



COSCO CORPORATION (SINGAPORE) LIMITED
(Company Registration No. 196100159G)

RESPONSE TO SGX QUERIES

The Board of Directors (the “**Board**”) of COSCO Corporation (Singapore) Limited (the “**Company**”) wishes to announce that the Singapore Exchange Securities Trading Limited has raised several queries relating to the Company’s full year results for the financial year ended 31 December 2015.

The Board sets out the queries and the corresponding responses below.

The Company announced an Allowance for impairment of trade and other receivables of \$304.65 million and a Write-down of Inventories of \$289.1 million. With respect to both, please disclose:

(i): what were the procedures conducted by the Company in assessing the impairment and write-down amounts. Did the Company consider other options, including but not limited to, the disposal of the inventory;

Company’s response to query (i):

Impairment of trade and other receivables

The management of the Company’s subsidiary, COSCO Shipyard Group Co., Ltd. (“**CSG**”), regularly review its trade and other receivables for objective evidence of impairment. When there is objective evidence of impairment, CSG’s management and board will assess and recommend the amount of impairment loss to be recognised based on their best estimates of amount that could be recovered from the debtors.

The management and Board of the Company then review the basis and results of the assessment and recommendation by CSG’s management and board before concurring with them.

The impairment of trade and other receivables amounting to \$304.65 million (for Q4 2015) and \$380.31 million (for FY2015) is mainly relating to certain Brazilian debtors that are facing significant financial difficulties. These debtors have previously engaged the Company’s subsidiaries to construct modules of drillship and FPSO (the “**Construction Contracts**”).

In assessing objective evidence of impairment for these debtors, CSG has considered the following:

- Debtors’ default in meeting contractual payment terms; and
- Knowledge of detrimental financial conditions of debtors based on management's meetings and discussions with these debtors.

In view of the above, CSG has concluded that there are objective evidences that these receivables are to be impaired.

In estimating the amount of impairment, management has considered the financial condition of these debtors taking into consideration the estimated realisable value of those uncompleted Construction Contracts which are still residing in the shipyards of the Company’s subsidiaries. An impairment loss was then recognised based on the difference between the estimated realisable value and the carrying amount of these trade and other receivables balance.

The management and Board of the Company, having reviewed the above bases and results, concurred with the impairment provision of \$304.65 million (for Q4 2015) and \$380.31 million (for FY2015) as recommended by CSG.

Write-down of inventories

The write-down of inventories which amounted to \$289.06 million (for Q4 2015) and \$309.30 million (for FY2015) was mainly due to impairment loss recognised on DP3 Deepwater Drillship (“**DDD**”) which has been classified as an inventory.

Under Singapore Financial Reporting Standards, inventories are measured at the lower of cost and net realisable value (“**NRV**”). In estimating the NRV of DDD, management has considered the following:

- An indicative offer from a potential customer to lease DDD.
- Discounted cash flow analysis based on expected future cashflow that could be generated during the lease period.

As the estimated NRV of DDD is lower than the cost of constructing the inventory, an impairment loss was recognised in the financial statements.

CSG and the Company have considered the disposal option but given the downturn in the offshore marine sector, the option is not commercially viable.

(ii): confirmation from the Board on whether it is satisfied with the reasonableness of the methodologies used to determine the impairments of the assets.

Company’s response to query (ii):

The Board is satisfied with the reasonableness of the methodologies used to determine the impairment of the assets.

(iii): whether the board had sought appropriate independent professional advice. If yes, identify the professionals and provide the Board’s confirmation as to whether the professionals appointed by the Company have the necessary experience.

Company’s response to query (iii):

Although the Board had not sought independent professional advice, the Company’s management and its audit committee had discussed this matter with the Company’s auditors, PricewaterhouseCoopers LLP, in the course of the Company’s audit. The auditors concurred with the impairment of trade and other receivables and the write-down of inventories. In this connection, particularly in relation to the DDD, the Board had also noted that it is a specialised offshore marine product that is not commonly transacted in the offshore marine engineering market (all the more so during the current downturn in the offshore marine sector).

By Order of the Board
Wu Zi Heng
Vice Chairman and President
6 April 2016