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

RESPONSE TO SGX-ST QUERIES IN RELATION TO THE FORTH QUARTER AND FULL YEAR ENDED 31 DECEMBER 2020 FINANCIAL STATEMENTS AND RELATED ANNOUNCEMENT

The Board of Directors (the "**Board**") of Nam Cheong Limited (the "**Company**") and its subsidiaries (together the "**Group**") refers to its announcement made on 1 March 2021 in relation to the Fourth Quarter and Full Year Ended 31 December 2020 Financial Statements and Related Announcement (the "**Announcement**"). Unless otherwise defined, capitalized terms used herein shall bear the same meaning ascribed to them in the Announcement.

The Board would like to provide the following additional information in reply to the queries raised by SGX-ST on 11 March 2021:

SGX-ST Query 1

It was disclosed that RM283,473,000 was recognised as impairment of property, plant and equipment for the full year ended 31 December 2020 (FY19: RM33,000). In this regard, please disclose the following information:

(i) How the amount of impairment was determined;
(ii) Description of the property, plant and equipment that was impaired;
(iii) Whether any valuation was conducted, the value placed on the assets, the basis and the date of such valuation;
(iv) Reasons for the impairment loss.

Company's Response

The property, plant and equipment of the Group that was impaired comprised Offshore Support Vessels ("OSVs") and the leasehold land and building of the shipyard situated in Malaysia. The challenging market condition caused by the Coronavirus pandemic and global oil glut have significantly depressed the demand and valuation for OSVs and the shipyard.

The amount of impairment was based on the difference between the carrying amounts of the OSVs and the shipyard; and their respective value of RM477.9 million and RM15.4 million compiled from the independent valuation reports ("Valuation Reports") prepared by:

(i) M3 Marine Valuations Pte Ltd, an independent professional ship valuer, on the basis of "as is, where is" sale between a willing buyer and a willing seller, which was dated 5th November 2020; and

(ii) C H Williams Talhar Wong & Yeo Sdn Bhd, an independent professional property valuer, on the basis of direct comparison with recent transactions of comparable properties within the vicinity, which was dated 17th February 2021.

SGX-ST Query 2

It was disclosed that RM17,288,000 and RM1,430,000 (FY19: NIL for both) were recognized as impairment on investment in an associate and impairment on investment in a joint venture respectively for the full year ended 31 December 2020. In this regard, please disclose the following information:

(i) Identities of the associate and joint venture;
(ii) Reasons for the impairment loss.

Company's Response

Identities	Reasons for the impairment loss
Impairment on investment in an associate, P.T. Bina Buana Raya TBK, of RM17,288,000	The associate, which is also operating in the oil & gas industry, has been reporting losses in the recent years due to the challenging market condition. The challenging market condition caused by the Coronavirus pandemic and global oil glut have caused further financial difficulties to the associate and have increased the doubtfulness of asset recoverability by the Group.
Impairment on investment in a joint venture, Pelayaran New Era (L) Berhad, of RM1,430,000	The joint venture, which is also operating in the oil & gas industry, has been facing challenging market condition caused by the Coronavirus pandemic and global oil glut and therefore have increased the doubtfulness of asset recoverability by the Group.

SGX-ST Query 3

In regard to impairment of trade and other receivables made of RM16,120,000, please provide the following:

(i) The Company's plans to recover the trade and other receivables;
(ii) Whether the trade and other receivables pertain to major customer(s), whether the Company continues to transact with these customer(s) and if so, what are the commercial reasons in doing so;
(iii) A breakdown of how long the debts were outstanding and when were the sales reported;
(iv) Actions taken to recover these trade and other receivables;
(v) The Board's assessment on the recoverability of the remaining trade and other receivables and the bases for such an assessment;
(vi) The Company's policy in trade receivables collection;
(vii) The percentage of revenue earned in the current financial year that was deemed uncollectable (i.e. trade receivables written off or provided for);
(viii) The aging analysis and assessment of the recoverability of the remaining trade receivables.

<u>Company's Response</u>

The Group	**31.12.2020 RM'000**	**Financial year which respective sales were reported**
Trade Receivables		
Not past due	727	2020
Past due 1 to 3 months	4,658	2020
Past due 3 to 6 months	537	2020
Past due more than 6 months	4,024	2019 to 2020
	9,946	
Other Receivables		
Past due more than 6 months	6,174	Not applicable
	16,120	

The Group provided for impairment of trade and other receivables amounted to RM16,120,000 in FY2020 due to the doubtfulness in collection of these receivables. These impairments were not related to the Group's major customers. Nevertheless, the Group has ceased to transact with customers which outstanding debts are deemed doubtful of collection. 2.2% of the Group's revenue earned in FY2020 was deemed doubtful of collection.

The Group has a credit policy in place which establishes credit limits for customers and monitors their balances on an on-going basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The credit quality of the customer is assessed after taking into account of its financial position and the Group's past experiences with the customer.

The Group monitors the aging and collection of receivables on an on-going basis. For those receivables which are past due and doubtful of collection, reminders have been sent to the relevant customers before issuance of demand letters and the recovery of debts via legal proceedings where necessary.

In assessing the recoverability of the Group's trade receivables, the Group took into consideration of the historical bad debt losses based on the age of the receivables and the customers' current financial position to identify any expected credit losses. Receivables that were determined to be impaired as at 31 December 2020 are related to those which have been past due for more than 6 months and have insufficient information to justify recoverability of the respective receivables.

As at even date, RM40.6 million (or 45.3%) of the net trade receivables of RM89.6 million in FY2020 has been collected from the customers subsequent to FY2020. RM40.3 million (or 81.9%) of the remaining net trade receivables of RM49.0 million are mainly outstanding from oil majors and well-established oil field service providers which have good payment track records.

Other receivables mainly comprised amount due from joint ventures and associates as well as deposit and sundry receivables. The amount due from joint ventures, which are operating in the oil & gas industry and have been facing challenging market condition caused by the Coronavirus pandemic and global oil glut, have been fully impaired in FY2020 as a result of the increased doubtfulness of debt recoverability by the Group.

Based on the above and barring any unforeseen circumstances, the Board is of the view that the carrying value of the net trade and other receivables represents the recoverable amount as at 31 December 2020.

SGX-ST Query 4

In regard to inventories written down of RM33,533,000 (FY19: NIL), please provide the following:

(i) An explanation for the significant amount of inventories written down;
(ii) Disclose the amount of inventory written down identified as a result of discrepancies between stock count and inventory record;
(iii) Disclose the amount of inventory written down due to slow-moving inventory or obsolescence;
(iv) The breakdown of the Company's inventory written off by aging;
(v) General shelf/product life of the Company's inventory.

Company's Response

The inventories of the Group mainly comprised OSVs which are under construction and the raw materials for shipbuilding. The challenging market condition, the decrease in selling price of the vessels and the Company's financial position have caused the shipbuilding projects to be valued at net realisable value.

Inventories which were written down due to slow-moving or obsolescence mainly comprised raw materials for shipbuilding amounted to RM4.8 million. There was no inventory written down due to stock count discrepancy nor any inventory written off by aging.

The estimated useful life of an OSV is 25 years.

SGX-ST Query 5

Please provide the Board's confirmation as to whether it is satisfied with the reasonableness of the methodologies used to determine amount of impairment; and the reasons for the impairment loss.

Company's Response

Based on the reasons and bases mentioned in the Company's responses in this announcement, the Board is satisfied with the reasonableness of the methodologies used to determine amount of impairment.

SGX-ST Query 6

Please provide a breakdown of Other operating expenses of RM75,384,000 and RM16,787,000 for the full year ended 31 Dec 2020 and 31 Dec 2019 respectively and an explanation, on a line item basis, for the significant increase in Other operating expenses.

Company's Response

	Group	
	31.12.2020	**31.12.2019**
Other Operating Expenses	**RM'000**	**RM'000**
Contract Termination expenses relating to prepayments for inventories	47	878
Property, plant and equipment written off	793	12
Change in fair value of financial liabilities	15,298	4,414
Foreign exchange loss, net	13,621	10,243
Provision for financial guarantee	44,036	-
Restructuring expenses	1,589	1,240
	75,384	16,787

Changes in fair value of financial liabilities of RM15.3 million as at 31 December 2020 ("FY2020") was arising from the Group's assessment on the fair value of its long-term payables over the period, considering the movement of payables, including additions and repayments, which is consistent with the decrease in long term payables from RM188.0 million as at 31 December 2019 ("FY2019") to RM132.56 million in FY2020.

The provision for financial guarantee of RM44.0 million in FY2020 was made in relation to a proportionate corporate guarantee granted by the Company to a financial institution as part of the security for vessels loan obtained by its 49%-owned joint venture, P.T. Bahtera Niaga Indonesia, in 2014. As the value of the charged assets has been falling short of the outstanding loan amount, giving rise to the likelihood of the respective corporate guarantee being crystallised, full provision has been made accordingly.

SGX-ST Query 7

Please provide a breakdown and aging of Trade and other receivables of RM125,424,000 and RM143,493,000 as at 31 Dec 2020 and 31 Dec 2019 respectively, and an explanation, on a line item basis, for the decrease in Trade and other receivables of 12.6%.

Company's Response

The breakdown of trade and other receivables are as follows:

	The Group	
	31.12.2020 RM'000	**31.12.2019 RM'000**
Non-current		
Trade receivables from a third party	15,482	16,904
Less: Allowance for impairment losses	(15,482)	(16,904)
	-	-
Current		
Trade receivables from third parties	93,508	102,710
Trade receivables from associate and joint ventures	13,443	12,224
Less: Allowance for impairment losses	(17,362)	(5,669)
	89,589	109,265
Amounts due from associates and joint ventures (non-trade)	34,334	33,425
Deposits and other receivables	25,054	18,216
Less: Allowance for impairment losses		
- amounts due from associate and joint ventures (non-trade)	(21,349)	(15,616)
- other receivables	(2,204)	(1,797)
	35,835	34,228
Total trade and other receivables	125,424	143,493

The aging analysis of trade receivables are as follows:

The Group	31.12.2020 RM'000	31.12.2019 RM'000
Not impaired:		
Not past due	30,934	31,447
Past due 1 to 3 months	58,050	61,252
Past due 3 to 6 months	514	13,022
Past due more than 6 months	91	3,544
	89,589	109,265
Past due and impaired	32,844	22,573
	122,433	131,838

The decrease in trade and other receivables of RM18.1 million or 12.6% were mainly due to:

(i) the decrease in trade receivables from third parties by RM9.2 million from RM102.7 million in FY2019 to RM93.5 million in FY2020 as a result of collections from customers during FY2020; and

(ii) the increase in allowance for impairment losses for trade receivables and amount due from joint ventures and associates from RM5.7 million and RM15.6 million in FY2019 to RM17.4 million and RM21.3 million in FY2020 respectively as a result of doubtfulness in collections.

The decrease was partially offset by the increase in deposit and other receivables of RM6.8 million from RM18.2 million in FY2019 to RM25.0 million in FY2020 mainly due to the deposit and advances paid to suppliers as well as security deposit paid to the financial institutions for the issuance of bank guarantees in relation to vessel chartering activities.

SGX-ST Query 8

Please disclose the nature of prepayments and what attributed to the decrease in prepayments in RM3,015,000.

Company's Response

The prepayments were mainly for the purchase of engines, equipment, tools and consumables in relation to the Group's vessels. The decrease in prepayments by RM3.0 million from RM5.4 million in FY2019 to RM2.4 million in FY2020 was mainly due to the delivery of engines and equipment by the suppliers in FY2020.

SGX-ST Query 9

Please provide a breakdown of Trade and other payables (non-current) of RM132,551,000 and RM187,996,000 as at 31 Dec 2020 and 31 Dec 2019 respectively, and an explanation, on a line item basis, for the decrease in Trade and other payables of 29.5%.

Company's Response

	31.12.2020 RM'000	31.12.2019 RM'000
Non-Current		
Trade payable - Third parties	132,551	185,525
Other payables	-	2,471
	132,551	187,996

The decrease in long term trade payables and other payables by RM53.0 million and RM2.5 million from RM185.5 million and RM2.5 million in FY2019 to RM132.6 million and nil in FY2020 respectively were mainly due to the reclassification of payables due within 1 year from the non-current liabilities to current liabilities.

SGX-ST Query 10
Please confirm that the decrease in Loans and Borrowings (non-current) and the increase in Loans and borrowings (Current) is mainly due to reclassification of Loans and Borrowings from Non-current to Current liabilities. If not, please provide reasons for the significant decrease in Loans and Borrowings (non-current), and reasons for the significant increase in Loans and Borrowings (current).

Company's Response
The decrease in loans and borrowings (non-current) of RM904.0 million and the increase in loans and borrowings (Current) of RM901.1 million are mainly due to the reclassification of loans and borrowings from the non-current liabilities to the current liabilities.

SGX-ST Query 11
Please provide a background on the provision for financial guarantee of RM44,036,000 (FY19: NIL).

Company's Response
Please refer to the Company's response in Query 6.

SGX-ST Query 12
Given the Group's significant liabilities of RM1,500,903,000 and cash and cash equivalents of RM95,350,000, and noting that the Group incurred losses of RM404,324,000 in FY2020, please disclose the Board's assessment (i) whether the Company's current assets are adequate to meet the Company's short term liabilities of RM997,175,000 including the bases for such an assessment; and (ii) how the Company intends to fulfill its significant payment obligations in the next 12 months. Where the Company has worked out debt repayment plans to fulfill its debt obligations, please disclose if the Company is on track to fulfilling these obligations.

Company's Response
As a result of the decline in vessels utilisation as well as the realisable value of the Group's vessels, which are operating in the challenging oil and gas industry, the total assets of the Group of RM729.5 million in FY2020 is unlikely to adequately meet the Group's short-term liabilities of RM1.4 billion in FY2020, which mainly comprised loans and borrowings of RM997.2 million.

The following steps, which has been announced previously, have been taken by the Group as part of on-going measures to position the Group to ride out this incredibly challenging market environment and also to address its debt obligations:

a) The Group has been holding discussions with its principal lenders and has appointed advisors to help address significant debt maturities, which may include, inter alia, extension of the maturities and/or restructuring of existing loans ("Restructuring").

As a positive development, the Group's wholly owned subsidiary, Nam Cheong Dockyard ("NCD") applied and was formally admitted into the Corporate Debt Restructuring Committee of Malaysia ("CDRC"), a committee under the purview of Bank Negara Malaysia (the Central Bank of Malaysia) in October 2020, for the CDRC's assistance to mediate between NCD and its financial creditors. These financial institution creditors are expected to observe an informal standstill, and withhold from any proceedings against, inter alia, NCD and its subsidiaries. Since November 2020, NCD has been engaging actively with both trade creditors and financial creditors, with more steady progress in the latter, and the Group is hopeful for a positive outcome.

b) The Group has been reviewing it's cash flow projections, in the face of the great business uncertainties, operational disruptions and costs containment measures. It has been entering into discussions with various parties regarding possible actions to contain operating costs and to preserve working capital to fund the Group's operations.

c) The Group has explored various strategies to bolster its financial position whilst continuing its cost rationalisation measures to improve overall competitiveness.

However, no definitive agreements in relation to the Restructuring have been entered into by the Group as at even date. Pending the conclusion of definitive agreements in relation to the Restructuring to be entered into by the Group, there can be no assurance or reasonable certainty that any discussions or any Restructuring options will materialise or be successfully concluded.

In the event the Restructuring is not favourably completed in a timely manner, the Company and the Group will continue to be faced with a going concern issue. Hence, the Board of Directors is unable to, at this juncture, confirm the Group's ability to continue as a going concern.

SGX-ST Query 13
Please disclose the pro-active actions which Management has taken, or are intending to take to ensure that the Group's financial position improves.

Company's Response
Please refer to the Company's response in Query 12.

SGX-ST Query 14
Please provide an update to the Board's assessment as to the Company's ability to operate as a going concern and its ability to meet its short-term obligations when they fall due.

Company's Response
Please refer to the Company's response in Query 12.

BY ORDER OF THE BOARD
NAM CHEONG LIMITED

Kong Wei Fung
Cheok Hui Yee
Company Secretaries

15 March 2021