Securities Investors Association (Singapore)
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Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Nam Cheong Limited

Security: Nam Cheong Limited

Meeting details:
Date: 20 August 2018
Time: 10.00 a.m.
Venue: Furama Riverfront, Venus I & II, Level 3, 405 Havelock Road, Singapore 169633

Company Description

NA
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=N4E)

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1. On 24 July 2018, the company announced that its independent auditors have issued a disclaimer of opinion in the Independent Auditor's Report with respect to the use of the going concern basis of accounting in the preparation of the financial statements of the group for the financial year ended 31 December 2017.

As noted in the basis for disclaimer of opinion (Going concern), 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. 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. 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.

In addition, the independent auditors have stated the following (page 51):

- *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.*

(i) Would the audit committee (AC) help shareholders understand why key documents relating to the debt settlement arrangement with the other shipyards were not provided to the independent auditors?

(ii) Did the AC review the level of cooperation and assistance given by management to the independent auditors? If so, was the AC satisfied with the level of cooperation and assistance given by management to the independent auditors?

(iii) What are the AC's efforts to further improve the annual audit plan and to ensure that the independent auditors able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the group's financial statements?

As disclosed in the Directors' statement (page 46), in the opinion of the board the directors, 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.

(iv) Given that the independent auditors have issued a disclaimer of opinion, can the AC justify its opinion that 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

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financial position of the group and of the company as at 31 December 2017?

2. As shown in the Consolidated statement of comprehensive income, the group reported a loss for the financial year of RM3.018 billion. As disclosed in Note 9 (page 85 – Loss before income tax), the loss was attributed to:

- Write down of inventories: RM2.086 billion
- Impairment on property, plant and equipment: RM346.8 million
- Impairment on amount due from customers on contracts: RM198.7 million
- Prepayments for inventories written off: RM105.9 million
- Provision for corporate guarantee: RM32.4 million

(i) **Write down of inventories:** As disclosed in Note 20 (page 106 – Inventories), the group wrote down the value of the 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. **Would the board/management elaborate further on the specific reasons for the write down of RM2.086 billion? Please provide a breakdown by vessel/vessel type. How much of the write-down is attributed to the build-to-stock programme? Can the board/management elaborate further on the magnitude of the write-down?**

(ii) **Impairment on property, plant and equipment:** Based on Note 12 (page 89 – Property, plant and equipment), the impairment charge on vessels amounted to RM342.99 million (before exchange differences) in FY2017. **Similarly, can management provide shareholders with a breakdown of the RM342.99 million impairment charge by vessel?** After the impairment charge, the independent professional valuation of the vessels amounted to just RM232.7 million as at 31 December 2017. This implies that the impairment accounted for 60% of the value of the vessels prior to the impairment. In FY2016, the group recognised an impairment loss of RM3,554,000. **Can the AC help shareholders understand the near 100x jump in impairment in FY2017? Would the AC justify the use of a discount rate of 5.36% in FY2016 to estimate the value-in-use of the vessels? Can the AC confirm and justify that the carrying value of vessels as at 31 December 2016 was a true and fair view of the value of the group's vessels?**

3. As mentioned in the Chairman's Statement, the group is going through a major restructuring through Schemes of Arrangement and a proposed rights issue to recapitalise the group's balance sheet.

The board has disclosed in the company's Corporate Governance Report that it sets the overall strategy of the group, including:

- *providing entrepreneurial leadership*
- *setting strategic objectives and directions*
- *establishing a framework of prudent and effective controls to assess and manage risks*

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- *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*

(i) Given that the group reported a net loss of RM(3.0) billion in FY2017 and is now in a capital deficit position of RM(1.66) billion, has the board evaluated its effectiveness at identifying the group's principal risks?

(ii) What were the directors' individual and collective efforts in ensuring the effective implementation of appropriate systems to assess and manage the risks?

(iii) Has the board evaluated the return of its build-to-stock programme over an entire business cycle? Would the board be reviewing the build-to-stock programme?

(iv) Can the board help shareholders understand the optimal capital structure required to support the group's operations given that the company is in a net capital deficit position of RM(1.66) billion as at 31 December 2017?

(v) Considering the performance of the group, does the board consider it timely to carry out a strategic review to assess the performance of the board, the core competencies of the group, its management team, its financial strength and to fine-tune the group's strategy so as to create long-term sustainable value for all shareholders?