM26.6 million). The fair value measurement is classified within Level 1 of the fair value hierarchy.

In 2016, the recoverable amount of investment in BBR has been determined on the basis of value-in-use ("VIU") based on the cash flow forecast derived from the most recent financial budgets approved by management for the next 5 years. The Group carried out a review of the recoverable amount of the investment in BBR as at 31 December 2017 due to continuing operating loss in this chartering segment and the debt restructuring proposed by the associate. The review led to the recognition of an impairment loss of RM5,237,000 (2016: RM3,445,000) that has been recognised in profit or loss. The carrying amount of the Group's investment in the associate was RM23.8 million (2016: RM74.8 million).

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

	2017 RM'000	2016 RM'000
Net assets		
At 1 January	88,479	98,475
Loss for the financial year	(47,703)	(14,271)
Foreign exchange differences	847	4,275
At 31 December	41,623	88,479
Effect of realisation of profits to profit or loss	1,093	–
Effect of unrealised profits	(10,194)	(10,194)
Impairment loss	(8,682)	(3,445)
Carrying value of the Group's investment in associate	23,840	74,840

The investment in associate had no contingent liabilities and capital commitments at 31 December 2017 and 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

18. Available-for-sale financial assets

	Group	
	2017	2016
	RM'000	RM'000
Balance at beginning of financial year	35,158	-
Fair value loss	(2,372)	-
Reclassified from held-to-maturity financial assets	-	111,112
Disposals	(26,930)	(81,843)
Exchange differences	(2,630)	5,889
Balance at end of financial year	3,226	35,158
Non-current	3,226	30,442
Current	-	4,716
	3,226	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 2017, the unquoted debt securities have fair values amounting to RM3.2 million (2016: RM35.1 million), with coupon rates ranging from 5.5% to 5.85% (2016: 4.75% to 5.35%) per annum and maturity dates ranging from March 2020 to October 2021 (2016: 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.

19. Trade and other receivables

	Group		Company	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Non-current				
Third parties trade receivables	16,797	-	-	-
Current				
Third parties trade receivables	46,318	50,982	-	-
Less: Allowance for impairment	(9,378)	(948)	-	-
	36,940	50,034	-	-
Amounts due from subsidiaries	-	-	23,094	100,576
Amounts due from joint ventures	64,179	67,864	-	-
Deposits	6,301	1,100	-	-
Sundry receivables	21,651	10,550	-	-
Less: Allowance for impairment				
- amount due from joint ventures	(62,934)	-	-	-
- sundry receivables	(1,058)	(1,536)	-	-
- amounts due from subsidiaries	-	-	(23,094)	-
	28,139	77,978	-	100,576
Total current trade and other receivables	65,079	128,012	-	100,576
Total trade and other receivables	81,876	128,012	-	100,576

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

19. Trade and other receivables (Continued)

Trade and other receivables are denominated in the following currencies:

	Group		Company	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Ringgit Malaysia	23,094	21,042	-	706
Singapore dollar	19,206	2,047	-	80,411
United States dollar	39,576	104,857	-	19,459
Brunei dollar	-	51	-	-
Others	-	15	-	-
	81,876	128,012	-	100,576

The Group's trading terms with its customer are mainly on credit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Non-current trade receivables from third parties relates to credit arrangement entered with customer is secured by a personal guarantee of the chairman of the customer, bearing interest rate of 6% per annum and to be settled in year 2020. The interest income of RM531,000 recognised in profit or loss was included in other income.

Current trade receivables with credit period ranges from one to two months (2016: one to two months) are non-interest bearing. Sundry receivables are repayable on demand. Included in the deposits is an amount of RM46,980 which is paid to a related party.

The Group does not have concentration of credit risks except for the non-current receivable due from a trade debtor in respect of sale of vessels.

The age analysis of trade receivables are as follows:

	Group	
	2017	2016
	RM'000	RM'000
Neither past due nor impaired	6,478	20,999
1 to 3 months past due but not impaired	10,320	23,105
Over 3 to 6 months past due but not impaired	289	728
More than 6 months past due but not impaired	19,853	5,202
	30,462	29,035
More than 6 months past due and impaired	9,378	948
	46,318	50,982

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 14% (2016: 41%) 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 RM30.5 million (2016: RM29.0 million) that are past due at the end of the reporting period but not impaired and are unsecured in nature.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

19. 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:

	Group	
	2017	2016
	RM'000	RM'000
Trade receivables – nominal amounts	9,378	948
Less: Allowance for impairment	(9,378)	(948)
	<u>-</u>	<u>-</u>
Movements in allowance for impairment of trade receivables were as follows:		
Balance at beginning of financial year	948	2,384
Charge for the financial year	8,491	164
Allowance for trade receivables written back	(2)	(1,635)
Exchange difference	(59)	35
Balance at end of financial year	<u>9,378</u>	<u>948</u>

Trade receivables that are individually determined to be impaired at the end of the reporting period relate to debtors that have difficulty in settling their debts.

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	
	2017	2016
	RM'000	RM'000
Other receivables – nominal amounts	63,992	1,536
Less: Allowance for impairment	(63,992)	(1,536)
	<u>-</u>	<u>-</u>

	Individually impaired			
	Group		Company	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Movements in allowance for impairment of other receivables were as follows:				
Balance at beginning of financial year	1,536	904	-	-
Charge for the financial year	63,241	1,032	23,094	-
Written off	-	(400)	-	-
Exchange differences	(785)	-	-	-
Balance at end of financial year	<u>63,992</u>	<u>1,536</u>	<u>23,094</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

19. Trade and other receivables (Continued)

Other receivables that are individually determined to be impaired at the end of the reporting period relate to debtors that have difficulty in settling their debts.

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

Other receivables amounted to RM3,389,000 (2016: 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 are unsecured, interest-free, repayable on demand and are to be settled in cash.

The amounts due from a joint venture are unsecured, bears interest at 7.25% (2016: 7.25%) per annum, repayable on demand and to be settled in cash.

20. Inventories

	Group	
	2017	2016
	RM'000	RM'000
Raw materials	21,769	25,491
Work-in-progress	2,446,790	2,432,585
	2,468,559	2,458,076
Less: Work-in-progress written down	(2,085,877)	(59,772)
Less: Raw materials written off	(639)	-
	382,043	2,398,304
Inventories recognised as an expense in cost of sales	225,817	75,190

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

As a result of the market downturn and subsequent to the termination contract entered into with the respective shipyards as well as the intention to terminate the construction of certain vessels, the Group has carried the following review to determine the net realisable value of its unsold vessels.

The Group has written down the value of those work-in-progress inventories of RM2,085,877,000 after consideration of additional construction cost to incur and financial difficulty in settling the cost to respective shipyards. Included in the written down of work-in-progress inventories is an amount of RM699,750,000 which the Group estimates to incur additional cost to complete the construction and estimate the net realisable values of those vessels with reference to the valuation report prepared by an independent valuer.

The Group has written off the obsolete raw materials of RM639,000, which they are no longer in use, to profit or loss subsequent to the review.

As at 31 December 2017, the net realisable value of the unsold vessels is RM360,913,000 (2016: RM2,372,813,000).

As at 31 December 2017, inventories with a carrying amount of RM21.4 million (2016: RM71.5 million) are pledged for the Group's borrowings.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

21. Prepayments

The prepayments mainly relate to prepaid amount for suppliers to secure the purchase of inventories and operating expenses.

Prepayments amounting to RM114,262,000 (2016: RM19,929,000) were written off during the financial year as it relates to non-refundable payments made in prior years to secure inventories for construction use, which the Group will not take delivery of these inventories subsequent to the termination of or intention to terminate the construction of vessels.

22. Due from/(to) customers on contracts

	Group	
	2017	2016
	RM'000	RM'000
Construction contract costs incurred to date	436,334	709,178
Recognised attributable profits	68,417	111,636
	504,751	820,814
Less: Progress billings	(268,307)	(362,207)
Less: Allowance for amount due from customers on contracts	(198,660)	-
	37,784	458,607
Due from customers on contracts	38,484	462,398
Due to customers on contracts	(700)	(3,791)
	37,784	458,607

At the end of the reporting period, the Group review the recoverability of the amount due from customers on contracts aged more than a year. Subsequent to the review, an allowance of RM198,660,000 in respect of which the recovery has ceased to be probable is recognised in profit or loss.

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

	Group	
	2017	2016
	RM'000	RM'000
Amortisation of prepaid land lease payments	162	162
Depreciation of property, plant and equipment	1,742	2,505
Interest expense	31,627	75,436

23. Cash and bank balances and fixed deposits

	Group	Company	
	2017	2016	2017
	RM'000	RM'000	RM'000
Fixed deposits	28,677	153,003	22,939
Cash and bank balances	195,740	148,490	288
	224,417	301,493	23,227

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

23. Cash and bank balances and fixed deposits (Continued)

The Group's fixed deposits mature on varying dates between 1 day to 12 months (2016: 7 days to 12 months). The interest rate on the fixed deposits range from 0.2% to 3.1% (2016: 0.2% to 3.1%) per annum.

As at 31 December 2017, the Group has pledged RM238,000 (2016: RM62,610,000) of its fixed deposits to bankers as security for borrowings as disclosed in Note 28 to the financial statements and bankers' guarantees granted to the Group as disclosed in Note 36 to the financial statements.

As at 31 December 2017, the Group and the Company has pledged RM22,939,000 (2016: RM60,508,000) of its fixed deposits for future 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 1 February 2016. No interest is earned on these amounts in the Interest Reserve Balance.

Cash and bank balances and fixed deposits are denominated in the following currencies:

	Group		Company	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
<u>Fixed deposits</u>				
Ringgit Malaysia	5,738	24,121	-	-
Singapore dollar	22,939	128,882	22,939	60,508
	<u>28,677</u>	<u>153,003</u>	<u>22,939</u>	<u>60,508</u>

	Group		Company	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
<u>Cash and bank balances</u>				
Ringgit Malaysia	5,699	7,281	-	-
Singapore dollar	53,812	104,488	288	1,003
United States dollar	135,639	29,923	-	-
Euro	295	4,563	-	-
Pound Sterling	2	14	-	-
Japanese Yen	293	204	-	-
Brunei dollar	-	2,009	-	-
Australia dollar	-	8	-	-
	<u>195,740</u>	<u>148,490</u>	<u>288</u>	<u>1,003</u>

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	
	2017	2016
	RM'000	RM'000
Fixed deposits	28,677	153,003
Cash and bank balances	<u>195,740</u>	<u>148,490</u>
	224,417	301,493
Less: Bank overdrafts	(18,217)	(15,757)
Less: Restricted fixed deposits	<u>(23,177)</u>	<u>(123,118)</u>
	<u>183,023</u>	<u>162,618</u>

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

24. Asset-held-for-sale

	Group	
	2017	2016
	RM'000	RM'000
<u>Fair value</u>		
Balance at beginning of financial year	-	-
Transferred from investment properties (Note 14)	75,556	-
Exchange differences	(880)	-
Balance at end of financial year	<u>74,676</u>	<u>-</u>

On 21 September 2017, the Company entered into sale and purchase agreement with a third party purchaser to dispose its investment properties, whose principal activities were those rental income, at a consideration of RM75,556,000 (equivalent to S\$25,040,560). The operation was as part of the Group's others segment. The transaction was completed on 9 February 2018. The sales proceeds to be used for part of loan and borrowing settlement of RM111,361,000 subsequent to the financial year.

Details of the Group's asset-held-for-sale transferred from investment properties are set out below:

Description	Location	Existing use	Tenure/ Unexpired term	Approximate floor area (sqm)
Office building	8 Temasek Boulevard #41-01 to #41-03	Rental	Leasehold with 70 years expiring in 2088	938

25. Share capital and share premium

Share capital

	Group and Company			
	Number of ordinary shares of HK\$0.10 (2016: HK\$0.50) each		Amount	
	2017	2016	2017	2016
	'000	'000	RM'000	RM'000
Authorised share capital				
Ordinary shares	<u>4,000,000</u>	<u>4,000,000</u>	<u>163,145</u>	<u>815,727</u>
Issued and fully paid-up share capital				
Balance at beginning of financial year	2,103,144	2,103,144	405,962	405,962
Capital reorganisation	-	-	(324,770)	-
Balance at end of financial year	<u>2,103,144</u>	<u>2,103,144</u>	<u>81,192</u>	<u>405,962</u>

During the financial year, the Company completed a capital reorganisation by reducing the par value of each ordinary shares of the Company from HK\$0.50 to HK\$0.10. The rationale for the capital reorganisation is to provide the Company with greater flexibility to issue new shares in the future for raising fund and facilitate corporate actions which may require the issuance of new shares. The credit amount of RM324,770,000 arising from the capital reorganisation was transferred to the retained earnings account of the Company. This has resulted an increase in the balance of the retained earnings account of the Company. No change in number of shares issued by the Company after the capital reorganisation.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

25. Share capital and share premium (Continued)

Share premium

	Group		Company	
	2017	2016	2017	2016
	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.

26. Treasury shares

	Group and Company			
	Number of ordinary shares		Amount	
	2017	2016	2017	2016
	'000	'000	RM'000	RM'000
Balance at beginning and end of financial year	6,678	6,678	4,097	4,097

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.

27. Reserves

	Group		Company	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Foreign currency translation reserve	320,986	327,787	-	-
Available-for-sale reserve	(2,372)	-	-	-
Capital surplus	-	-	778,608	778,608
	318,614	327,787	778,608	778,608

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.

Available-for-sale reserve

The available-for-sale reserve represents the gains/losses arising on financial assets classified as available-for-sale.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

27. Reserves (Continued)

Capital surplus

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

(Accumulated losses)/Retained earnings

The (accumulated losses)/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 (accumulated losses)/retained earnings of the Company are as follows:

	Company	
	2017	2016
	RM'000	RM'000
Balance at beginning of financial year	58,413	19,855
Capital reorganisation (Note 25)	324,770	-
Total comprehensive (loss)/income for the financial year	(2,899,036)	38,558
Balance at end of financial year	(2,515,853)	58,413

28. Loans and borrowings

			Group		Company	
			2017	2016	2017	2016
			RM'000	RM'000	RM'000	RM'000
Short term borrowings						
Secured:						
Bank overdrafts	RM-Floating rate	On demand	16,516	2,268	-	-
Bank overdrafts	SGD-Floating rate	On demand	1,701	13,489	-	-
Project invoice financing	USD-Floating rate	On demand	9,122	-	-	-
Project invoice financing	USD-Fixed rate	On demand	-	588	-	-
Project invoice financing	EUR0-Floating rate	On demand	9,098	-	-	-
Project invoice financing	JPY-Fixed rate	On demand	4,536	-	-	-
Revolving credit	RM-Floating rate	On demand	106,626	112,000	-	-
Revolving credit	SGD-Floating rate	On demand	221,161	155,036	-	-
Revolving credit	USD-Floating rate	On demand	154,555	333,859	-	-
Trust receipt	RM-Floating rate	On demand	-	5,633	-	-
Term loans	RM-Fixed rate	2017	30,911	-	-	-
Term loans	RM-Floating rate	2017	-	5,000	-	-
Term loans	USD-Floating rate	2017	16,714	42,281	-	-
Unsecured:						
Medium term notes	SGD-Fixed rate	2017	1,068,307	278,566	1,114,322	294,457
			1,639,247	948,720	1,114,322	294,457

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

28. Loans and borrowings (Continued)

			Group		Company	
			2017	2016	2017	2016
			RM'000	RM'000	RM'000	RM'000
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	-	-
Unsecured:						
Medium term notes	SGD-Fixed rate	2018-2019	-	816,021	-	847,228
			-	874,781	-	847,228
Total borrowings						
Secured:						
Bank overdrafts			18,217	15,757	-	-
Project invoice financing			22,756	19,330	-	-
Revolving credit			482,342	594,887	-	-
Trust receipt			-	5,633	-	-
Term loans			47,625	93,307	-	-
Unsecured:						
Medium term notes			1,068,307	1,094,587	1,114,322	1,141,685
			1,639,247	1,823,501	1,114,322	1,141,685

Medium term notes ("MTN")

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 matured 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

28. Loans and borrowings (continued)

	Group		Company	
	2017	2016	2017	2016
	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	1,106,088	1,084,292	1,153,186	1,130,462
- Unamortised transaction cost	(11,501)	(6,516)	(11,501)	(6,516)
	1,094,587	1,077,776	1,141,685	1,123,946
Repayment	(5,818)	-	(5,818)	-
Exchange differences	(26,032)	21,373	(27,115)	22,301
Less: Unamortised transaction costs	-	(12,056)	-	(12,056)
	1,062,737	1,087,093	1,108,752	1,134,191
Interest expense recognised in statements of comprehensive income:				
- Principal of MTN	60,483	58,592	60,483	58,592
- Amortised transaction cost	6,064	7,071	6,064	7,071
	66,547	65,663	66,547	65,663
Interest expense on the MTN paid:				
Paid during the financial year	(60,977)	(58,169)	(60,977)	(58,169)
Balance at end of financial year				
- Principal of MTN	1,073,744	1,106,088	1,119,759	1,153,186
- Unamortised transaction cost	(5,437)	(11,501)	(5,437)	(11,501)
Amount included in loan and borrowings	1,068,307	1,094,587	1,114,322	1,141,685

During the financial year, the Group received demand letters from banks, and the Company has breached the payment for Series 2 Notes and financial covenants as required for the MTNs. Consequently, all the non-current loans and borrowings have been classified as current liabilities.

As disclosed in Note 39, subsequent to the financial year the Group and the Company have obtained approval from the loans and borrowings creditors to restructure the settlement to 7 years term loan. The restructuring is subject to the Singapore High Court and Malayan High Court approval.

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

	Group		Company	
	2017	2016	2017	2016
	%	%	%	%
Bank overdrafts	6.25 - 7.90	4.35 - 6.25	-	-
Project invoice financing	1.90 - 2.00	1.75 - 3.80	-	-
Revolving credit	3.86 - 5.72	3.55 - 5.98	-	-
Term loans	3.83 - 4.79	3.46 - 4.79	-	-
Medium term notes	5.00 - 6.50	5.00 - 6.50	5.00 - 6.50	5.00 - 6.50

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

28. Loans and borrowings (continued)

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

	Group		Company	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
On demand or within one financial year	1,639,247	948,720	1,114,322	294,457
More than 1 financial year and less than 2 financial years	-	267,456	-	227,891
More than 2 financial years and less than 5 financial years	-	607,325	-	619,337
5 financial years or more	-	-	-	-
	<u>1,639,247</u>	<u>1,823,501</u>	<u>1,114,322</u>	<u>1,141,685</u>

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) fixed deposits;
- (v) certain properties and assets of the Group as disclosed in Note 12, Note 14 and Note 24 to the financial statements; and
- (vi) corporate guarantee by the Company.

29. Deferred tax liabilities

	Group	
	2017	2016
	RM'000	RM'000
Balance at beginning of financial year	1,480	1,478
Recognised in profit and loss	(1,258)	-
Exchange differences	(2)	2
Balance at end of financial year	<u>220</u>	<u>1,480</u>

Deferred tax liabilities of the Group

	Accelerated capital allowances	
	2017	2016
	RM'000	RM'000
Balance at beginning of financial year	1,480	1,478
Recognised in profit and loss	(1,258)	-
Exchange differences	(2)	2
Balance at end of financial year	<u>220</u>	<u>1,480</u>

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

29. Deferred tax liabilities (Continued)

As at 31 December 2017, the aggregate amount of temporary differences associated with undistributed earnings of the subsidiaries for which deferred tax liabilities have not been recognised is RM30,786,000 (2016: RM77,677,000). 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.

30. Trade and other payables

	Group		Company	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Non-current				
Sundry payables	2,582	2,637	-	-
Current				
Trade payables				
Third parties	1,074,128	824,398	-	-
Current				
Other payables				
Accruals	3,315	4,488	2,190	1,750
Deposits	6,287	59,907	-	-
Amounts due to subsidiaries	-	-	-	4,743
Sundry payables	7,480	9,870	-	-
Goods and services tax payables	4,838	-	-	-
Interest payables	2,281	-	-	-
Dividend payables	146	-	146	-
	24,347	74,265	2,336	6,493
Current, total	1,098,475	898,663	2,336	6,493
Total trade and other payables	1,101,057	901,300	2,336	6,493

Trade and other payables are denominated in the following currencies:

	Group		Company	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Ringgit Malaysia	29,605	26,747	1,311	-
Singapore dollar	10,117	5,582	1,021	6,493
United States dollar	1,061,152	868,878	4	-
Euro	164	86	-	-
Others	19	7	-	-
	1,101,057	901,300	2,336	6,493

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

30. Trade and other payables (Continued)

(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 (2016: 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 (2016: average term of six months).

The non-current sundry payables, which constitute a government grant, is related to payable to the Government of Malaysia ("Government") for the Group's leasehold land which may be waived subject to the satisfaction of certain conditions.

(c) Amount due to subsidiaries

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

31. Provisions

	Provision for maintenance warranties RM'000	Provision for financial guarantee RM'000	Total RM'000
Group			
Balance at beginning of financial year	200	-	200
Provision made	-	32,380	32,380
Provision no longer required	(200)	-	(200)
Balance at end of financial year	-	32,380	32,380
Company			
Provision made, representing balance at end of financial year	-	484,400	484,400

Provision for maintenance warranties 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.

Provision for financial guarantee relates to financial guarantee provided to subsidiaries and joint venture as disclosed in Note 36.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

32. Significant related party disclosures

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	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Subsidiaries				
- Interest charge	-	-	61,295	63,160
- Dividends	-	-	-	37,395
- Payment on behalf of the Company	-	-	522	1,191
- Payment on behalf by the Company	-	-	148,228	4,861
- Advances to subsidiaries	-	-	121,576	244,782
Joint venture ⁽¹⁾				
- interest income	1,643	-	-	-
Associate				
- deposit forfeited	3,072	-	-	-
Other related parties in which directors/ key management have interest				
- purchases ⁽²⁾	367	584	-	-
- rental expense	169	-	-	-

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 2017, the outstanding amount receivable from joint ventures was approximately RM64,179,000 (2016: RM67,864,000).

(2) 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 2017, the outstanding amount was approximately RM63,600 (2016: RM88,512).

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

	Group	
	2017	2016
	RM'000	RM'000
Short-term employee benefits	7,549	14,367
Post-employment benefits	121	653
	<u>7,670</u>	<u>15,020</u>

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

32. Significant related party disclosures (continued)

Compensation of key management personnel

These include the following Directors' remuneration:

	Group	
	2017	2016
	RM'000	RM'000
Directors of the Company	4,016	5,790
Directors of subsidiaries	37	2,114
	<u>4,053</u>	<u>7,904</u>

33. Commitments

33.1 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	
	2017	2016
	RM'000	RM'000
Contracted and approved amount, representing capital commitments in respect of:		
– property, plant and equipment	3,604	3,604
– vessel equipment	210,531	317,493
	<u>214,135</u>	<u>321,097</u>

33.2 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	
	2017	2016
	RM'000	RM'000
Within one financial year	454	263
After one financial year but within five financial years	642	573
	<u>1,096</u>	<u>836</u>

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

33. Commitments (continued)

33.3 Operating lease commitments – as lessor

With reference 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. The investment properties have been reclassified to asset-held-for-sale during the current financial year (Note 24) and subsequently the sale of the properties was completed on 9 February 2018.

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

	Group	
	2017	2016
	RM'000	RM'000
Within one financial year	387	3,607
After one financial year but within five financial years	–	4,098
	<u>387</u>	<u>7,705</u>

34. Fair value of assets and liabilities

34.1 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)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RM'000	RM'000	RM'000	RM'000
Group				
2017				
Financial assets				
Available-for-sale financial assets	–	3,226	–	<u>3,226</u>
2016				
Financial assets				
Available-for-sale financial assets	–	35,158	–	<u>35,158</u>

There had been no transfers between level of fair value measurements during the financial year ended 31 December 2016 and 2017.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

34. Fair value of assets and liabilities (continued)

34.2 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	19
Fixed deposits	23
Cash and bank balances	23
Trade and other payables	30
Loans and borrowings	28

The non-current portion of financial instruments:

	Carrying amount	Fair value		
	RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
2017				
Group				
Financial assets				
Non-current trade receivables	16,797	-	-	16,797
Financial liabilities				
Loan and borrowings	-	-	-	-
Trade and other payables	2,582	-	-	2,582
	<u>19,379</u>	<u>-</u>	<u>-</u>	<u>19,379</u>
Company				
Financial liabilities				
Loan and borrowings	-	-	-	-
2016				
Group				
Financial liabilities				
Loan and borrowings	874,781	-	-	874,781
Trade and other payables	2,637	-	-	2,637
	<u>877,418</u>	<u>-</u>	<u>-</u>	<u>877,418</u>
Company				
Financial liabilities				
Loan and borrowings	<u>847,228</u>	<u>-</u>	<u>-</u>	<u>847,228</u>

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

34. Fair value of assets and liabilities (Continued)

34.2 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.

34.3 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	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Financial assets				
Loans and receivables	339,464	429,505	23,227	162,087
Financial liabilities				
Other financial liabilities, at amortised cost	2,735,466	2,724,801	1,116,658	1,148,178

35. 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.

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.

35.1 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

35. Financial risk management objectives and policies (Continued)

35.1 Credit risk (Continued)

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 19 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 19 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 2017 and 2016 are the carrying amounts as disclosed in Note 19 to the financial statements.

35.2 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, 100% (2016: 52%) 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 2017

35. Financial risk management objectives and policies (Continued)

35.2 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 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				
2017				
Financial liabilities				
Non-interest bearing				
– Trade and other payables	1,088,327	2,582	–	1,090,909
Interest bearing				
– Loans and borrowings	1,727,572	–	–	1,727,572
Total undiscounted financial liabilities	2,815,899	2,582	–	2,818,481
Financial corporate guarantee	32,380	–	–	32,380
Group				
2016				
Financial liabilities				
Non-interest bearing				
– Trade and other payables	838,756	2,637	–	841,393
Interest bearing				
– Loans and borrowings	992,736	924,496	–	1,917,232
Total undiscounted financial liabilities	1,831,492	927,133	–	2,758,625

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

35. Financial risk management objectives and policies (Continued)

35.2 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				
2017				
Financial liabilities				
Non-interest bearing				
– Trade and other payables	2,336	–	–	2,336
Interest bearing				
– Loans and borrowings	1,151,999	–	–	1,151,999
Total undiscounted financial liabilities	1,154,335	–	–	1,154,335
Financial corporate guarantee	484,400	–	–	484,400
2016				
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

The disclosed amounts for the financial guarantee contracts in Note 36 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

35. Financial risk management objectives and policies (Continued)

35.3 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 (2016: 25) basis points, with all other variables including tax rate being held constant, the loss will be lower/higher by approximately RM4,098,000 for the financial year ended 31 December 2017 (2016: RM4,558,000) 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.

35.4 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 72% and 97% (2016: 84% and 97%) 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 RM213.0 million (2016: RM270.1 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

35. Financial risk management objectives and policies (Continued)

35.4 Foreign currency risk (Continued)

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 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.

		Profit before income tax	
		2017	2016
Group		RM'000	RM'000
SGD/RM	Strengthened by 4% (2016: 5%)	(45,915)	(101,163)
	Weakened by 4% (2016: 5%)	45,915	101,163
USD/RM	Strengthened by 3% (2016: 5%)	(33,865)	(60,515)
	Weakened by 3% (2016: 5%)	33,865	60,515
EUR/RM	Strengthened by 6% (2016: 5%)	(562)	9
	Weakened by 6% (2016: 5%)	562	(9)
BND/RM	Strengthened by 4% (2016: 5%)	-	104
	Weakened by 4% (2016: 5%)	-	(104)
JPY/RM	Strengthened by 1% (2016: 5%)	(11)	(337)
	Weakened by 1% (2016: 5%)	11	337
Company			
SGD/RM	Strengthened by 4% (2016: 5%)	(41,714)	(51,073)
	Weakened by 4% (2016: 5%)	41,714	51,073
USD/RM	Strengthened by 3% (2016: 5%)	-	1,051
	Weakened by 3% (2016: 5%)	-	(1,051)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

35. Financial risk management objectives and policies (Continued)

35.5 Offsetting financial assets and financial liabilities

	Company	
	2017	2016
	RM'000	RM'000
Gross amount of recognised financial assets		
– Amount due from subsidiaries	1,358,952	243,419
Gross amount of recognised financial liabilities set off		
– Amount due to subsidiaries	(11,314)	(142,843)
Less: Allowance for impairment	(1,347,638)	–
Net amount of financial assets presented in the statement of financial position	–	100,576

35.6 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. Apart from disclosed in Note 4 to the financial statements, no changes were made in the objectives, policies or processes during the financial year ended 31 December 2017.

The Group monitors capital using a gearing ratio, which is loans and borrowings divided by total capital. Capital includes equity attributable to the owners of the parent.

		Group	
	Note	2017	2016
		RM'000	RM'000
Loans and borrowings	28	1,639,247	1,823,501
Equity attributable to the owners of the parent, representing total capital		(1,660,411)	1,368,813
Gearing ratio (times)		n.m.	1.33

As at 31 December 2017, the gearing ratio is not meaningful ("n.m.") as the Group's total capital is in negative position.

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 2016 and 2017, the fair values of the short-term deposits pledged were RM123,118,000 and RM23,177,000 respectively. The counterparties have an obligation to return the short-term deposits 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 2016 and 2017.

The Group and the Company are not in compliance with externally imposed capital requirements relating to financial covenants on its borrowings for the financial year ended 31 December 2017 (2016: in compliance with externally imposed capital requirements).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

36. Financial guarantees and contingent liabilities

As at 31 December 2017 and 31 December 2016, the Company had given guarantees amounting to RM4,113.1 million and RM5,100.6 million respectively to certain banks in respect of banking facilities granted to the subsidiaries and joint ventures.

As disclosed in Note 28 to the financial statements, the Company has defaulted on payment of MTN of RM111.1 million (2016: RM Nil) and also the subsidiaries and joint ventures have defaulted on the banking facilities which were guaranteed by the Company. Consequently, the Group and the Company have recognised a provision of RM32.4 million and RM484.4 million respectively (Note 31) (2016: RM Nil) for the net liabilities of the subsidiaries and joint ventures which it is obliged to settle with the banks due to the guarantees as mentioned above.

37. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

37. Segment information (Continued)

	Shipbuilding RM'000	Chartering RM'000	Others RM'000	Eliminations RM'000	Total RM'000
Group					
2017					
Revenue					
External revenue	239,379	80,199	-	-	319,578
Inter segment	-	82,862	-	(82,862)	-
Results					
Operating loss	(2,504,534)	(278,357)	(110,760)	-	(2,893,651)
Interest income	996	708	3,740	-	5,444
Depreciation of property, plant and equipment	(2,021)	(16,281)	(912)	-	(19,214)
Depreciation of investment properties	-	-	(930)	-	(930)
Amortisation of prepaid land lease payments	-	(108)	-	-	(108)
Allowance for trade and other receivables	(4,279)	(19,759)	(47,694)	-	(71,732)
Inventories written down	(2,085,877)	-	-	-	(2,085,877)
Prepayments for inventories written off	(105,899)	-	-	-	(105,899)
Impairment on investment in an associate	(5,237)	-	-	-	(5,237)
Impairment on property, plant and equipment	(107,303)	(239,464)	-	-	(346,767)
Contract termination expenses relating to prepayments for inventories	(8,363)	-	-	-	(8,363)
Impairment on amount due from customers on contracts	(198,660)	-	-	-	(198,660)
Inventories written off	(639)	-	-	-	(639)
Finance costs	(60,440)	(7,868)	(5,083)	-	(73,391)
Share of results of joint ventures	-	-	(4,936)	-	(4,936)
Share of loss on investment in associate	-	-	(46,610)	-	(46,610)
Loss before income tax	(2,622,989)	(285,240)	(110,359)	-	(3,018,588)
 Additions to non-current assets	 741	 2,181	 -	 -	 2,922
Investment in joint ventures	-	-	4,041	-	4,041
Available-for-sale financial assets	-	-	3,226	-	3,226
Segment assets	3,608,125	423,666	1,285,022	(4,203,650)	1,113,163
Segment liabilities	5,024,956	720,316	1,450,045	(4,421,933)	2,773,384

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

37. Segment information (Continued)

	Shipbuilding	Chartering	Others	Eliminations	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Group					
2016					
Revenue					
External revenue	121,933	48,491	-	-	170,424
Inter segment	55,253	32,369	-	(87,622)	-
Results					
Operating profit/(loss)	1,942	(7,435)	(13,988)	-	(19,481)
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)
Allowance for trade and other receivables	(1,033)	(163)	-	-	(1,196)
Inventories written down	(59,772)	-	-	-	(59,772)
Prepayments for inventories written off	(19,929)	-	-	-	(19,929)
Impairment on investment in an associate	(3,445)	-	-	-	(3,445)
Impairment on property, plant and equipment	(3,554)	-	-	-	(3,554)
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	(4,161)	(11,527)	(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 2017

37. 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	
	2017	2016
	RM'000	RM'000
Malaysia	67,502	37,480
China	70,035	49,150
Marshall Islands	6,385	78,787
Nigeria	59,757	-
Thailand	115,899	5,007
	<u>319,578</u>	<u>170,424</u>

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	
	2017	2016
	RM'000	RM'000
Non-current assets		
Malaysia	248,673	496,646
Singapore	71,841	117,835
	<u>320,514</u>	<u>614,481</u>

Non-current assets information presented above consist of the following items as presented in the consolidated statement of financial position.

	Group	
	2017	2016
	RM'000	RM'000
Property, plant and equipment	268,703	428,497
Prepaid land lease payments	7,133	7,403
Investment properties	-	92,784
Investment in joint ventures	4,041	10,957
Investment in an associate	23,840	74,840
Trade and other receivables	16,797	-
	<u>320,514</u>	<u>614,481</u>

Major customers

The revenues from three (2016: three) customers of the Group's shipbuilding segment represent approximately RM238,508,000 (2016: RM121,933,000) of the Group's total revenues.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

38. Outstanding arbitration

Since the previous financial year, Nam Cheong International Ltd, a subsidiary of the Group, has been the plaintiff in the 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. The case was closed during the financial year without any financial impact.

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 the second legal case, there is contingent liabilities of RM37,682,000, 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 the second case, subject to the inherent uncertainty of litigation.

39. Events subsequent to the reporting date

a) Approving of Schemes of Arrangement with creditors

As disclosed in Note 4 to the financial statements relating to going concern and the Schemes of Arrangement with the Group's and the Company's creditors, the Group and the Company have obtained their creditors' approval for the Schemes on 22 January 2018 and 24 January 2018 respectively. The Group and the Company have applied to The High Court of the Republic of Singapore and The High Court of Malaya to the sanction of the Schemes.

Once the Scheme is approved by the Court and becomes effective, the Group's and the Company's loans and borrowings of RM1,639,247,000 and RM1,114,322,000 would be repaid over 4 to 7 years from the effective date.

b) Termination agreement

On 7 February 2018, the Group entered into a Master Framework Agreement ("MFA") with certain shipyards to terminate shipbuilding contracts and restructure its debt settlement arrangement. The Company's obligations under the MFA are subject to the sanction of the NCL Scheme by Singapore Court and the effectiveness of the NCL Scheme.

Once the MFA becomes effective, the Group's trade payables amounting to RM558,202,000 will be waived and an amount of RM139,121,000 will be paid over 5 years from effective date.

c) Placement share and dilution of interest in a subsidiary

On 11 April 2018, the Company's indirect wholly-owned subsidiary, Nam Cheong (Labuan) Ltd ("NCLL") completed a placement share of an aggregate of 10,000 new ordinary shares at an issue price of US\$1 for each placement share to three subscribers. The proceeds from the placement have been applied towards to partial repayment of the outstanding amount under a credit facility granted by a bank to NCLL. Upon the completion of the placement share, NCLL ceased to be a subsidiary of the Group.

Upon the completion of the placement share, the Group's net tangible liabilities will be decreased by approximately RM22,681,000.



www.namcheong.com.my

