

## LETTER TO SHAREHOLDERS

Dear Shareholders,

Nam Cheong has seen the most challenging period in our corporate history since our incorporation in 1968 in the last two years, brought on by the sharp downturn of the oil and gas industry, which adversely impacted Nam Cheong's financial position.

### RESTRUCTURING / RIGHTS ISSUE

To mitigate the negative effect of this major market downturn, both management and the Board have been actively reviewing and assessing the core competencies of the Group, our financial capability and strategy to create a broader business platform, focusing on long-term sustainable value for all shareholders.

We are heartened that the worst is now behind us, notably with the majority approval of our Schemes of Arrangement ("**Schemes**") in January 2018 and subsequent sanctioning of the Schemes in July and August 2018. Expected for implementation this year, this signals the crossing of a key obstacle in the restructuring exercise - strengthening our financial position and enabling Nam Cheong to operate as a going concern.

Collectively, the Group has managed to obtain waiver of a substantial portion of liabilities previously owed to trade creditors amounting to RM557.5 million. In addition, upon the successful implementation of the Schemes, our liabilities are expected to further reduce by over RM500 million.

The proposed renounceable non-underwritten rights issue of up to 2,096,465,885 new ordinary shares at an issue price of S\$0.014 for each Rights Share, on the basis of one (1) Rights Share for every one (1) ordinary share, if fully subscribed, is also expected to increase the Company's shareholders' fund by up to RM88 million.

All these initiatives are expected to improve the Group's net tangible asset by at least RM1.1 billion, upon the successful implementation.

We are very thankful for the strong support and trust placed by the Creditors through their vote of confidence in the Schemes and we hope shareholders will continue to lend support to the Group by subscribing for the rights issue, which will further strengthen our financial position and sustain our businesses for the long-term.

As a demonstration of my commitment as a major shareholder of Nam Cheong, I have made an irrevocable undertaking with the deposit of a committed sum of RM50 million for the rights issue.

Net proceeds from the entire proposed fund-raising exercise will be used mainly for working capital and partially for the cash payment to creditors, who had elected to receive the cash payment for a portion of their unsecured debt, as well as for the operations of the Group.

## **TAPPING THE NASCENT RECOVERY IN THE OFFSHORE AND MARINE (O&M) INDUSTRY**

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 stronger 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, particularly in Southeast Asia<sup>1</sup>. 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 day<sup>2</sup>.

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<sup>1</sup> *Rigzone, April 2018*

<sup>2</sup> *CNBC, May 9, 2018*

We expect the O&M sector to gradually recover from the current downturn over the next few years, where the vessel selling prices and charter rates are expected to recover.

## **GROWING OUR VESSEL CHARTERING BUSINESS**

In response to this gradual recovery and the ongoing challenging market conditions for shipbuilding, we have, since 2017, expanded our vessel chartering segment by optimising our idle assets through vessel chartering and setting up our own full-fledged chartering operation. We are pleased that our active participation in the tendering of charter contracts has made good headway and yielded results. As evidenced by the 35% increase in our chartering revenue in the first half of 2018, as compared to the corresponding first half of 2017, our position as a serious player in Malaysia's vessel chartering market has been further solidified.

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.

In line with our commitment to uphold corporate transparency, we are committed to maintaining open channels of communication with all stakeholders, as we focus on rebuilding Nam Cheong.

Once again, I would 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 prudently capitalise on compelling opportunities to build a sustainable business that generates value for all stakeholders.

Tan Sri Datuk Tiong Su Kouk  
Executive Chairman