

**AUSGROUP LIMITED**  
 (the "Company")  
 (Incorporated in the Republic of Singapore)  
 (Registration No. 200413014R)

**RESPONSE TO SGX QUERY ON DISCLOSURE IN THE QUARTERLY ANNOUNCEMENT  
 FOR THE PERIOD ENDED 31 MARCH 2016**

The Board of Directors (the "Board") of AusGroup Limited (the "Company" or "Group") would like to respond to the queries from the Singapore Exchange Securities Trading Limited ("the SGX-ST") regarding the 3Q FY2016 financial statement announcement released on 14 May 2016. The Company sets out below its responses to the queries.

**Question 1**

*In paragraph 8 of the financial statement, for the "Impairment of other assets", the Company disclosed that "due to the ongoing challenges being faced by the Australian and Singaporean Fabrication businesses, this occasioned management to perform an impairment review of the carrying values of property, plant and equipment, software intangibles and inventory balances. This assessment resulted in an impairment of AU\$12.7m being booked in the quarter".*

- i. Please provide a breakdown for the impairment value of AU\$12.7mil for each of the three categories: property, plant and equipment, software intangibles and inventory balances and the methodologies used to determine the impairment of each category of assets;*
- ii. Did the Board of Directors (the "Board") question the reasonableness of the methodologies used to determine the values of impairment?*
- iii. Has the Board commissioned an independent valuation of the carrying values of the property, plant and equipment, software intangibles and inventory balances? If not, please provide an explanation.*

**Company's response**

- i) The impairment of other assets of AU\$12.7m disclosed in Paragraph 8A(iv) consisted of the following breakdown:

Impairment of property, plant & equipment –	\$7.3m
Impairment of software intangibles –	\$0.3m
Impairment of inventories –	<u>\$5.1m</u>
	\$12.7m

The Group determined that there were impairment indicators present and applied impairment methodologies to each asset category as deemed appropriate by management and the Board:

- Impairment of property, plant & equipment – Fair value less costs to sell approach.
- Impairment of software intangibles – Value in use approach.
- Impairment of inventories – Lower of cost and net realisable value.

- ii) The proposed impairments and methodologies employed to reach the impairment adjustments were presented to the Audit Committee and Board by management. Each alternative methodology to assess impairment was considered independently for each asset category as listed above. The most appropriate method given the nature of the asset category, and circumstances that existed requiring the impairment assessment to be performed were considered. The Board selected the approach that would result in the most accurate carrying value of the assets in accordance with the applicable Accounting Standards being reached.
- iii) There was an independent valuation performed for both the Australian and Singaporean fabrication facilities. The impairments booked reflect the findings of these valuation procedures, which included an assessment of land, buildings / structures, and fixed plant and equipment included in the facility. In addition to this, management and the Board performed a further assessment of the other immaterial assets included in these business units not under the scope of these valuation procedures. The valuation provided in conjunction with the Board and managements review resulted in the calculated fair value less costs to sell assessment.

There was no independent valuation performed over software intangible balances. The impairments booked reflected carrying values of software intangibles for software that was no longer being utilized by the Group, and thus was considered to be obsolete, and was considered to have no further value in use.

The Group completed a comprehensive review of all inventory on hand, the review included an obsolescence assessment. The impairment booked reflects that inventory identified as being obsolete for the purposes of the Group's ongoing operations. This included:

- Inventory items have expired or are past their used by date
- Inventory items are no longer utilized by any on-going project / fabrication work
- Inventory items are not able to be utilized as they are no longer compliance with building and construction regulations
- Inventory items are carried in volumes in excess of that required by the business after assessing the movements of that stock category over time.

The inventory identified as obsolete was then subject to an independent review by third party auctioneers. The Impairment was undertaken in line with the accounting standard requirement, which states that inventories are to be measured at the lower of cost and net realisable value.

The Board collectively and individually takes responsibility for the accuracy of the aforesaid replies to the queries raised by the SGX-ST.

BY ORDER OF THE BOARD

Eng Chiaw Koon  
Managing Director  
27 May 2016