YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD.
(Company Registration No. 200517636Z)
(Incorporated in the Republic of Singapore on 21 December 2005)

ADDITIONAL INFORMATION IN RESPONSE TO QUERIES RAISED BY SGX

The Board of Directors (the "**Board**") of Yangzijiang Shipbuilding (Holdings) Limited (the "**Company**") wishes to provide the additional information in response to the following queries raised by the Singapore Exchange Securities Trading Limited relating to the Company's financial statements for the financial year ended 31 December 2016 ("FY2016 Financial Statements").

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

It was disclosed in the FY2016 Financial Statements that the Group recorded impairment loss on:-(i) financial assets, held-to-maturity ("Financial Assets Held-to-Maturity") of RMB114.33 million, and (ii) property, plant and equipment of RMB1,012.81 million (the "Impairments"). In this regard, please disclose:

(i) *how the amount of Impairments were determined;*

Company's response to query (i):
<u>Impairment of financial assets, held-to-maturity ("Financial Assets Held-to-Maturity")</u>

The Group's held-to-maturity financial assets ("HTM") pertain to fixed interest investments made by the Group through intermediary financial institutions for specific borrowings arranged by these intermediaries. The Group's management has the intention and ability to hold these investments to maturity. These borrowings are collateralized by the ultimate borrowers and the collaterals are held by the intermediaries as guarantee for the repayment of principal and interests.

The Group reviews regularly and at every balance sheet date whether there are objective evidence of impairment of its HTM financial assets and recognises an allowance for impairment when such evidence exists. In assessing whether there are any objective evidences of impairment, the Group considers the following:

(a) financial conditions of the ultimate borrowers;
(b) any delinquency in repayment of interest and principal;
(c) the value of collateral pledged by the ultimate borrowers: and
(d) the liquidity of the collaterals pledged

When there is objective evidence that the HTM financial assets are impaired, management will proceed to estimate the impairment loss. The impairment loss is the difference between the HTM financial assets' estimated recoverable amount and its carrying amount. The estimation of the recoverable amount of HTM financial assets is based on the Group's internal credit grading system which makes reference to industry practice. Each HTM financial asset is given a credit grade based on the credit risk analysis approved by management and impairment is provided accordingly.

Subsequent to management's impairment review for HTM financial assets as at 31 December 2016 mentioned above, a net impairment charge of RMB114.33 million was recorded on the HTM financial assets.

<u>Impairment of property, plant and equipment</u>

Property, plant and equipment ("PPE") are tested for impairment whenever there is any indication that these assets may be impaired. When there is any indication that PPE are impaired, management will estimate the recoverable amount of these PPE. The difference between the recoverable amount and the carrying amount will be recognized as impairment loss.

The impairment charge on PPE of RMB1,012.81 million in FY2016 comprised of :

(a) an impairment charge of RMB669.93 million made on vessels which were held by the Group for the chartering business and

(b) an impairment charge of RMB342.89 million made on the shipyard facilities of the Group.

Vessels

The financial performance of the shipping subsidiaries of the Group had been adversely impacted by the continued depressed chartering rates. The Group assessed and concluded that there is an indication of impairment in relation to the vessels held by the Group's shipping subsidiaries as at 31 December 2016.

In accordance with Singapore Financial Reporting Standard 36, Impairment of Assets, the Group has determined the recoverable amount of these assets to be the higher of their fair value less cost to sell ("FVLCS") and their value-in-use ("VIU").

Management has engaged an independent valuer, who has adopted the "Market Approach" in determining the fair values of the vessels. The valuer has made reference to comparable transaction prices of similar vessels in their determination.

The Group has performed an estimation of the value in use of the vessels over its remaining useful lives using the discounted cash flow ("DCF") approach based on the following key assumptions:

(a) cash inflows based on expected daily charter rate and estimated utilisation rate;

(b) cash outflows on operating expense based on management's approved budget;

(c) dry docking costs based on actual costs incurred in 2016 and adjusting for an estimated annual inflation rate and expected timing of dry docking; and

(d) discounting the future cash flows to its estimated present value using a discount rate that is determined from weighted average cost of capital of comparable companies

Arising from the impairment review exercise, an impairment loss was recorded based on the fair value less costs to sell of the vessels, which was higher than the value-in-use amount.

Property, plant and equipment (shipyards)

As at 31 December 2016, the Group has ceased operation in two of its shipyards. Given that the operations for these two shipyards were discontinued, management concluded that there is a need to perform an impairment assessment of the PPE located at these two shipyards.

Management has performed an assessment of the recoverable amount of the PPE located at these two shipyards. For PPE where management is able to determine its fair value less costs of disposal by making reference to comparable transaction prices of similar assets, the Group has used the fair value less costs of disposal as the recoverable amount. Where the fair value less costs of disposal cannot be determined, the Group has written down the respective PPE to its residual value as the Group is of the view that the residual values of these PPE represent their most likely recoverable amount.

(ii) *the Board's confirmation as to whether it was satisfied with the reasonableness of the methodologies used to determine amount of Impairments;*

Company's response to query (ii):

The Board is satisfied with the reasonableness of the methodologies used to determine the amount of impairments.

(iii) *confirmation as to whether the Company had sought any independent professional advice on the making of the Impairments; and*

Company's response to query (iii):

Apart from the third party independent valuer engaged to perform the fair value less costs of disposal for the Group's vessels as mentioned in Company's response to query (i) above, no other independent professional advice has been sought.

For the impairment assessment of HTM financial assets and PPE of the shipyards, although the Board had not sought independent professional advice, the Board is satisfied with the Company's management's methodologies used in determining the amount of impairments as mentioned in the above responses. The Board understands that the Company's management and its audit committee had discussed these matters with the Company's auditors, PricewaterhouseCoopers LLP, in the course of the audit of the Group's consolidated financial statements. The auditors also found management's judgement and assumptions around the impairment of these assets to be appropriate based on their audit procedures.

(iv) *what is the nature of Financial Assets Held-to-Maturity.*

Company's response to query (iv):

Please refer to Company's response to query (i).

BY ORDER OF THE BOARD

Ren Yuanlin
Executive Chairman
7 April 2017