MOORE STEPHENS LLP
CHARTERED ACCOUNTANTS OF SINGAPORE

Practical Financial Reporting For Shipping In Singapore

March 2015

Singapore

ADDING VALUE TO YOUR BUSINESS

TABLE OF CONTENTS

Foreword 3

1. Property, plant and equipment 4

Assessment of costs that can be capitalised 4

Pre-delivery instalments 4

Borrowing costs 6

Timing of capitalisation 6

Eligible borrowing costs 7

General borrowing costs 8

Vessel government grant accounting 9

Repairs and maintenance 9

Dry-docking 10

Cost allocation and componentization when a vessel is purchased 10

Depreciation 11

Useful life 11

Residual value 11

Depreciation method 12

Impairment 12

Determination of CGUs 13

Assessment of impairment indicators 13

Determination of FVLCTS 13

Determination of VIU 14

2. Leasing 16

Identifying lease contracts 16

Assessment of operating versus finance lease 17

Accounting for finance leases 17

Accounting for operating leases 18

Impact of renewal / extension options 18

Impact of contingent charter payments 18

Impact of residual value guarantees 18

Accounting for changes in estimates/ circumstances/ agreement after lease inception 19

Accounting for sale and leaseback transactions 19

3. Revenue 21

Charter income 21

Voyage income 21

Liquidated damages 22

Demurrage income 23

Principal or agent issues 23
Identifying service components in a revenue contract 24
Identifying embedded derivatives in revenue contracts 24
Slot exchange arrangements 24
Onerous contracts 24
4. Consolidation and joint arrangement 27
Shipping pools....27
Ship Chartering special purpose vehicles 29
Accounting for joint arrangements....30
5. Financial instruments.... 32
Derivatives 32
Commodity purchase and supply contracts 33
Shipbuilding option agreements....34
Embedded derivatives 34
Hedge accounting in shipping....36
Determining fair value 39
Accounting for debt modifications 40
6. Taxation 41
Tonnage tax classification....41
7. Functional currency 42
Appendix 1 *Model Financial Statements for a Shipping Company* 44

FOREWORD

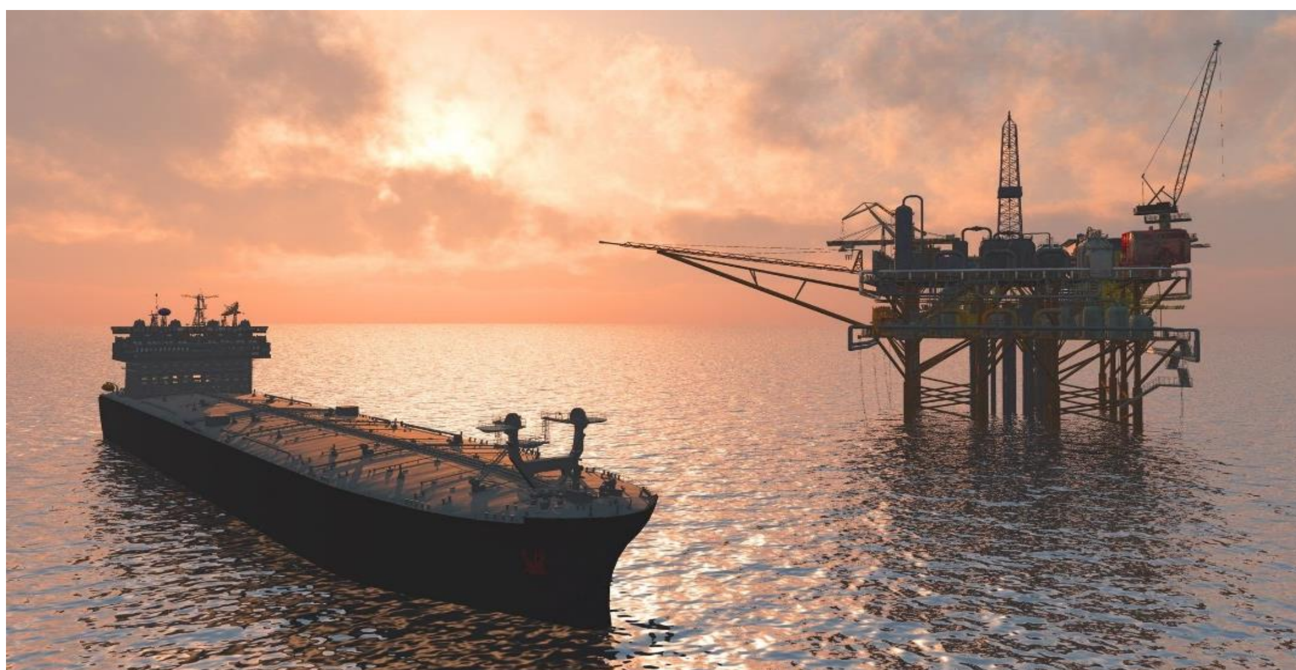
In 2012, we published a survey report "Comparative Study on Accounting Policies & KPIs in the Shipping Industry", which considered accounting practices in the shipping industry under various GAAP. While the report was well-received, we have received feedback that it would be useful to prepare a publication that provides a concise summary of key accounting issues for shipping companies under Singapore Financial Reporting Standards ("FRS") and Interpretations of FRS ("INT FRS"), as issued by the Accounting Standards Council (ASC).

Since 2012, there have also been significant developments in the Singapore financial reporting landscape. From a technical perspective, key developments include the issue of a new fair value standard, FRS 113, which took effect in 2013, and a new consolidation and joint venture accounting framework (FRS 110, 111 and 112) that took effect in 2014. From a regulatory perspective, the Accounting Corporate and Regulatory Authority (ACRA) issued a Practice Direction in May 2014, which requires company directors to respond to enquiries about financial statements. The need for Singapore companies and directors to understand financial reporting has never been greater.

As a result, we have collated a summary of financial reporting issues, both old and new, that, in our view, are most critical for companies in the shipping industry, so as to provide a concise and plain explanation of the issues and considerations. In addition, we have included in Appendix 1 a template financial report that can be easily tailored to meet the reporting requirements of many shipping companies.

Companies that report under International Financial Reporting Standards ("IFRS") can also benefit from this publication as Singapore FRS is very closely-aligned with IFRS.

We trust that this publication will be a useful resource to shipping companies that are currently reporting under Singapore FRS, as well as those that are intending to do so. Moore Stephens LLP Singapore, together with its global network, has the breadth and depth of resources to provide you with support on all aspects of current and future financial reporting, both in Singapore and overseas. We strongly encourage you to keep in touch with your Moore Stephens contact.



1. PROPERTY, PLANT AND EQUIPMENT

The decisions on the costs that should be capitalised, depreciation method and estimates, and impairment methodology constitute some of the most critical estimates and judgments in accounting for the vessels.

1.1 For many shipping companies, vessels are the most significant item of property, plant and equipment. Vessels and other related infrastructure are expensive items to build and are constructed with the expectation of having long remaining useful lives.

1.2 The most critical accounting issues in this area relate to cost capitalisation, depreciation and vessel impairment.

ASSESSMENT OF COSTS THAT CAN BE CAPITALISED

1.3 Costs that can be capitalised are those costs that are directly attributable to bringing the vessel to the location and condition necessary for it to be capable of operating in the manner intended by management. This will include:

- Total consideration paid to the shipyard including previously-paid pre-delivery instalments (FRS 16.6).
- Capitalised borrowing costs.
- Equipment installed on the vessel.
- Vessel registration and certifications.
- Seaworthiness certificates.
- Legal and other related professional fees that are directly attributable to the acquisition. This includes incremental professional fees for second-hand vessels, e.g. certain broker fees and legal and inspection fees. However, search costs for a suitable acquisition vessel should be expensed.
- Amounts paid for options to purchase the vessel.
- Supervision costs during the construction period.

1.4 The issues relating to cost capitalisation usually relate to pre-delivery instalments, borrowing costs, and repairs and maintenance.

PRE-DELIVERY INSTALMENTS

1.5 Pre-delivery instalments (PDIs) are used to secure the purchaser's place in the delivery timetable for the vessel, and to provide part of the financing for the construction of the vessel. They are part of the standard contractual terms at most shipyards, often agreed years in advance of the actual construction of the vessel.

1.6 Under FRS, it is necessary to consider the type of asset represented by PDI. As the ownership of the vessel is unlikely to be transferred to the purchaser until the point of delivery, it could be argued that it is more appropriate to classify PDIs as prepayments for acquisition of a future fixed asset. In such cases, there will often be a significant financing element affecting the amount of such a prepayment. Even though a prepayment is not a financial asset, it will be appropriate to reflect the implicit financing by unwinding the financing discount over time (if material), using the discount rate implicit in the original transaction.

1.7 However, the more widespread industry practice has been to treat PDIs as part of the vessel cost classified under fixed assets. PDIs can meet the definition of PPE if, in substance, the risks and rewards of the underlying vessel are transferred to the purchaser as construction progresses, and the payments are regarded as part payment towards a vessel in the course of construction by the shipyard for the purchaser. While the terms of many PDI payments are likely to meet this criteria, it is important for the preparers of financial statements to understand the precise terms of the contract.

1.8 If the PDI is recorded within PPE and the aggregate amount is material it should be shown separately under a heading such as "Vessels under construction".
[FRS 16.74b]

<u>Example 1.8 - 1</u>

A vessel owner contracts with a shipyard to build a containership. Under the contract, the vessel owner makes payments in instalments, based on a payment schedule that approximately matches the percentage of completion of the vessel construction. If the shipyard fails to complete the construction of the vessel, the vessel owner is entitled to take possession of the semi-constructed vessel. If the vessel owner fails to pay instalments, the shipyard is entitled to forfeit previous instalments and claim any additional attributable losses from the vessel owner. How should the vessel owner account for the instalment payments?

The above scenario supports a risk and rewards transfer pattern that is consistent with instalment payments, since:

- the payment schedule approximately matches the construction schedule;
- the legal rights of the vessel owner to claim possession of the semi-constructed vessel upon default by the shipyard suggests that the vessel owner is already exposed to risks and rewards of the semi-constructed vessel even prior to delivery; and
- the legal rights of the shipyard to forfeit previous instalments upon default by the vessel owner suggests that the vessel owner is already exposed to the risks of the semi-constructed vessel even prior to delivery.

The vessel owner should account for the instalment payments as PPE.

<u>Example 1.8 - 2</u>

A vessel owner contracts with a shipyard to purchase a barge constructed in accordance with the shipyard's standard specification and design for barges. Under the contract, the vessel owner makes a 20% deposit upfront, and the remaining 80% upon taking delivery. The deposit is refundable if the shipyard fails to deliver the barge. How should the vessel owner account for the 20% deposit?

In the above scenario, the risk and rewards transfer pattern is not consistent with instalment payments. It would be more appropriate to classify the instalments as prepayments.

BORROWING COSTS

1.9 Under FRS 23, borrowing costs include:

- Interest expense calculated using the effective interest method.
- Finance charges in respect of finance lease recognised based on FRS 17 Leases
- Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs

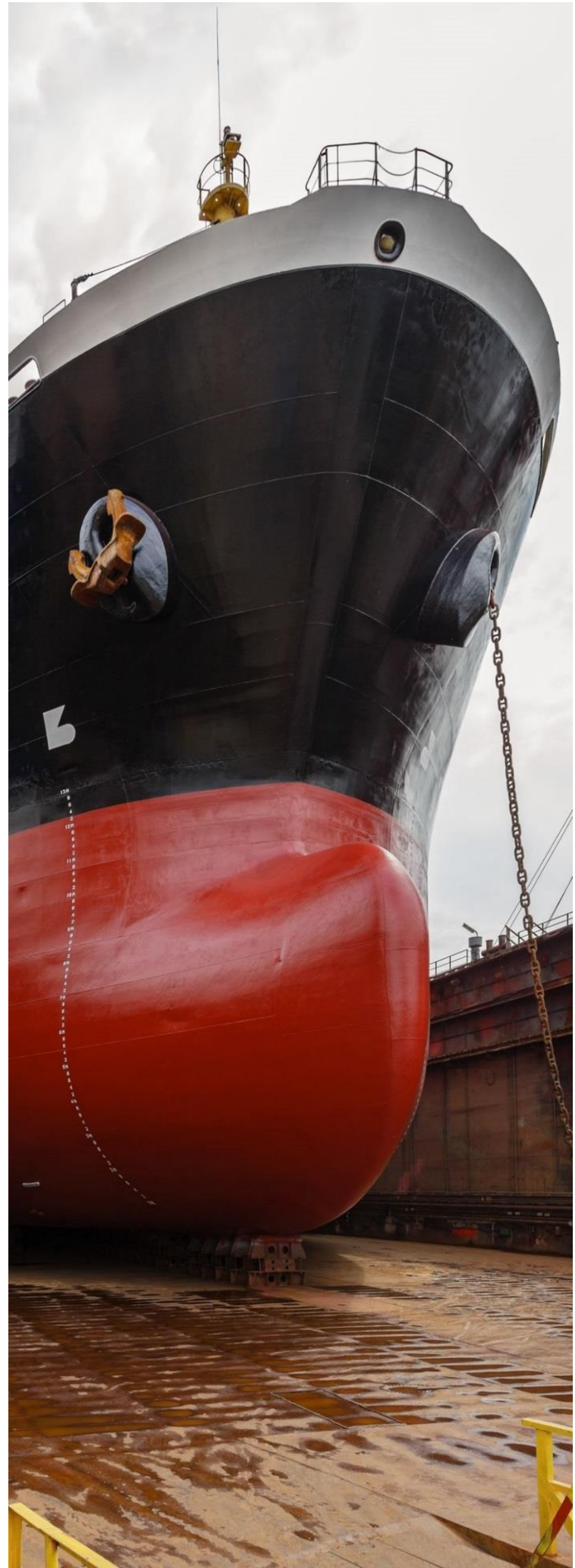
FRS 23 requires borrowing costs to be capitalized to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset.

1.10 Vessels under construction generally meet the definition of a qualifying asset under FRS 23. In contrast, borrowings incurred to finance the purchase of ready-to-sail secondhand vessels will not usually qualify for capitalisation.

TIMING OF CAPITALISATION

1.11 Under FRS 23, borrowing costs are capitalised from the date when the entity first meets all of the following conditions: (a) expenditures are incurred for the vessel; (b) borrowing costs are incurred; and (c) activities are undertaken that are necessary to prepare the vessel for its intended use or sale. The activities that are necessary to build the vessel will often be conducted upon the commencement of the vessel's physical construction.

1.12 Capitalisation of borrowing costs should be suspended during a period when no construction is taking place, unless substantial technical and administrative work is carried out during this period [FRS 23 para 20], or unless it is due to a temporary delay that is a necessary part of the construction process [FRS 23 para 21]. For example, if vessel construction ceased due to a long-term shipyard workers' strike, capitalisation of borrowing costs would cease during the strike period. In unusual situations, judgment may be involved in assessing whether a temporary construction delay necessitates cessation of capitalisation of borrowing costs.



1.13 Capitalisation of borrowing costs cease when substantially all vessel construction activities are complete. This is so even though there may be some uncompleted routine administrative work preventing the vessel from being brought into use [FRS 16 para 20].

ELIGIBLE BORROWING COSTS

1.14 Eligible costs for capitalisation extend beyond interest on traditional bank loans. Dividends arising from preference shares may also need to be capitalised when those preference shares meet the definition of liabilities under FRS 32.

1.15 Further, part or all of foreign exchange differences arising from vessel lending obtained in other currencies may qualify for capitalisation as well. Specifically, the foreign exchange differences may be capitalised to the extent that they are regarded as being an adjustment of interest costs.

1.16 For example, consider an Indian shipping company with INR functional currency. It can choose to borrow at high interest rates in Indian Rupees (INR), or it can borrow at much lower rates in US Dollars (USD) but suffer offsetting expected foreign exchange losses. If the shipping company chooses to borrow in USD, the foreign exchange losses may be regarded as part of the financing costs arising from the shipping company's strategy to finance in USD rather than INR. Unfortunately with this approach, although FRS 23 allows capitalisation of the adjustment to interest costs, it does not prescribe the methodology to determine this adjustment. Judgment is required to assess a reasonable method, which should be applied consistently. One possible method is described below.

Example 1.16 - 1

Company X is a vessel owning company with an INR functional currency. On 1 January 2014, Company X can borrow from its bankers in INR 1,000m at 10%. Alternatively, it can borrow, in USD, an equivalent of USD 16m at 7.5%, based on the 1 January 2014 exchange rate of 1 INR = USD 0.016. Company X chose to borrow USD 16m at 7.5%.

On 31 December 2014, the INR has depreciated to 1 INR = USD 0.015. How much foreign exchange losses can Company X capitalise?

USD borrowing cost = INR 80m [(USD 16m x 7.5%)/ 0.015]

INR borrowing cost, if borrowing had been in INR = INR 100m [INR 1,000m x 10%]

Borrowing cost differential = INR 20m

Actual foreign exchange loss = INR 32m (USD 16m/0.015 – USD 16m/0.016)

Foreign exchange loss that can be regarded as borrowing costs is capped at INR 20m.

1.17 Borrowing costs may also be incurred to meet dry docking expenditures, which can be a qualifying asset under FRS 23. However, the borrowing costs attributed to dry docking expenditure can only be capitalised during the dry docking period, and is usually immaterial due to the short duration of this period.

GENERAL BORROWING COSTS

1.18 Borrowing costs associated with specific borrowings are usually not difficult to identify and capitalise; the harder challenge arises from general borrowings.

1.19 Unlike specific borrowings for which capitalised borrowing costs can be determined based on the effective interest rates for each borrowing, the assessment of the capitalisation rate for general borrowings is more complex. The entity needs to combine all its borrowings that are owed during the period, excluding specific borrowings, and obtain a weighted average interest rate out of this "pool" of borrowings. As for specific borrowings, this pool includes dividend-paying preference shares that meet the definition of a liability under FRS 32.

1.20 As capitalisation of general borrowing costs is based on vessel construction expenditure at any point of in time, it may be necessary to keep track of the timing of construction expenditures. Where construction expenditures are incurred evenly during the period, a practical expedient may be to capitalise general borrowing costs based on the average vessel construction expenditure during the period.

1.21 When the vessel under construction is held by a company that is part of a group, the question arises as to whether general borrowings held by other companies in the group should also be included in the pool of general borrowings used to compute the capitalisation rate in the financial statements? With respect to the separate financial statements of the vessel-owning subsidiary, the borrowings of related companies are regarded as borrowings of other entities, and are not included in the assessment of the capitalisation rate. However, in the consolidated financial statements of the group, judgment is required, and in some cases it may be appropriate to include borrowings in the rest of the group within the capitalisation rate assessment, for example where the subsidiaries that borrow generally and the subsidiary that holds the vessel are in the

same geographical area and/or are subject to a single treasury function.

1.22 As a rule, borrowing costs capitalised during a period cannot exceed total borrowing costs incurred [FRS 23 para 14], and due to the above complexities in the computation of capitalised borrowing costs, it may be helpful to perform this check at each reporting date.

1.23 Shipping companies that incur borrowing costs to finance vessels should disclose the quantum of borrowing costs capitalised in the period and the capitalisation rate. [FRS 23.26]

VESSEL GOVERNMENT GRANT ACCOUNTING

1.24 Shipping entities may receive government grants for the construction of vessels or be provided with government assistance. Such assistance could be monetary, including the benefit of low-interest-rate loans, or non-monetary, such as free use of government-owned harbour facilities. The definition of government grants excludes the provision of transport and other infrastructure, which is available on an on-going basis for the benefit of the entire community. This may cover free use of harbour facilities, provided these are available to everyone.

1.25 FRS 20 Accounting for Government Grants and Disclosure of Government Assistance requires government grants to be recognised as income in the period in which the related costs they are intended to compensate for are expensed. Government grants that are related to acquisition of vessels should be recognised as deferred income or deducted against the vessels' cost.

REPAIRS AND MAINTENANCE

1.26 Subsequent to initial acquisition, additional costs may be incurred on the vessel on repairs, replacement parts, as well as additional equipment and upgrades to enhance the vessel or comply with new environmental and regulatory requirements. These costs should be capitalised only if they meet the recognition criteria in FRS 16; otherwise they are expensed.

1.27 Subsequent costs that merely maintain the economic benefits initially envisaged are expensed, while those that provide additional future economic benefits either in the form of an increase in future productive capacity or an extension of economic life are capitalised. Usually it will be obvious whether the costs qualify for capitalisation, for example, costs to acquire additional equipment and upgrades will usually meet the capitalisation requirement of FRS 16, even if they are only meant to deal with changing regulation rather than providing economic benefits beyond initial expectations.

1.28 Day-to-day servicing, repairs and maintenance costs are usually expensed when incurred.

DRY-DOCKING

1.29 In addition, a vessel will require seaworthiness checks, under water inspections, intermediate surveys (including In Water Surveys) as well as special surveys throughout its economic life. Each of these types of checks may be eligible for separate capitalisation under the FRS 16 capitalisation criteria. In practice, material capitalised costs relating to such checks mostly pertain to dry docking and special surveys, which constitute a major component of vessel costs.

1.30 Dry docking, inspection and survey costs may be incurred not just for owned vessels, but also for vessels that are chartered from a lessor under an operating lease. A question arises as to whether such costs can be capitalised when the underlying asset does not meet the capitalisation requirement. In such situations the accounting treatment depends on individual facts and circumstances.

1.31 For example, consider a company that leases a vessel that has been recently dry-docked, uses that vessel, and just prior to lease expiration, sends the vessel for dry docking to comply with the terms of the lease requirement. Where the terms of lease impose such a requirement, it may be appropriate for the company to build up a dry docking provision over the term of the lease, and utilize this provision for the dry docking expenditure.

1.32 On the other hand, a company that is required to send a vessel for dry docking immediately after commencement of the lease, so that the vessel can continue to be used over the lease period, may capitalise the dry dock expenditure and expense it over the period up to the next dry docking date, or the lease period, whichever is shorter.

COST ALLOCATION AND COMPONENTIZATION WHEN A VESSEL IS PURCHASED

1.33 Vessels may have a number of components (e.g. hull, engine, etc.) which require either replacement or major overhaul at intervals during the vessel's operational life cycle. The frequency of the work is determined in accordance with the rules and regulations of the vessel's classification society on the basis of the time period since the last work was undertaken. Due to the different requirements and commercial lives associated with different components, they may have to be depreciated using different useful lives and residual values.

1.34 Components of a vessel that would be separately identified include not only the physical items that will require replacement during the life of the vessel but also the overhaul element for items that require major overhaul in the future.

1.35 Identifying significant components is an area of significant judgment in vessel accounting. While component accounting is compulsory, this does not mean that a company will need to split its vessels into infinite micro-components. The consideration of materiality should pervade such a componentization exercise. In practice, the main material components might only include hull, engine, superstructure, navigation system, dry docking and special surveys. Some of these components may also have substantially similar useful lives and residual values, in which case FRS 16 allows such components to be grouped together. It may be pragmatic to strive for a basic presumption that components have similar economic and accounting useful lives, unless significant evidence exists to the contrary.

1.36 Once identified, the fair value of each component needs to be assessed, which may be another estimation challenge as the value of each individual component is usually not specified in the purchase agreement. Such estimates may require the involvement of in-house experts, independent vessel appraisers, or even the vessel yards. For second hand purchases, a further challenge may arise as different components are likely to have been replaced at various times in the past; as such further effort is required to assess the period that various components may have already been in use. The allocation of values to individual components affect the depreciation charge as the various components may be subject to different useful lives.

DEPRECIATION

1.37 Subsequent to initial recognition, vessels recognized as fixed assets are usually carried at cost less deprecation and impairment. In determining the depreciation charge, three factors must be taken into consideration: residual values, estimated useful life, and the depreciation method. All three factors are areas of significant judgment by management.

USEFUL LIFE

1.38 Useful life is the period over which a vessel is expected to be available for use by an entity, and needs to be reviewed at least annually. Vessel owners have different intentions with regards to their vessels in terms of period of use and disposal mechanisms (e.g. resale or recycling), and the useful life should reflect these choices. The useful life should also reflect the various factors that may limit the useful life of a vessel. These factors may include physical wear and tear, technological advancement, economic factors including market uncertainty, legal factors, the company's repairs and maintenance policies, etc. To take into account such technical and commercial aspects, independent surveyors may be engaged to assist entities to estimate the useful life, particularly in an era where technology is evolving rapidly, leading to rapid obsolescence of vessels. Eco-vessels and vessels with ever-larger capacities are accelerating obsolescence of many older vessels.

1.39 In practice, many vessel owners will rely on their own experience to assess useful lives of vessels and vessel components, and this is usually shorter than the technical lifespan based on the engineering specifications. Useful lives for vessel hulls and engines vary between subsectors and vessel types and can be affected by the timing of the survey cycle, generally varying from 20 to 30 years. Capitalised dry docking costs are depreciated over the period up to the next dry-docking, which may be 2 to 5 years.

RESIDUAL VALUE

1.40 The residual value is the estimated amount that an entity would obtain from disposal of the vessel, after deducting the estimated costs of disposal, as if the vessel was already of the age and in the condition expected at the end of its useful life. The residual value is reviewed at least at each financial year end. It may be adjusted upwards or downwards in certain circumstances.

1.41 When a vessel owner intends to use the vessel for its entire economic life, and thereafter demolish the vessel, the residual value may be computed based on the demolition value of the vessel. An average market value for steel may be used to compute the demolition value of the vessel. This demolition value is often quoted as a price per lightweight displacement tonne ("ldt"). Demolition values are volatile and correlated to the steel price. While it is unlikely that standard setters envisaged residual values being marked-to-market, the requirement to assess residual values annually, coupled with volatile steel prices, could result in significant volatility in the residual value and hence the depreciation charge.

1.42 The residual value should be stated net of anticipated costs to scrap the vessel. This will be unique to each owner and will depend on factors such as where the owner intends to scrap the vessel. In addition to the steel scrap value, there may be other costs to consider such as costs to arrive at the scrap yard or commissions.

1.43 If an owner intends to dispose of the vessel before the end of its useful life, the residual value should also reflect this intention. By choosing to dispose of a vessel before the end of its useful life, an owner is exposed to economic risk on the residual value of the vessel. The accounting principles require that this risk be effectively re-measured at each balance sheet date based on the latest market value data to obtain the residual value. The volatility issues mentioned above with respect to steel prices apply equally, if not more so, to residual values of vessels that

are intended to be resold in the secondhand market.

DEPRECIATION METHOD

1.44 FRS 16 requires depreciation on a "systematic basis" but does not specify which approach should be used. Common depreciation methods are the "straight line method" and the "accelerated method". In practice, shipping companies almost exclusively use the straight-line method.

IMPAIRMENT

1.45 The shipping industry is subject to economic cycles and volatile markets. Both freight rates and vessel values may experience volatility as a result. In addition, technological obsolescence may lead to older vessels losing value more quickly than anticipated. When there are indicators that the book value of a vessel is below the recoverable amount, either through sale or continued use, the book value needs to be written down to its recoverable amount. Under FRS, the recoverable amount is defined as the higher of the asset's value in use ("VIU") and the asset's fair value less costs to sell ("FVLCTS"). VIU is the value expected to be generated from continuing use of the asset (e.g. through time or bareboat charters), and is derived using a discounted cash flow analysis of cash flows derived from such continuing use. FVLCTS represents the amount obtainable from an arm's length sale of the vessel, which is generally based on the market price of the vessel, less selling costs. Where the vessel only generates cash flows in combination with other assets as part of a larger cash-generating unit ("CGU"), impairment is assessed in conjunction with those assets for the CGU as a whole.

1.46 Due to the significant construction period for vessels, an adverse change in market conditions may lead to newbuildings being impaired upon or even before completion. The requirement to provide for onerous acquisition contracts should also be considered where unavoidable future payments exceed the economic benefits expected to be received from the vessel.

Onerous contracts are discussed further in Section 3.28 onwards.

1.47 Challenges in vessel impairment and impairment reversal pertain to the determination of CGUs, assessment of impairment indicators, as well as the derivation of VIU and FVLCTS.

DETERMINATION OF CGUS

1.48 One of the most significant judgments in vessel impairment pertains to the grouping of vessels for impairment testing, especially for vessels that are operated inter-changeably within a larger fleet in accordance with the charter party or contract of affreightment, e.g. in shipping pools. Where a pool operates in both profitable and loss-making routes using inter-changeable vessels, a requirement to segregate the profitable and loss-making routes into separate CGUs may create an impairment charge on the loss-making routes. This charge could have been avoided if the routes were combined into one CGU, because the profits on the profitable route may exceed the losses on the loss-making ones.

1.49 Similarly, if a pool contains both cost-effective eco-vessels and cost-ineffective older vessels that run interchangeably on the same route, segregating these two groups of vessels into separate CGUs may lead to an impairment charge on the cost-ineffective vessels, which could have been avoided if there was only one CGU.

1.50 Clearly, this can be a critical judgment with a significant accounting impact. FRS 36 requires a CGU to be the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets, taking into consideration factors such as:

- the method used by management to monitor the entity's operations (such as by product lines, businesses, individual locations, districts or regional areas), and
- management's decision processes over the continuation or disposal of assets and operations.

1.51 Further, FRS 36 requires that such a group cannot be larger than an operating segment as defined in FRS 108, which, among other factors, depends on how key management (as represented by the Chief Operating Decision Maker ("CODM")) reviews information.

1.52 As such, the operational, monitoring and decision processes of key management significantly impact this judgment. It is important to establish whether the various revenue streams and the asset types within each pool are segregated in practice.

ASSESSMENT OF IMPAIRMENT INDICATORS

1.53 Vessels are tested for impairment if there are indicators of impairment. Practical indicators may include:

- over-capacity, which leads to vessels operating at suboptimal levels;
- low economic growth, which may reduce demand for ocean transportation;
- new market entrants, which may contribute over-capacity;
- increased competition from alternative transportation methods;
- falling freight rates leading to operating losses;
- falling new-build or second-hand vessel prices;
- increased vessel recycling rates in the industry;
- physical damage to vessels, e.g. due to accidents;
- technological obsolescence, either due to introduction of more efficient vessel models or changes in regulation;
- rising interest rates, which leads to increases in the discount rates used in value-in-use assessments, and lower recoverable amounts;

DETERMINATION OF FVLCTS

1.54 There is significant volatility in market prices for vessels generally, arising from both volatility in supply and demand. Supply depends on factors such as the production rates of the major shipyards, while demand is linked to wider economic conditions and may vary between various classes of vessels depending on factors such as the availability of substitutes, the development of new vessels in that class,

the liquidity of the market in that class of vessels, and the development of new markets, ports and trade routes that can be serviced by that class of vessels.

1.55 For periods beginning on or after 1 January 2013, the fair value used in computing FVLCTS has been aligned to the fair value principles in FRS 113 *Fair Value Measurement*. Among other concepts, FRS 113 emphasises on the use of observable inputs (FRS 113.67).

1.56 As ship sale transactions are widely reported in the shipping industry, it is usually possible to obtain vessel valuations from brokers by reference to transactions of which they are aware. On-line valuation tools are also available that can provide further independent support for valuation. Where there are no transactions for a particular vessel, brokers may extrapolate a value from transactions for similar types of vessels. In such situations, it is important to understand the judgements involved and, if necessary, obtain a second independent valuation.

1.57 Unless brokers have undertaken a physical inspection of the vessel, they normally provide a value based on historical sales and purchase data of similar vessels. When this is used to determine the fair value for accounting purposes, it will be necessary to take into account the actual maintenance condition of the vessel and adjust the brokers' value accordingly. When this is considered to be material, it may be necessary to arrange for a physical inspection of the vessel. The maintenance adjusted market value should then be used in the impairment review of the entire vessel, including the separately capitalised and depreciated components.

1.58 If a vessel owner decides to sell a vessel, the vessel may require substantial marketing. This can be undertaken either in-house, if there is appropriate expertise, or outsourced to a broker. Costs of disposal, other than those that have been recognised as liabilities, are deducted in determining fair value less costs to sell. Examples of such costs are legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale.

DETERMINATION OF VIU

ESTIMATION OF CASH FLOWS

1.59 The estimation of cash flows requires revenue estimates, which have to be made based on spot/ charter rates and expected utilisation levels. Spot/ charter rates are well-tracked by international and widely-published data and indices, but can be very volatile due to general economic conditions and unforeseen events. Expected utilisation levels is exposed to volatility from both current and anticipated demand and supply conditions over the vessel's useful life. Sensitivities of VIU to the above factors should be considered, and disclosures pertaining to significant estimates should be made when the sensitivities are significant.

1.60 In addition, shipping entities typically have reasonably reliable estimates of the daily costs of operating a particular vessel which can be used as the basis for a cash flow projection for a value in use calculation. However, allowances should be made in the model for volatile costs, with reasonable estimates made of likely price increases.

1.61 Projections based on management budgets / forecasts shall cover only a period of five years or less, unless a longer period can be justified. One potential justification is when a longer-term charter agreement to a creditworthy counterparty is already in place that secures the cash flows associated with a vessel or pool of vessels.

1.62 Beyond the period covered by the above management budgets / forecasts, further cash flows should be estimated based on an estimated growth rate for subsequent years. The growth rate should generally be a steady or declining rate, unless an increasing rate can be well-justified. This growth rate also cannot exceed the long term average growth rate for the products, industries or country in which the entity operates or for the market in which the

1.63 asset is used. The growth rate should consider, among other factors, the cyclicality of the shipping industry. Financing costs (e.g. interest payments), taxes, uncommitted planned restructuring and any discretionary capital expenditure enhancing the vessel's performance are excluded from value-in-use cash flows. However, cash flows to maintain vessel operating effectiveness, e.g. dry docking and essential servicing and repairs, should be included. The scrap value of vessels or disposal proceeds at the end of their useful life is included in the cash flows.

ESTIMATION OF DISCOUNT RATE

1.64 Once a set of reasonable and supportable pre-tax cash flow projections have been developed, they should be discounted to present value in order to obtain the VIU.

1.65 The discount rate should be a pre-tax rate reflecting current market assumptions about the risks specific to the vessel or CGU, and reflects the significant risks to which the shipping industry in general is exposed and those affecting the particular vessels being assessed for impairment. Practically, most entities will consider their weighted-average cost of capital, their incremental borrowing rate and observable market rates for similar assets or CGUs when determining an appropriate discount rate.

2. LEASING

Classification of leases as finance or operating leases can be critical. For lessees, it determines whether a lease liability is recorded on the balance sheet and can significantly affect debt ratios. For lessors, it can significantly impact the income recognition pattern.

2.1 Leases feature abundantly in the shipping industry even though the term "lease" is less often used in shipping contracts. Vessel owners engage in charter contracts to earn income, while charterers often view these charter contracts as a financing alternative to bank loans and other types of borrowings. At the time of writing, The International Accounting Standards Board ("IASB") has embarked on a revised framework for lease accounting that may have significant impact on shipping.

IDENTIFYING LEASE CONTRACTS

2.2 The first step in lease accounting is to assess whether a contract qualifies as a lease that is within the scope of FRS 17 Leases. In most cases, the lease classification of the contract for accounting purposes will be consistent with the legal contractual arrangement. Below are examples of contractual arrangements that are leases:

- lease of vessels;
- bareboat charter contracts;
- tax lease contracts;
- slot charter (NVOCCs); and
- time charter contracts.

2.3 However, a shipping company may also enter into an arrangement that does not take the legal form of a lease but conveys a right to use the vessel in return for a payment or series of payments. Examples are service contracts that convey the right to use a vessel. INT FRS 104 will apply in such cases to determine whether the service contract contains a lease. Under INT FRS 104, there will be an embedded lease contract if the arrangement is dependent on the use of a specific vessel and one of the following criteria is met:

a) The customer has the ability or right to operate (or direct others to operate) the vessel in a manner it determines while obtaining more than an insignificant amount of the utility from the vessel.

b) The customer has the ability or right to control physical access to the vessel while obtaining or controlling more than an insignificant amount of the utility from the asset.

c) Facts and circumstances indicate that it is remote that one or more parties other than the customer will take more than an insignificant amount of the utility from the vessel during the term of the arrangement, and the price that the customer will pay is neither contractually fixed per unit of output (e.g. service provided) nor equal to the current market price at the time of output delivery.

2.4 If a service arrangement contains an embedded lease of a vessel under INT FRS 104, and that lease meets the definition of a finance lease, the customer may be required to split the lease payments from other elements of the service payment, capitalise the vessel and recognise a corresponding liability.

ASSESSMENT OF OPERATING VERSUS FINANCE LEASE

2.5 The assessment of whether to classify a vessel lease arrangement as an operating or finance lease is important as it leads to significantly different financial impact.

2.6 As a general principle, leases that substantially transfer to the lessee all the risks and rewards incidental to ownership are accounted for as finance leases. Other leases are accounted for as operating leases.

2.7 Classification depends on substance rather than legal form. Contracts are often described as operating lease agreements, but analysis of their substance may result in their being classified as finance leases. FRS 17 lists the following qualitative indicators that individually or in combination would normally lead to a finance lease, as illustrated in the following box. These indicators are not always conclusive. Significant judgment is required, and consultation with specialists is recommended when classifying complex leases. The lease classification is assessed at inception of the contract and is not reassessed unless the contract is changed.

Indicators of a finance lease:

- Lease transfers ownership of the asset to the lessee;
- Lessee has the option to purchase the asset at below market value so that it is reasonably certain that the lessee will exercise the option;
- Lease term is for the major part of the asset's economic life;
- Present value of the minimum lease payments is close to the fair value of the leased asset when the lease contract is signed;
- Leased assets are of a specialised nature so that only the lessee can use them without major modifications;
- Lessor's losses associated with the cancellation of a lease are borne by the lessee;
- Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee for example, in the form of a charter rebate equalling most of the sales proceeds of a vessel at the end of the lease; and
- Lessee can extend the lease term at a below-market rent and the extended lease term covers the major part of the asset's economic life.

ACCOUNTING FOR FINANCE LEASES

2.8 Under a finance lease, the vessel owner derecognizes the vessel, and recognizes a receivable for the charter payments yet to be received.

2.9 The charter recognizes the vessel and a payable for any charter payments yet to be paid. The vessel is recognised as PPE by the charterer when the vessel becomes available for use, i.e. the beginning of the lease term, which may be significantly later than the signing of the charter contract. The lessee recognises the vessel at its fair value or, if lower, the present value of the minimum lease payments, normally calculated using the interest rate implicit in the lease. The lease payments are apportioned between the finance charges and the reduction of the principal of the outstanding finance lease liability using the effective yield method. The leased vessel should be depreciated over its economic useful life or the lease term, if it is shorter and there is no reasonable certainty that the charterer will obtain ownership of the vessel, or take up any optional renewal charter periods.

Example 2.9 - 1

On 1 January 2013, Company X signs a finance lease contract for a bulk carrier, the fair value of the vessel being $40 m. Due to certain delays, Company X only took delivery of the bulk carrier one year later, on 1 January 2014. Under the contract, Company X will pay $3 m per year for 20 years, starting from 31 December 2014. The bulk carrier has an expected economic life of 25 years. At the end of 31 December 2034, Company X has an option to purchase the bulk carrier at market value, but Company X has determined that it may not choose to exercise the option.

In this example, Company X should recognise the bulk carrier, and the associated finance lease liability, only from 1 January 2014 (rather than 1 January 2013), as the lease term only commenced on 1 January 2014. The bulk carrier should be depreciated based on a useful life of 20 years (rather than 25 years), as there is no reasonable certainty that Company X will exercise the purchase option in year 2034.

ACCOUNTING FOR OPERATING LEASES

2.10 Under charter contracts that qualify as an operating lease, both parties treat the contract as an executory contract with charter payments being recognised in income or expense on a straight line basis over the charter period. The effect of unconditional charter escalation clauses – for example, charter rate increases by 5% each year – must be straight-lined. Rights and obligations, other than accrued or prepaid charter payments, are not recognised for operating leases. Operating leases are off - balance sheet arrangements.

IMPACT OF RENEWAL / EXTENSION OPTIONS

2.11 If the period covered by the renewal option was not considered to be part of the initial lease term, but the option is ultimately exercised based on the contractually stated terms of the contract, the original lease classification still applies. There is no requirement to consider a fresh lease classification for charter periods that are based on the existing provisions of the charter arrangement and the renewal / extension option.

IMPACT OF CONTINGENT CHARTER PAYMENTS

2.12 Contingent charter payments are excluded from minimum lease payments, and are recognised in the income statement as and when they are earned or incurred.

2.13 Contingent charter payments may also arise from risk-sharing charters. For example, an owner may accept a lower time charter rate upfront, in exchange for a share of the potential profit upside of a voyage charter. In such cases, the additional upside should be recognised in the period to which that shared profit upside relates. While this sounds intuitive it generates significant implementation issues, especially if the profit sharing period crosses the financial year end and the owner has no means to obtain information on the profits generated by the voyage charter that is earned prior to the reporting date. In estimating the profit share, it should be noted that revenue can be recognised only if it can be measured reliably (FRS 18.14). Accordingly, it will be necessary to consider whether such a reliable measurement is obtainable.

IMPACT OF RESIDUAL VALUE GUARANTEES

2.14 In addition, the lessor may also obtain a residual value guarantee from either the lessee or its related party, or a third party.

2.15 From a finance lessee’s (i.e. charterer’s) perspective, the residual value guarantee is included in the minimum lease payments used to compute the value of the capitalised vessel and the associated liability, where such a guarantee is given by the lessee or its related parties (FRS 17.4; FRS 17.20).

2.16 From a finance lessor’s (i.e. ship owner’s) perspective, however, the finance lease receivable includes residual value guarantees by both the lessee and its related parties, creditworthy third parties, as well as unguaranteed residual values (FRS 17.4; FRS 17.36).

ACCOUNTING FOR CHANGES IN ESTIMATES/ CIRCUMSTANCES/ AGREEMENT AFTER LEASE INCEPTION

2.17 Subsequent to the initial classification of a lease as operating or finance lease, circumstances and estimates may change in a way that would have resulted in different classifications had such changes occurred at the inception of the lease. An example is an increase or reduction in the useful life of a vessel, which may reduce or increase the proportion of the lease period to the useful life, and thereby the risks and rewards analysis related to operating/ finance lease classification. Other examples are changes in residual values, fluctuations in vessel prices that influences the cost attractiveness of a purchase option, fluctuations in charter rates that affects the assessment of whether a renewal option constitutes a bargain.

2.18 Generally, leases are *not* reclassified for such changes in estimates or changes in circumstances, provided that the lease terms remain unchanged. However, where key terms in the lease contract are modified, and the lease would have been classified differently if the modifications had been in effect at the inception of the lease, then the revised contract is accounted for as a new lease. The classification of the new lease should take into account *both* the modified terms as well as the changes in estimates and circumstances at the modification date.

ACCOUNTING FOR SALE AND LEASEBACK TRANSACTIONS

2.19 Sale and leaseback is frequently used to raise capital in the shipping industry. The transaction involves the sale of a vessel or other assets (e.g. containers) and the leaseback of the same assets, often under a finance lease.

2.20 The form of these sale and leaseback transactions and their terms and conditions may vary significantly. Some of these sales and leaseback transactions may actually involve a genuine sales transaction and a genuine leasing transaction. However, some may, in substance, merely be financing arrangements.

2.21 Care must be exercised when evaluating certain transactions involving the legal form of a lease. FRS and specifically INT FRS 27 require that the substance of an arrangement overrides the legal form.

2.22 For example, an entity may sell a vessel to a bank and enter into a lease-back agreement. The terms are such that the bank must sell the vessel back to the entity at the end of a lease at an amount that has the overall effect, when also considering the lease payments, of providing the bank with a yield of LIBOR + a % margin. The assessment of such an arrangement is based on its substance as a borrowing rather than a sale and lease-back.

2.23 The future lease payments and the sale price are often interdependent because they are negotiated as a package. The accounting treatment of these transactions depends on the classification of the leaseback as either a finance or an operating lease.

2.24 If the leaseback is a finance lease, any excess of the sales proceeds over the carrying amount is deferred, then amortised to income over the lease term. As the “economic” ownership of the asset has not been transferred, it is inappropriate to recognise an accounting profit.

2.25 If the sales proceeds are less than the carrying amount, the loss is also deferred unless there has been an impairment of the asset’s value.

2.26 If the leaseback is an operating lease, the accounting treatment is more complex because the sale price must be compared to the asset’s fair value, as shown in the following table.

Is Sale price at Fair Value?	Accounting treatment
Sale price is at Fair Value	This is considered as a normal sale transaction, and any profit or loss arising from the sale is recognised immediately.
Sale price is below Fair Value	Any profit or loss should be recognised immediately. However, if the loss is compensated for by future lease payments at below market price, it should be deferred and amortised to adjust the future rent.
Sale price is above Fair Value	The excess of sale price over fair value should be deferred and amortised to adjust the future rent. If the carrying amount is lower than both fair value and sale price then the excess of fair value over carrying amount is recognised immediately.

The global standards-setting body, the International Accounting Standards Board ("IASB") is in the process of deliberating on a new framework for lease accounting by lessees that is expected to be finalised in the second half of 2015. IASB has tentatively decided that lessees should capitalise <u>all</u> leases on the balance sheet, in a manner similar to what is currently done for finance leases, with the possible exceptions of short-term and low-value leases. At the time of writing, it is envisaged that there will be no significant changes to the accounting for lessors. However, detailed aspects of the framework, including the differentiation between lease and service contracts, continue to be debated.

3. REVENUE

Widely-recognised as one of the key benchmarks of financial performance, revenue is critical to many shipping companies. The varied types of shipping transactions (e.g. time and voyage charters, freight services, slot exchange arrangements) and the wide range of clauses (e.g. demurrage, bunker adjustment, choice of alternative ports) in shipping contracts creates challenges for revenue recognition in shipping that affect both the amount and timing of revenue recognised. Such contracts can also become onerous and require a liability to be recognised on the balance sheet.

3.1 Revenue is defined in FRS 18 Revenue as the gross inflow of economic benefits during the period arising in the course of an entity's ordinary activities when those inflows increase equity other than increases relating to contributions from equity participants.

CHARTER INCOME

3.2 Charter income is treated as operating leases with revenue recognised over the periods (some financial statements were specific in terms of basing this on "chartered days") of the respective leases on a straight-line basis.

VOYAGE INCOME

3.3 Voyage income arises from a voyage charter, which involves the hiring of a vessel and crew for a voyage between a load port and a discharge port.

3.4 FRS 18.20 states that contract revenue and costs should be recognised respectively based on stage of completion when the outcome of transaction can be estimated reliably. The outcome can be estimated reliably when all the conditions below are met.

Conditions for revenue recognition based on stage of completion

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity;
- The stage of completion of the transaction at the end of reporting period can be measured reliably; and
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

[FRS 18.20]

3.5 In practice, these conditions are met for most voyage charters, and most shipping companies account for voyage income using the percentage of completion method.

3.6 There are a number of ways by which percentage of completion can be computed. Most shipping companies adopt a cost-based or time-based method for estimating stage of completion.

3.7 There is significant judgment as to what constitutes a "voyage", which can be defined on a round-trip or leg-to-leg basis. Consider a vessel that sails from Boston to London and back. The trip to London and the return trip can be defined as two separate voyages; alternatively the entire round trip can be defined as a single voyage. Defining each leg of the trip as a separate voyage, and calculating the percentage of completion based on that leg only, reduces the time and cost estimates to those on that leg only.

However, it may not always provide a fair reflection of revenues earned. For example, if one leg of the trip carries no cargo but the other leg has a full load, and the rate negotiation for the entire trip is based on round trip costs, then recognising revenue only on one leg of the trip may skew the revenue recognition.

3.8 The estimation of total voyage time and costs is integral to the percentage of completion method as it affects the percentage of completion and hence the revenue recognised. These estimates are also associated with significant uncertainties, not least due to the vagaries of nature. Cost/time estimation uncertainties may increase if the voyage charter contracts allow the vessel to nominate from a few alternative ports instead of specifying a concrete destination.

3.9 The percentage of completion method for voyages can also be calculated using either a "load to load" or "discharge to discharge" method. Under the "load to load" method, revenues are recognised proportionately from the commencement of loading for a voyage, to the commencement of loading for the next voyage. Under the "discharge to discharge" method, revenues are recognised over the period from the discharge of cargo for the previous voyage to the discharge of cargo for the current voyage.

3.10 Where some or all of the consideration for the voyage income is deferred, the deferred consideration should be discounted to present value, using an imputed interest rate for purposes of determining the consideration used to compute voyage income. The discount element is recognised as interest income over the deferral period.

LIQUIDATED DAMAGES

3.11 Liquidated damages are amounts that another party must pay for non-performance. Liquidated damages may be present in certain legal contracts in the shipping industry. This provision allows for the payment of a specified sum should

one of the parties be in breach of contract.

3.12 Liquidated damages commonly arise from the failure of shippers to meet minimum volume commitments, and also from the failure to deliver cargo on a timely basis. Late deliveries may result in damages based on losses from decline in inventory values that could have been avoided had the delivery been on time.

3.13 It is also common for shipbuilding contracts to specify liquidated damages, e.g. for construction delays that result in lost income. Such liquidated damages are compensation for lost income and are not directly attributable to the acquisition of vessels. Accordingly the vessel purchaser cannot capitalise or adjust such damages against the cost of the vessels.

DEMURRAGE INCOME

3.14 Demurrage is a shipping term that refers to liquidated damages for delays that arises when a vessel fails to load or unload cargo within the agreed period of time. The charterer will usually be required to pay an additional sum to the ship-owner as compensation for the resulting delay.

3.15 Shipping container usage beyond the time allowed is referred as Container Demurrage. This extra usage usually entitles the container supplier (usually the shipping carrier) to claim a certain amount of compensation from the shipper.

3.16 Demurrage income is only recognised as revenue when it can be estimated reliably, and it is probable that it will be received. Where reliable estimation is not possible, revenue is recognised only to the extent of the costs incurred that are probable of recovery.

PRINCIPAL OR AGENT ISSUES

3.17 Certain entities in the shipping industry such as vessel managers, freight forwarders and port agents may be required to assess whether they act as principal or agent in respect of the revenue earned.

3.18 In an agency arrangement an entity will need to assess whether it functions as:

- agent, i.e. an intermediary earning a fee for helping the customer procure goods/ services from other principal service providers.
- principal, i.e. contracting with customers acting on its own account to supply goods/ services.

3.19 An agent recognises only his fee as revenue, and the amounts collected on behalf of the principal are not revenue (FRS 18.8). In contrast, a principal recognises the entire contract sum as revenue.

3.20 For example, a freight forwarder that receives monies from a customer to arrange for a suite of inter-modal transportation services needs to assess whether he is merely an agent helping the customer to arrange for other transportation services, or whether he is a principal contracting with customers to undertake the entire transportation service.

3.21 The assessment is largely dependent on individual facts and circumstances. The indicators below should be considered in assessing whether an entity accounts for a transaction as a principal.

Indicators that an entity is providing goods and services as a principal rather than an agent

- The entity has the primary responsibility for providing the goods/ services or for fulfilling the order, e.g. he is accountable if the goods/ services are not of acceptable quality
- Where inventory is involved, the entity has inventory risk before or after the customer order, during shipping or on return.
- The entity has latitude in establishing prices, either directly or indirectly.
- The entity bears the customer's credit risk.

(FRS 18.IE21)

IDENTIFYING SERVICE COMPONENTS IN A REVENUE CONTRACT

3.22 A shipping company may provide a composite suite of services involving collection of goods, multi-modal transportation, logistics and warehousing, etc. When there are multiple component services combined into a revenue contract, it should be considered whether the various components of the contract should be accounted for separately.

3.23 Unfortunately FRS 18 does not prescribe how the various components should be segregated. Where each component service can be procured as a separate service, this is an indicator that it is a separate component. In our view, factors to consider will include looking at whether the various components of the contract were negotiated as a package or separately, the types of risks each component is exposed to, and whether the various components form part of an integrated continuous service.

IDENTIFYING EMBEDDED DERIVATIVES IN REVENUE CONTRACTS

3.24 Charter contracts may include bunker adjustment clauses that adjust charter rates to compensate for fluctuations in bunker prices beyond a specified range. An issue arises as to whether these bunker adjustment clauses may lead to the creation of an embedded derivative under FRS 39 that will have to be accounted for separately. Such an embedded derivative must be bifurcated and fair valued through profit and loss if:

- its characteristics are not closely related to the economic characteristics and risks of the host charter contract;
- a separate instrument that compensates for bunker rate fluctuations would meet the definition of a derivative; and
- the combined instrument is not measured at fair value with changes in fair value recognised in profit or loss.

3.25 This assessment should be performed on a contract by contract basis taking into account the specific mechanism of the adjustment. In our view, many bunker adjustment clauses will not require the segregation of a material embedded derivative.

SLOT EXCHANGE ARRANGEMENTS

3.26 In a slot exchange arrangement, participating shipping companies seek to exchange the surplus capacity ("slots") on their vessels with the surplus capacity of other shipping companies. This helps to fully utilise the vessel and minimise the costs arising from empty slots for both parties. An accounting issue arises as to whether a shipping company can recognise revenue on such arrangements, for the slots that it has swapped out.

3.27 FRS 18 specifically states that when goods and services are exchanged for goods and services that are similar in nature and value then the exchange is considered to be a transaction that does not generate revenue. As such, revenue will not be recognised as a result of the slot exchange arrangement. However, when the swapped slots are subsequently sold off to shipping customers, revenue will be recognised. This also avoids double counting of revenue.

ONEROUS CONTRACTS

3.28 Revenue contracts can become onerous over time if they cannot be cancelled without paying a significant penalty or other compensation to the counterparty. This is particularly true for long-term contractual arrangements, for example contracts of affreightment with a shipper, which are a common industry practice. See example 3.35 – 1.

3.29 Management should analyse specific facts and circumstances and, if appropriate, recognise a provision for the expected loss in accordance with FRS 37 *Provisions, Contingent Liabilities and Contingent Assets.*

3.30 FRS 37 requires a provision for the minimum unavoidable costs of meeting the obligations under a contract where

the costs exceed the economic benefits expected to be received under the contract. The standard also prohibits making a provision for future operating losses except where such losses have become unavoidable due to the existence of an onerous contract.

3.31 Facts and circumstances causing the contract to become onerous should be carefully considered, and management should seek to determine whether future inflows of economic benefits from the contract would exceed the unavoidable costs of meeting the obligations under the contract.

3.32 Even when no onerous loss provisions have been recorded, an expectation of future operating losses is an indication that certain assets might be impaired in which case the appropriate impairment tests should be conducted.

3.33 FRS 37 requires that any impairment loss on assets dedicated to a contract and caused by insufficient future cash inflows is recognised before a separate onerous contract provision is established as a liability. Provisions are recognised when a contract becomes onerous regardless of whether the entity has ceased using the rights under the contract. FRS generally requires recognition of onerous loss for contracts which have not yet been performed or executed if the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Examples of contracts that may become onerous are:

- operating lease contracts for vessels when there is overcapacity;
- contracts to buy or sell non-financial items at a fixed price;
- bareboat charters in / out;
- time charter contracts; and
- fixed rental arrangements of slots by non-vessel operating common carriers ("NVOCCs") i.e. ocean freight forwarder.

3.34 An unfavourable contract, such as a purchase agreement for fuel at a fixed above-market price, is not necessarily onerous. The purchased fuel may be used profitably in shipping operations.

3.35 When an entity commits to a plan to exit a vessel charter contract, sublease rentals are considered in the measurement of an onerous lease provision only if management has the right to sublease and such sublease is probable.

Example 3.35 - 1

Company X has previously chartered a bulk carrier at $3m a year under an operating lease ("head lease") for its commodities trading operations, but in 2014, X no longer requires the bulk carrier. Instead of terminating the charter contract, which is subject to a costly termination charge, X has determined that it is feasible, and is less costly, to carry on with the charter contract, and sub-lease the bulk carrier to another charterer ("sub-lease") at a market charter rate of $2m a year, for the remaining 2 years.

As at 31 December 2014, X should recognise a provision for the unavoidable loss of $1m a year for the next 2 years.

3.36 In certain limited circumstances, a lease contract can be split into component contracts. A provision for an onerous part can be recognised if:

- the onerous and non-onerous provisions are clearly identifiable and could have been separated at contract inception; and
- the future economic benefits can be allocated on a reliable basis to the various elements of the contract.

3.37 The amount of the onerous contract provision has to be discounted if the effect of the time value of money is significant. FRS requires that the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. The anticipated cash flows are discounted using a pre-tax discount rate (or rates) that reflect(s) current market assessment of the time value of money and the risks specific to the liability (for which the cash flow estimates have not been adjusted) if the effect is material.

3.38 Provisions for onerous contracts shall be reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In November 2014, the Accounting Standards Council issued FRS 115 Revenue Recognition, which introduces a new five-step approach to revenue recognition:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

The impact of FRS 115 on the shipping industry will partly depend on the finalisation of the revised leasing project described in the previous chapter. For example, the leasing project will determine whether a charter contract represents a service contract, a lease contract, or a mix of both, and this in turn will determine whether the contract should be accounted for, wholly or partly, as a service under FRS 115. If FRS 115 is applicable, detailed aspects of FRS 115 could change the revenue recognition pattern. For example, FRS 115 requires variable consideration to be included in the transaction price (based on either an "expected value" or a "most likely amount" approach) to the extent that it is highly probable that this will not significantly reverse in the future. This may result in variable consideration, such as demurrage income, being recognised earlier as compared to the current FRS 18, which requires reliable estimation of amount receivable in addition to probability of receiving economic benefits.

Another potential group that may be affected by FRS 115 is the shipbuilders. Shipbuilders that have been accounting for vessel construction revenue on a percentage of completion basis may need to perform a re-assessment under FRS 115. Specifically, FRS 115 requires one of the following criteria to be met in order for performance obligations to be considered satisfied over time:

"*(a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;*

(b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or

(c) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date."

[FRS 115.35]

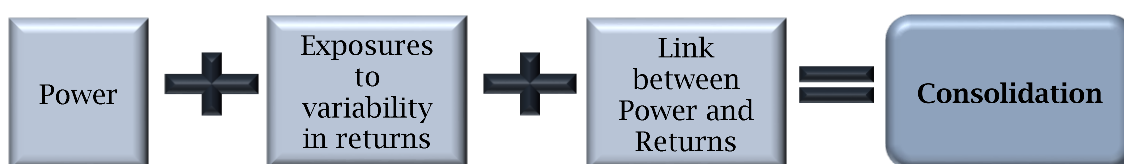
4. CONSOLIDATION AND JOINT ARRANGEMENT

In Singapore, new rules took effect in 2014 that govern whether to account for an investee as a subsidiary, joint venture, or associate. The new rules are complex, however, significant changes are unlikely for most companies with ordinary voting shares, except that proportionate consolidation is no longer an available policy choice for joint ventures. Two shipping structures in particular that may be affected significantly are shipping pools and leasing structures.

4.1 The shipping industry uses various operational structure and arrangements such as joint ventures, pool arrangements and technical and commercial management agreements. Different arrangements result in different rights and obligations for each entity.

4.2 FRS 110 *Consolidated Financial Statements* took effect on 1 January 2014, and prescribes the circumstances under which an investor should consolidate an investee. Prior to FRS 110, these requirements were captured in FRS 27 *Consolidated and Separate Financial Statements*. While FRS 110 is more prescriptive and complex than its predecessor, FRS 27, it is unlikely to result in significant changes in consolidation conclusions for the majority of companies that are controlled based on majority votes by ordinary shareholders.

4.3 An investor has control, and consolidates an investee when it satisfies 3 conditions, as illustrated below.



4.4 The last factor, "Link between power and returns", refers to the ability of an investor to use its power over the investee to affect the amount of its returns. This is commonly known as the "Principal vs. Agent" issue, i.e. whether the investor can use his powers for his own benefit, or whether he is obliged to use his powers for the benefit of other parties. An investor that can exercise power over the investee only as an agent of another party does not control the investee.

4.5 The assessment of control has to be re-performed if facts and circumstances indicate that there are changes to one or more of the three elements of control.

SHIPPING POOLS

4.6 The complexity of these criteria can be demonstrated in the application of FRS 110 to shipping pools. Shipping pools are collections of similar vessels that are owned and contributed to the pool by multiple vessel owners, placed under the care of a centralised management team (the "Manager") that markets the vessels as a single fleet, collects the earnings, and distributes the earnings to the vessel owners who contributed the vessels at a pre-determined rate. This provides various benefits including economies of scale and scope, access to networks and expertise of the Manager, better diversification of risk, and greater market power due to fleet size.

4.7 However, shipping pools also present an issue for the Manager with regards to FRS 110, i.e. whether the Manager should consolidate the shipping pool. In most cases the Manager has significant wide-ranging powers over the pool. In addition, the Manager may also have some exposure to the pool arising from his management fees, as well as any participation that the Manager might have in the pool.

4.8 The crucial question in such situations pertains to whether the Manager exercises his power over the shipping pool

as a principal or agent. FRS 110 sets out criteria to assess whether the Manager (i.e. the decision-maker) is an agent or principal in respect of the shipping pool (i.e. the investee).

Principal vs. agent assessment
FRS 110 considerations in assessing whether a decision-maker is a principal or agent in respect of an investee:

a) the scope of its decision-making authority over the investee;
b) the rights held by other parties;
c) the remuneration to which the decision-maker is entitled in accordance with the remuneration agreement(s);
d) the decision maker's exposure to variability of returns from other interests that it holds in the investee.

[FRS 110.B60]

4.9 Unfortunately FRS 110 does not specify any priority or hierarchy in considering the above factors, which can make the assessment highly judgmental. The assessment must take into account the following:

a) The Manager is an agent if any single party has a substantive right to remove the Manager without cause.
b) The Manager is a principal if the amount of his remuneration is not commensurate with his services, or the remuneration agreement contains terms, conditions and amounts not customarily present in similar arrangements.
c) The Manager's interests over the pool, arising from both his remuneration and his participation or other interests, such as the volume of the tonnage that he has in the pool, should be considered in the light of FRS 110.B72 examples 13 to 14C, which provide examples of the extent of interest that lead to consolidation. The following table summarises the key facts in the FRS 110.B72 examples:

Example	*1*	*2*	*3*	*4*
Type of pool	*Publicly-traded*	*Private*	*Private*	*Private*
Decision-making authority of Manager	*Limited by narrowly-defined parameters in the investment mandate.*	*Extensive authority*	*Extensive authority*	*Extensive authority*
Rights held by other parties	- *Investors do not have substantive rights to limit pool manager's authority but can redeem their interests within specified limits.* - *No board of directors*	*Investors can remove pool manager with simple majority vote but only if pool manager breaches the contract.*		- *The pool's board of directors must appoint the pool manager annually.* - *Directors are all independent of the pool manager and are appointed by other investors.* - *If the pool manager is not re-appointed, other pool managers can perform the same service.*
Magnitude and variability of manager's remuneration in the pool	*1% of net asset value*	*1% of assets under management* *+* *20% of profits above a specified profit level*		
Manager's direct investment in the pool	*10%*	*2%*	*20%*	*20%*
Conclusion	*No control*	*No control*	*Control*	*No control*
Reference	*FRS 110.B72 example 13*	*FRS 110.B72 example 14A*	*FRS 110.B72 example 14B*	*FRS 110.B72* *example 14C*

*FRS 110. B72 examples 13 to 14c deal with fund management in general; the reference to funds have been changed to pools in this publication

4.10 Where the Manager does not control the pool, it is necessary to consider if the Manager has joint control or significant influence over the pool.

4.11 For example, if a Manager is a pool participant in a shipping pool that is jointly-controlled by the pool participants, the Manager may have to account for these pools under the scope of FRS 111 *Joint Arrangements*. Where these pools are not structured through a separate legal entity, which is not uncommon, the pools may be classified as a joint operation. Other pools should be assessed in the light of specific facts and circumstances.

SHIP CHARTERING SPECIAL PURPOSE VEHICLES

4.12 The use of chartering vehicles is widespread in the shipping industry. Typically, the chartering vehicle is a single-vessel company that buys the vessel using money borrowed from a bank, and charters the vessel to one charterer. In such cases, the question arises as to who should consolidate the chartering vehicle under FRS 110.

4.13 The legal shareholders of such vehicles usually do not have significant power over the vehicle, because the activities of the vehicle has been "pre-determined" upfront by the restrictive chartering and borrowing contracts. Under FRS 110 and 112, such entities for which voting rights cannot significantly affect the investee's returns are labelled as "structured entities". In such cases FRS 110 prescribes the following considerations:

Considerations in assessing whether to consolidate a "structured entity":

- Purpose and design of the structured entity (FRS 110.B5-B6)
- The involvement of each party (e.g. bank and charterer) in the decisions made at the inception of the structured entity (FRS 110.B51). Greater involvement suggests that a party had a greater opportunity to obtain rights that may lead to control.
- Powers granted to each party by contractual arrangements established at the inception of the structured entity (e.g. the chartering and borrowing contracts, and any other contracts that may have been drawn up) (FRS 110.B52). These contracts may provide a party with rights that lead to control.
- Powers that may be conferred on each party when contingent situations arise (e.g. bank's power to repossess the vessel upon the charterer's default) (FRS 110.B53). Such contingent powers increase the likelihood that the party controls the investee.
- Any explicit and implicit commitment that each party may have to ensure that the structured entity carries on operating as designed (FRS 110.B54). A party with greater commitment is more likely to have rights that control the structured entity.

4.14 Unfortunately FRS 110 again does not specify any hierarchy and order in the consideration of the above factors. As such, significant judgment will again be required based on individual facts and circumstances. In our view, the judgment will depend significantly on an assessment of which powers and activities are most critical to the design and purpose of the vehicle, taking into consideration overall facts and circumstances. Some of these powers and activities may include:

a) The charterer's power to operate the vessel
b) The charterer's purchase option, if any
c) The bank's powers to manage the credit risk (which may involve repossessing the vessel)
d) The power to dispose of the vessel after the charter period, if the purchase option is not exercised. This power may be held by the bank.

4.15 FRS 110 defines power as the ability to direct activities that most significantly affect returns from the investee, and the above powers should be assessed in the light of this definition.

4.16 It should be noted that this issue has been submitted to the International Financial Reporting Standards Interpretation Committee at the time of writing and is pending further consideration.

ACCOUNTING FOR JOINT ARRANGEMENTS

4.17 From 1 January 2014, accounting for joint arrangements is dealt with under FRS 111 *Joint Arrangements*. FRS 111 replaces its predecessor, FRS 31 *Interest in Joint Ventures*. For an arrangement to be within the scope of FRS 111, the arrangement must contractually require unanimous consent within a specified group of parties with respect to activities that significantly affect the investee's returns.

4.18 The decision as to which activities significantly affect the investee's returns can require significant judgment. It is not unusual in the shipping industry for certain activities to be decided by only one specified party while other activities require unanimous consent. For example if a financier partners with a vessel manager to form a shipping joint venture, they may each be solely responsible for the financing and ship management decisions respectively. Yet other decisions (e.g. selling off the entire undertaking) may be subject to unanimous approval.

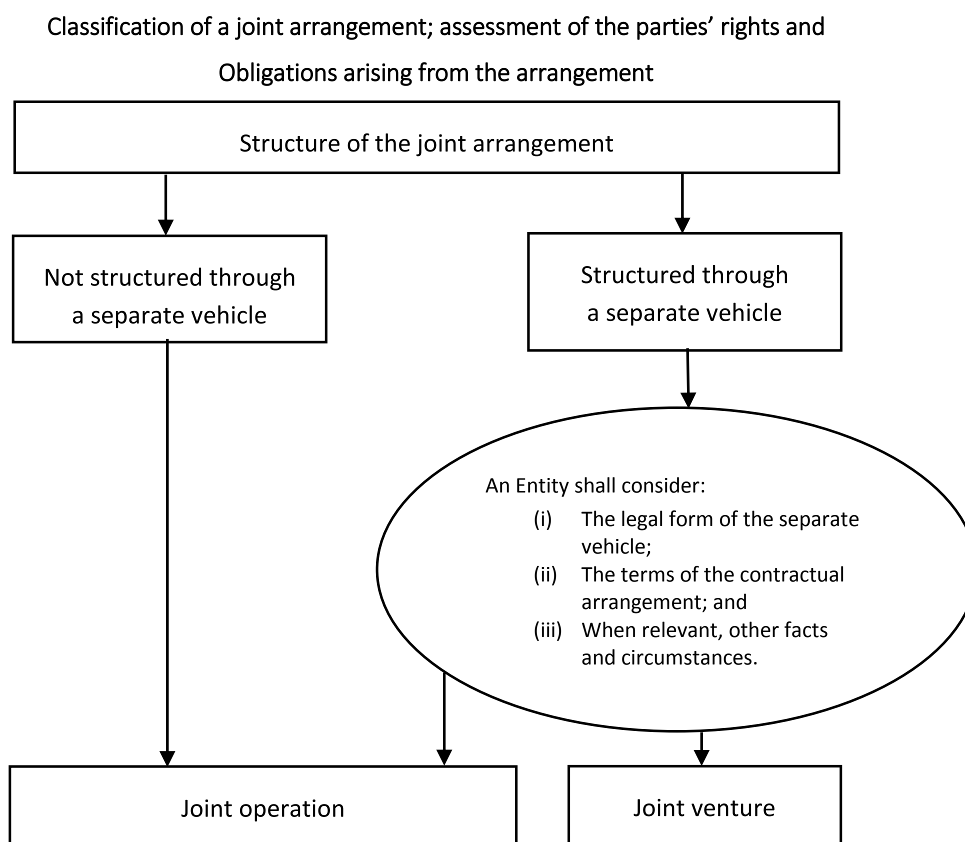
4.19 Depending on the activities that have been identified as being significant to the investee's returns, the conclusion as to whether the investee qualifies as a

subsidiary, joint venture, associate, or an equity investment under FRS 39 can differ. For example, if an investee's annual budget and operating plan requires unanimous approval but the execution of the plan does not, whether the investee qualifies as a joint arrangement will depend on the level of detail of the approved budget and operating plan, and require judgment.

4.20 Investees that fall within the scope of FRS 111 need to be classified into joint operations and joint ventures. Investees are classified as joint operations if the parties with joint control have rights to assets and obligations for the liabilities of the investee. This is the case if:

a) The arrangement is not structured in a separate vehicle; or
b) The separate vehicle is such that the joint arrangement parties retain the rights to its assets and obligations for its liabilities (e.g. unincorporated partnership); or
c) There are contractual arrangements that cause the joint arrangement parties to retain such rights and obligations; or
d) Other facts and circumstances cause the joint arrangement parties to retain such rights and obligations.

The diagram below summarises the classification process.



(Source: FRS 111 *Joint Arrangements*)

4.21 An investor accounts for joint operations by recording his share of assets, liabilities, income and expenses. Joint ventures, however, must be equity accounted. One key effect of FRS 111 is to remove the option to proportionately consolidate joint ventures. This may mean a significant reduction of revenue and assets for companies that currently employ proportionate consolidation for joint ventures.

5. FINANCIAL INSTRUMENTS

The accounting rules for financial instruments are complex and often require fair value accounting for derivatives and equity investments, among others. Besides these well-known candidates for fair value accounting, the financial instruments rules may also require fair value accounting for certain commodity trading purchase and sale contracts, as well as certain clauses in revenue and other contracts.

DERIVATIVES

5.1 Shipping companies carry out their business in a global environment and are exposed to a variety of financial market risks. The most common are commodity price risks (e.g. arising from bunker fuel cost), foreign currency risks, freight rate risks, and interest rate risks. To mitigate these risks, shipping companies can choose to enter into derivative contracts such as currency forwards and futures, commodity futures, interest rate swaps and forward freight agreements (FFAs). Some companies may also enter into these contracts for speculative purposes. The following table presents the underlying market risks and notional amounts associated with these contracts.

Derivative	Underlying	Notional Amount
Currency forwards/ futures	Currency rate	Number of currency units
Commodity forwards/ futures	Commodity price per unit	Number of commodity units
Interest rate swap	Interest rate index	Amount in the respective currency
Forward freight agreements (FFAs)	Freight rate for a specific physical trade route which receives a daily assessment on one of the Baltic Exchange Indices.	Settlement amount based on payment provision in the contract

5.2 Under Singapore Financial Reporting Standards, these contracts are known as derivatives, and are measured at fair value through profit and loss under FRS 39 *Financial Instruments: Recognition and Measurement.* Generally, FRS 39 specifies that all of the following three criteria must be met in order for a contract to be accounted for as a derivative under FRS39.

Definition of a derivative under FRS 39

A contract is a derivative if:

a) The value of the contract changes in response to the change in a financial variable. Financial variables include market-based variables such as interest rates, financial instrument price, commodity price, foreign exchange rate, etc. If certain conditions are met, derivatives may also include contracts that change in value to a non-financial variable (e.g. weather).

b) The contract requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that have a similar response to changes in financial variables.

c) The contract is settled at a future date.

COMMODITY PURCHASE AND SUPPLY CONTRACTS

5.3 Shipping companies may need to enter into commodity purchase and sale contracts. For example, it is common for shipping companies to enter into long-term fixed price bunker fuel purchase contracts to ensure a supply of bunker fuel and to stabilise costs.

5.4 Such commodity purchase and sale contracts can meet the definition of a derivative contract. The value of the commodity purchase/sale contract can fluctuate with commodity price fluctuations. Usually, nil or minimal upfront payment is required when entering into such contracts, and the contracts will be settled/ delivered at a much later date.

5.5 To record all of such contracts at fair value through profit and loss will create significant income statement volatility and increase the complexity of the financial statements for both preparers and users. Fortunately, FRS 39 provides an exemption. Such contracts need <u>not</u> be fair valued through income statement, and can be accounted for as executory contracts (i.e. off-balance sheet), if the "own use" exemption for non-financial contracts under FRS 39 is met.

FRS 39 "own use" exemption for non-financial contracts

A contract to buy or sell non-financial instruments need not be fair valued through the income statement if either of the following apply:

a) The contract cannot be settled net in cash or another financial instrument. A contract is considered to be settled net if
   i. the terms of the contract permit either party to settle it net in cash (i.e. opt not to accept delivery and discharge the obligations under the contract by paying cash to the counterparty);
   ii. although the ability to settle net is not explicit in the terms of the contract, the entity has a practice of settling similar contracts on a net basis;
   iii. for similar contracts, the entity has a practice of taking delivery of the underlying and selling it within a short period after delivery to generate a trading gain or earn a dealer's margin; or
   iv. the non-financial item that is the subject of the contract is readily convertible to cash (e.g. commodities that are traded in an active market).

b) The contract was entered into and continues to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements ("own-use" criterion). For example, a shipping company that contracts to buy bunker fuel solely for consumption by its fleet will meet this criterion.

   FRS 39 specifies that when a company has a practice of net-settling or taking delivery and re-selling shortly after (i.e. a(ii) and a(iii) above), the company will not pass the "own-use" criterion (i.e. b above) and will have to fair value the contracts through profit and loss.

5.6 The practical effect of the above requirement is to require most commodity traders to record commodity purchase/sale contracts at fair value through profit and loss. The situation becomes more complex when commodity purchases/ sales are only partially for trading. An example is a shipping company that enters into bunker fuel supply contracts for its fleet consumption but also trades in bunker fuel for speculative gains. In such cases, it is advisable to clearly segregate the trading contracts from those contracts for own use to avoid having to fair value its entire portfolio of such contracts. Professional advice should be considered in such situations.

5.7 When the commodity purchase and supply contracts is not required to be regarded as a derivative and fair valued through profit and loss in its entirety, there may still be elements of the contracts that meet the definition of embedded derivatives which must be separately fair valued through profit and loss. This is discussed further below.

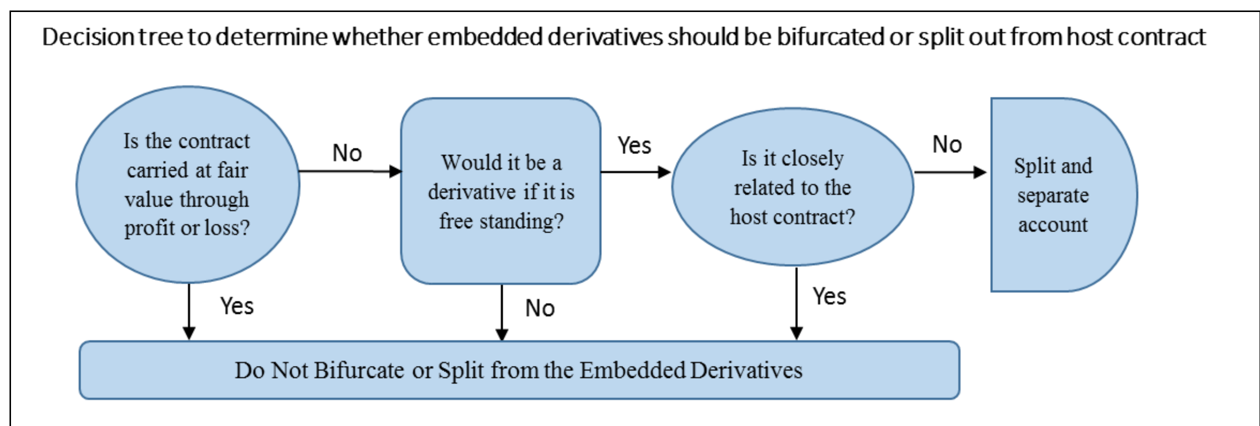
SHIPBUILDING OPTION AGREEMENTS

5.8 Many shipping companies enter into shipbuilding option agreements with shipyards. Technically, these shipbuilding option agreements meet the definition of a derivative as they change in value based on a market variable (i.e. vessel price), are settled at a future date, and involve little initial net investment. However, most shipping companies enter into such contracts to take delivery, and it is unlikely that they will qualify to be net-settled as described under section 5.5 above. This in turn means the options can be accounted for as executory contracts in most cases.

EMBEDDED DERIVATIVES

5.9 Many derivatives are stand-alone contracts. However, in some cases, they may be incorporated into a non-derivative host contract to modify some or all of the cash flows associated with the host contract. For example, a convertible bond provides investors with the right to convert the bond into shares of the issuer. The conversion feature that is incorporated into the debt host contract may be construed as an embedded equity conversion derivative that modifies the cash flows of the debt host instrument.

5.10 Where the embedded derivative involves risks that are not closely-related to the host contract, those embedded derivatives may have to be separated from their host contracts and recognised in the balance sheet at fair value. Closely-related embedded derivatives do not have to be separated from their host contracts. An embedded derivative is not closely related to the host contract if it modifies risks other than those inherent in the contract itself. For example, the conversion feature in a convertible bond investment involves equity risks that are not closely related to the host debt instrument. The decision tree below aids in determining if the embedded derivatives should be bifurcated or split from their host contracts.



5.11 FRS does not provide extensive guidance on how to determine whether the embedded derivative is closely-related, and judgement must be applied. FRS 39 provides several examples of closely-related embedded derivatives often found in financial contracts.

5.12 Management must understand the principles underlying embedded derivatives, the nature of the economic risks inherent in the host contract and the embedded derivative, and subsequently consider the examples in FRS 39.AG30 and AG33 when determining whether a specific embedded derivative is closely related or otherwise.

5.13 One potential source of embedded derivatives in the shipping industry is bunker acquisition contracts. Management needs to examine contracting practices and relevant standardised contractual terms for purchases of bunker to ensure that the contracts are free from non-closely related embedded derivatives. For example, if a bunker purchase contract pegs the purchase price to a formula based on another commodity (e.g. crude

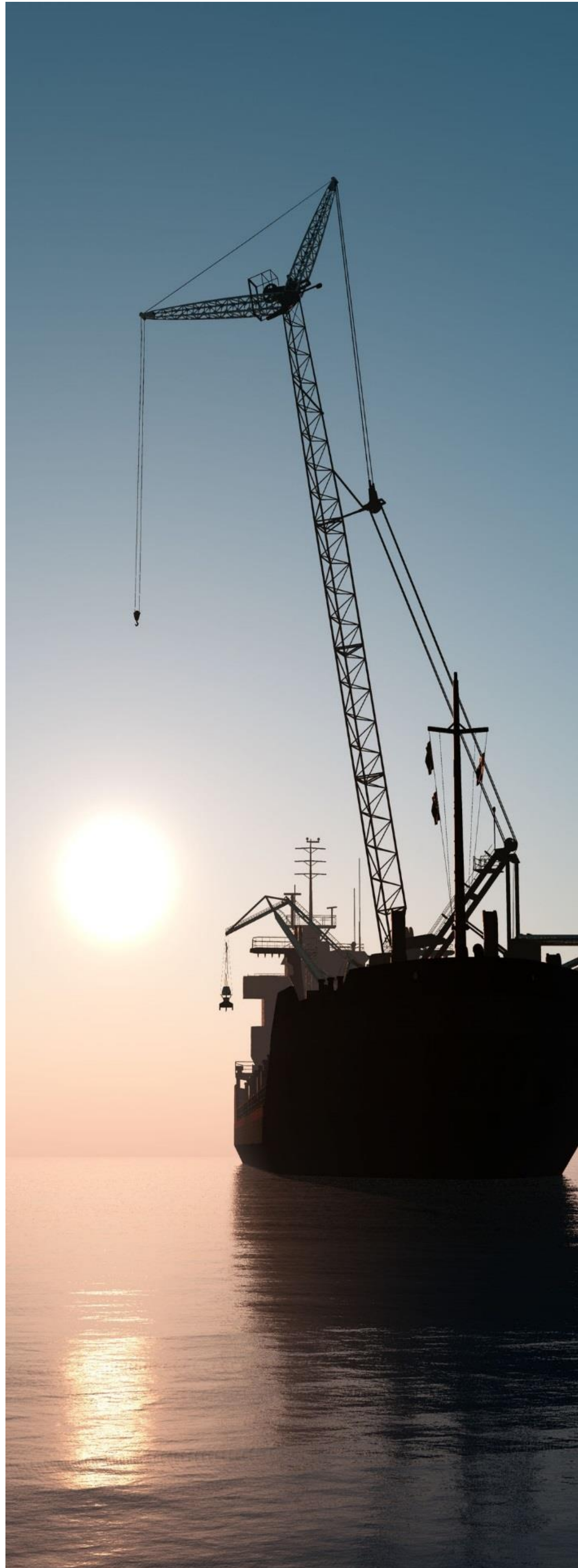
oil), there is a need to assess whether the price of bunker and that other commodity is closely-related.

5.14 As another example, if the same bunker purchase contract is not priced in USD, there is a need to consider whether there is an embedded foreign exchange derivative that needs to be fair valued separately through the income statement. Separate fair value could be required if the bunker purchase contractual currency is neither the functional currency of any contractual party nor a currency that is commonly used in the transaction location.

5.15 More generally speaking, bifurcation of a foreign currency embedded derivative from a non-financial host (e.g. bunker purchase contract and chartering arrangements) is not required if the foreign currency embedded derivative is not leveraged, does not contain an option feature, and requires payments in one of the following currencies:

a) the functional currency of any substantial party to that contract;
b) the currency in which the price of the related good or service that is acquired or delivered is routinely denominated in commercial transactions around the world (such as the US dollar for crude oil transactions); or
c) the currency that is commonly used in contracts to purchase or sell non-financial items in the economic environment in which the transaction takes place.

5.16 Other contracts should also be scrutinised for embedded derivatives. For example, charter contracts frequently have bunker adjustment clauses to adjust charter rates when bunker prices exceed a certain range. These have been discussed in the chapter on Revenue. Some shipping companies may also enter into complicated financing contracts that involve multiple embedded derivatives. Management may consider changing contracting practices to avoid unwelcome income statement volatility.



5.17 FRS precludes reassessment of the embedded derivatives after inception of the contract unless there is a change in the contractual terms that significantly modifies the expected future cash flows that would otherwise be required under the contract. For example, if an entity reclassifies a financial asset out of the held-for-trading category, embedded derivatives must be assessed and, if necessary bifurcated.

HEDGE ACCOUNTING IN SHIPPING

5.18 Shipping entities operate in an international environment and are exposed to a variety of financial risks, the most common risks being foreign currency, interest rate and price risks. Companies may wish to use derivatives to mitigate these risks. For example, the exposure to currency exchange rate movements can be hedged using currency swaps and forward contracts. The exposure to interest rate risks can be managed by fixing interest rates through interest rate swaps.

5.19 However, a successful economic hedging strategy does not necessarily ensure that the effects of such a hedge can be reflected in the accounting. For example, consider a company that commits to buy bunker fuel at variable prices but fixes the price with a separate bunker swap. While this allows the company to successfully mitigate its exposure to bunker prices from a commercial perspective, such an arrangement may actually create more income statement volatility because the purchase commitment may be regarded as an off-balance sheet executory contract while the bunker swap is fair valued through the profit or loss.

5.20 To ensure that the above transaction can be accounted for in a manner that reflects its economic objectives, the Company can opt to perform hedge accounting. In every hedge accounting relationship, there is a "hedged item" (i.e. the contract, risk or exposure being hedged), as well as the "hedging instrument" (i.e. the derivative or other instrument that is acquired to mitigate the required risk). FRS 39 provides a set of strict criteria that must be met before hedge accounting can be used. It does not mandate the use of hedge accounting.

5.21 Hedge accounting in FRS 39 can be applied to three types of hedging relationship:

- Where the hedged item's fair value will change in response to some variable, such as changes in interest rates, foreign exchange rates, or market prices, gains and losses on the hedging instrument and the offsetting losses and gains on the hedged items are both recognised in profit or loss. This is referred to as a fair value hedge.
- Where the hedged item's future cash flows will change in response to some variable, the gain or loss on the hedging instrument is initially recognised in equity through other comprehensive income and subsequently recycled from equity to profit or loss as the hedged item affects profit or loss. This is referred to as a cash flow hedge.
- Where the hedged risk is that the carrying amount of a net investment in a foreign operation will change in response to exchange rate movements, the gain or loss on the hedging instrument is initially recognised in other comprehensive income and subsequently recycled to profit or loss from equity on disposal of that foreign operation. This is referred to as a hedge of a net investment in a foreign operation.

5.22 Where cash flow hedges are applied to transactions involving the recognition of a non-financial asset / liability, FRS gives entities a choice regarding the presentation of amounts that have accumulated in equity. The entity may either adjust the amounts to the initial cost of the asset / liability or release the amounts to profit and loss as and when the underlying transaction affects profit and loss. As an example, a company with USD functional currency that has contracted to buy a vessel at a RMB price may economically mitigate its RMB exposure with a RMB/USD swap. If it applies cash flow hedge accounting to this transaction, and assuming the hedge is

fully effective, fair value gains on the RMB/USD swap are accumulated in hedging reserve throughout the life of the swap, and a policy choice arises when the RMB payment crystallises. At that time, the company can choose to transfer the entire fair value gains in the hedging reserve into the initial cost of the vessel that it recognises. Alternatively, the company can keep the hedging reserve and transfer the amounts to depreciation expense in line with the vessel's depreciation policy.

5.23 One common practical issue in applying FRS 39 is to assess whether a hedging strategy qualifies for hedge accounting. Not all hedging strategies can qualify for hedge accounting under FRS 39. For example, FRS 39 does not permit companies to hedge components of <u>non-financial</u> risks, except for foreign exchange risk. For example, a company may use crude oil derivatives to protect its exposure to bunker fuel prices on a bunker fuel purchase contract. However, there may be elements of bunker fuel prices that do not move in accordance with crude oil prices, and it is not possible for the company to designate only the crude oil component of the bunker fuel price exposure for hedge accounting purposes. For hedge accounting purposes, the company must compare the full fair value of the entire bunker fuel purchase exposure against the full fair value of the crude oil derivatives.

5.24 An exception to the above rule is foreign exchange risk. If the bunker fuel purchase contract is in USD and the company's functional currency is SGD, it is possible to designate only the USD/SGD element as an exposure on which hedge accounting can be separately applied.

5.25 The same is not true for <u>financial</u> risks. Under FRS 39, portions of financial risks can qualify for hedge accounting provided the types of risk are separately identifiable and effectiveness can be reliably measured. For example, a shipping company that invests in a foreign currency, variable rate bond with a contractually-specified inflation component can choose to hedge one or more of either the interest rate exposure, foreign exchange exposure or the inflation exposure.

5.26 Another hedging strategy may be to use a single hedging instrument to hedge more than one financial risk in two or more hedged items. For example, a USD functional currency shipping company may have a SGD receivable and a RMB payable. Instead of obtaining separate USD/SGD and RMB/USD swaps to hedge both risks, the company may choose to obtain a SGD/RMB swap instead to hedge both risks simultaneously. A question arises as to whether such a transaction qualifies for hedge accounting under FRS 39. In such situations, hedge accounting can be performed if the financial risks hedged can be identified clearly, the effectiveness of a hedge can be demonstrated and it is possible to ensure that there is specific designation of the hedging instrument and different risk portions.

5.27 Another common practical issue in hedge accounting is the required ongoing assessment of effectiveness, i.e. whether the hedge is actually working to mitigate the said exposures. FRS does not allow a shortcut method in which an entity may assume no ineffectiveness. FRS requires that hedges should be assessed for effectiveness on an on-going basis and that effectiveness be measured, at a minimum, at the time an entity prepares its annual or interim financial reports. Hence, if an entity is required to prepare only annual financial statements, FRS requires that effectiveness be tested only once a year. An entity may, of course, choose to test effectiveness more frequently.

5.28 There are two aspects to the effectiveness test. The first deals with prospective effectiveness, i.e. whether the hedge is expected to work in the future. The second deals with retrospective effectiveness, i.e. whether the hedge has worked over the past period(s). FRS does not specify a single method for assessing hedge effectiveness prospectively or retrospectively. The method an entity adopts depends on the entity's risk management strategy and is included in the documentation prepared at the

inception of the hedge. The most common methods used are the critical-terms match, the dollar-offset method, and regression analysis.

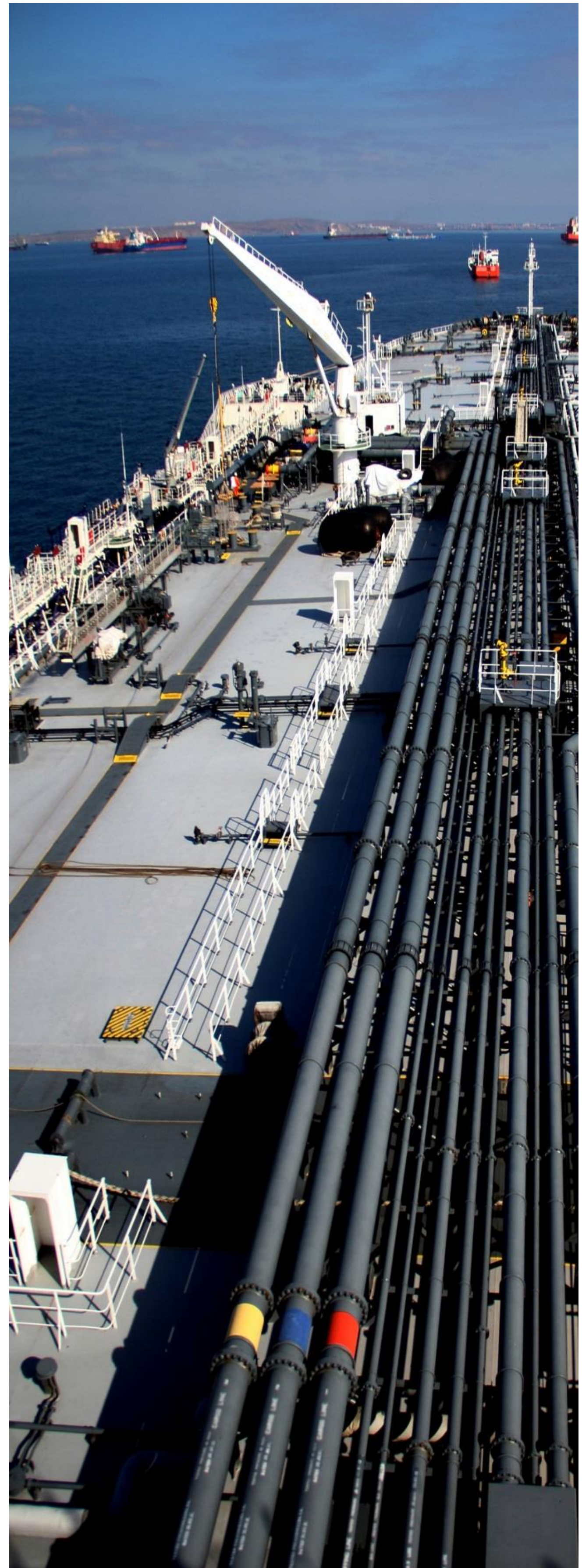
5.29 The critical terms match test can only be used for prospective effectiveness testing. It is the easiest to apply because it only requires a qualitative comparison of the critical terms of the hedging instrument and hedged risk to ensure that they mirror each other. However, it is also the easiest to fail as any slight change in the terms of the hedged risk may cause the test to fail. For example, if highly-probable forecasted bunker fuel purchases are hedged using bunker swaps, an unanticipated change in the bunker fuel delivery date may cause the critical terms test to fail.

FFAS

5.30 One common derivative used in the shipping industry is the “forward freight agreement” (FFA). A FFA is a financial forward contract that allows vessel owners, charterers and speculators to hedge against the volatility of freight rates. It gives the contract owner the right to buy and sell the price of freight for future dates. The purpose is to offer owners and operators a means of protecting themselves against freight rate volatility, but it also allows traders to speculate on freight rate movements.

5.31 FFA is generally traded in the futures market using standardized contracts, settled net on a cash basis, and does not involve any physical deliveries or actual freight services being performed. Accordingly, it cannot be regarded as being for own use (since no freight service is actually carried out under such FFA futures contracts), and will need to be fair valued through income statement if it has not being designated as a hedging instrument in an effective cash flow hedge under FRS 39.

5.32 Although owners and operators may enter into FFA contracts with the intention of achieving an economic hedge against freight rate fluctuations, there are practical difficulties in employing hedge



accounting under FRS 39 to reflect this intention in the financial statements. FFA contracts are only available on certain specific routes and vessels, and practically, most charter contracts are being hedged on an imperfect basis using a FFA contract that approximately matches but is not identical in terms of characteristics such as loading and discharge ports, duration, vessel type and size, etc. Proving hedge effectiveness under FRS 39 will be challenging if the FFA contract and the charter contract are based on freight routes that exhibit significant variations in freight rate fluctuations. In particular, the critical terms match method of testing prospective hedge effectiveness may not be available in many FFA hedges except in the most coincidental transactions that use the same type of vessel and same route as specified in the FFA contract.

DETERMINING FAIR VALUE

5.33 Derivatives and embedded derivatives are fair valued. From 1 January 2013, fair value is determined in accordance with FRS 113.

5.34 FRS 113 defines fair value as "The price that would be received to sell or paid to transfer a liability in an orderly transaction between market participants at the measurement date (FRS 113.9). FRS 113 embodies the exit price concept which regards fair value as the amount needed for an entity to dispose of an asset or liability.

5.35 Under FRS 113, fair value is conceptually determined as the price at which a hypothetical transaction will be conducted in the principal market or in its absence, the most advantageous market. The principal market is the market with the greatest volume and level of activity for that asset/ liability. The most advantageous market is the market that maximises the amount that would be received for selling an asset, or minimises the amount that would be paid to transfer a liability, after taking into account transaction costs and transport costs.

5.36 With respect to financial assets and liabilities, many of the requirements codified in FRS 113 is consistent with pre-FRS 113 valuation practices and are unlikely to result in significant changes to fair value measurement of financial assets and liabilities. However, there are two significant changes that may significant impact the measurement of financial assets and liabilities held by shipping companies.

5.37 Firstly, FRS 113 requires the fair value of all liabilities, including derivative liabilities, to be based on the assumption of transferral of liabilities to another credit-equivalent party rather than extinguishment. This means that companies must incorporate changes in their own credit risk, as well as any non-performance risk, into the fair value of all their financial liabilities, including derivative liabilities.

5.38 Prior to FRS 113, it is not uncommon for entities to determine the fair value of derivative liabilities based on the amount they would have to pay the counterparty (usually a bank) to close out the liability at the reporting date. The mechanism to determine the settlement amount, as agreed upon upfront, usually does not reflect changes in the credit risk of the entity after entering into the derivative transaction. Under FRS 113, this approach is no longer permitted, and changes in the fair value of the entity's credit risk after entering into the derivative transaction should be considered.

5.39 This may impact shipping companies that hold significant derivatives to economically hedge against various risks (e.g. freight, bunker price, interest rate), and are subject to a fluctuating credit risk profile.

5.40 Secondly, for actively-quoted financial assets and liabilities, FRS 113 removes the requirement in FRS 39 to determine fair value based on bid prices for financial assets and ask prices for financial liabilities. Instead FRS 113 requires the most representative price within the bid-ask spread to be used. This is likely to affect shipping companies that hold actively-quoted equity and bond investments.

5.41 Unlike most other non-financial assets and liabilities which are initially measured at cost, FRS 39 requires financial assets and liabilities to be initially measured at fair value. The treatment of any potential differences between transaction price and fair value at inception, sometimes referred

to as a “Day One gain” continues to be dealt with by FRS 39.

5.42 Under FRS 39, Day One gains and losses are recognised only when fair value is evidenced by comparison with other observable current market transactions in the same instrument or is based on a valuation technique by which variables include only data from observable markets, i.e. when all inputs to the fair value measurement model are observable. In all other cases, Day One gains are deferred, and are recognised as gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability (FRS 39.AG76).

ACCOUNTING FOR DEBT MODIFICATIONS

5.43 Vessel owners may have to negotiate with lenders to restructure existing loan obligations for a variety of reasons (e.g. as part of interest rate and liquidity risk management). The accounting for loan restructuring depends on whether the terms of the revised loan are substantially different from those of the original loan.

5.44 The terms are substantially different if the discounted present value of the cash flows under the new terms (net of fees paid and discounted using the effective interest rate that was computed for the original loan), is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

5.45 Where the terms of the revised loan have substantially changed, FRS 39 requires the transaction to be accounted for as a settlement of the original loan and the recognition of a new loan. The new loan is recognized at fair value, and any difference from the book value of the existing loan is recognized in profit or loss. Any costs or fees incurred are also recognized in profit or loss.

5.46 Where the terms of the revised loan have *not* substantially changed, any costs or fees incurred are adjust is against the liability’s carrying amount and are amortized over the remaining term of the amortized loan. Due to the modification, the contractual cash flows of the loan may have changed, resulting in a change in the present value of those cash flows (when discounted using the effective interest rate that was computed for the original loan) as compared to the book value of the original loan. There are two approaches to account for this difference. One approach is to recognize this difference immediately in profit and loss. The second approach is to recognize this difference over the remaining life of the modified loan by adjusting the effective interest rate. Both approaches are supported and judgement is required to determine the most appropriate treatment based on the particular facts and circumstances of the transaction.

6. TAXATION

The International Financial Reporting Interpretations Committee ("IFRIC") has considered that tonnage tax should not be presented as part of income tax expense.

TONNAGE TAX CLASSIFICATION

6.1 Tonnage tax is a tax levied on the registered tonnage of ships multiplied by a fixed amount of deemed profit per ton, as opposed to the normal corporate tax, which is based on the actual accounting profits earned from the exploitation of vessels. It is an alternative method of calculating corporation tax on the profits earned by entities which own vessels and elect to join the tonnage tax regime. To qualify for a tonnage tax regime, a shipping company must have a certain degree of ownership regarding the vessel and the required degree of ownership differs between different tonnage tax regimes highlighted in 6.3 below.

6.2 The main advantage of tonnage tax regimes is the low effective tax rate, in certain instances, less than 1%, when the shipping business is doing well. Only certain shipping activities qualify for a tonnage tax regime.

Most tonnage tax regimes are applicable to the transport of goods and persons by sea in international traffic. Under some tonnage tax regimes towage, dredging and / or vessel management activities may also qualify.

6.3 The following countries have implemented the tonnage tax principle:

- Belgium	- India	- Poland
- Bulgaria	- Ireland	- South Korea
- Cyprus	- Italy	- South Africa
- Denmark	- Japan	- Spain
- Finland	- Malta	- Sweden
- France	- Netherlands	- UK
- Germany	- Netherlands Antilles	- USA
- Greece	- Norway	- China and Hong Kong

6.4 The above tonnage tax regimes differs in calculation methods, qualifying activities, ownerships, lock-up periods, capital gains, flag and management requirements.

6.5 Tonnage tax is an optional scheme. If an entity does not elect to be taxed under the tonnage tax principle, it will be taxed under the normal corporation tax principle.

6.6 It was previously unclear as to how tonnage tax should be presented in the financial statements. Some entities present this tax as part of operating expenses or a separate line item in the same area as income tax expense. However, the IFRIC has concluded that tonnage tax does not meet the definition of income tax expense (FRS 12 *Income Tax*). Based on the results of the above deliberation, most shipping companies have presented tonnage tax separately. It is still possible for an entity to present tonnage tax separately in the statement of comprehensive income, albeit not as income tax.

7. FUNCTIONAL CURRENCY

Functional currency assessment involves significant judgment to ascertain the primary economic environment that a shipping company operates in. An accurate assessment upfront can reduce subsequent practical accounting difficulties, for example in the assessment of embedded derivatives and the classification of financial instruments as debt or equity.

7.1 Shipping entities operate in an international environment and are exposed to a variety of currencies.

7.2 Functional currency is the currency of the primary economic environment in which the entity operates and expends cash. Presentation currency is the currency in which the financial statements are presented, and can take the form of any currency.

7.3 FRS distinguishes between functional currency and presentation currency.

7.4 A shipping entity does not have a free choice of its functional currency under FRS. Primary and secondary indicators should be considered in the determination of the functional currency of an entity. It needs to consider the following factors in determining its functional currency:

7.5 Primary Indicators

- What is the currency that mainly influences the shipping prices?
- What is the currency that mainly influences labour, material and other costs of providing shipping services?
- What is the currency of the country whose competitive forces and regulations mainly determine the shipping prices?

7.6 Secondary Indicators

- What is the currency in which funds from the financing activities are generated?
- What is the currency in which receipts from operating activities are usually retained?

7.7 The consideration above is subjective and none of the factors is conclusive on its own.

7.8 If indicators are mixed and the functional currency is not obvious, management should use its judgement to determine the functional currency that most faithfully represents the economic results of the entity's operations by focusing on the currency of the economy that determines the pricing of transactions (not the currency in which transactions are denominated).

7.9 Most shipping companies have the USD as the functional currency for a number of reasons. Firstly, most if not all global freight rates are influenced by the USD. This is evidenced by the quotation of many freight indices in USD, such as the Baltic Dry Index and the Shanghai Containerised Freight Index. Secondly, a large proportion of cost in the shipping industry arises from bunker fuel, which has a global market in USD. As such, many companies in the shipping industry may have significant exposure to USD in terms of both revenue and expenses, which are the primary indicators of functional currency. However, this is a generalisation, and individual companies will have to perform individual assessments. For example, large wage costs in non-USD currencies will also have to be factored into the analysis.

7.10 Under FRS 21, the functional currency of each business and subsidiary should be assessed separately. There is no concept of a "group functional currency" under FRS 21. While it is likely that the main operating companies that earn shipping revenue will use USD as the functional currency, other companies in the group that deal with specific aspects of the shipping operation may have to assess their functional currencies differently.

7.11 The functional currency assessment should take into account not just the composition of currencies in current and historical transactions, but should also consider future transactions that may occur in the absence of a fundamental change in underlying transactions, events and conditions that may necessitate a change in functional currency. As such, the analysis will be affected by management expectation of future conditions.

7.12 The determination of a functional currency that takes into account appropriate expectations will avoid practical difficulties in subsequent accounting. For example, if a shipping company has a non-USD functional currency but subsequently enters into many USD freight agreements, it may be required to bifurcate, and separately fair value through income statement, USD foreign currency embedded derivatives in all of these agreements unless certain criteria in FRS 39 can be satisfied. Similarly, if a non-USD functional currency shipping company subsequently finances in USD using a convertible bond, its non-USD functional currency will prevent the conversion element from being classified as equity, and it will have to instead regard the conversion feature as a derivative liability at fair value through profit and loss. The same applies for the issue of USD warrants, long-dated rights, and other derivatives by a non-USD functional currency company.

APPENDIX 1 *MODEL FINANCIAL STATEMENTS FOR A SHIPPING COMPANY*

MS SINGAPORE SHIPPING PTE. LTD.

(Incorporated in Singapore)

REPORT OF THE DIRECTORS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

The directors present their report to the shareholder/members together with the audited financial statements of MS Singapore Shipping Pte. Ltd. (the "Company") for the financial year ended 31 December 2014.

1. Directors

The directors of the Company in office at the date of this report are:

Mr. David Goh

Mr. Michael Tan

Mr. Benjamin Low

2. Arrangements to Enable Directors to Acquire Shares or Debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

3. Directors' Interests in Shares or Debentures

The directors holding office at the end of the financial year had no interests in the share capital of the Company and its related corporations as recorded in the register of directors' shareholdings.

4. Directors' Contractual Benefits

Since the end of the previous financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest except as disclosed in the accompanying financial statements.

5. Options Granted

During the financial year, no option to take up unissued shares of the Company has been granted.

6. Options Exercised

No shares have been issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company.

7. Options Outstanding

At the end of the financial year, there are no unissued shares of the Company under option.

8. Independent Auditors

The independent auditors, Moore Stephens LLP, Public Accountants and Chartered Accountants, have expressed their willingness to accept re-appointment.

On behalf of the Board of Directors,

……………………………………………

Mr. David Goh

……………………………………………

Mr. Michael Tan

Singapore

MS SINGAPORE SHIPPING PTE. LTD.

(Incorporated in Singapore)

STATEMENT BY DIRECTORS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

In the opinion of the directors,

(a) the financial statements as set out on pages ● to ● are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2014 and of the results of the business, changes in equity and cash flows of the Company for the financial year then ended; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors,

…………………………………………

Mr. David Goh

…………………………………………

Mr. Michael Tan

Singapore

●

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER/MEMBERS OF

MS SINGAPORE SHIPPING PTE. LTD.

(Incorporated in Singapore)

We have audited the accompanying financial statements of MS Singapore Shipping Pte. Ltd. (the "Company") as set out on pages ● to ●, which comprise the balance sheet/statement of financial position as at 31 December 2014 and the statement of comprehensive income, statement of changes in equity and statement of cash flows/cash flow statement for the financial year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER/MEMBERS OF

MS SINGAPORE SHIPPING PTE. LTD.

(Incorporated in Singapore)

(cont'd)

Opinion

In our opinion, the financial statements are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company as at 31 December 2014 and the results, changes in equity and cash flows of the Company for the financial year ended on that date.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Moore Stephens LLP
Public Accountants and
Chartered Accountants

Singapore

MS SINGAPORE SHIPPING PTE. LTD.

(Incorporated in Singapore)

STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

	Note	2014	2013
		US$	US$
Revenue	4		
Cost of sales			
Gross profit			
Other operating income	5		
General and administrative expenses			
Other operating expenses	6		
Finance costs			
Profit before income tax	7		
Income tax expense	8		
Profit for the year			
Other comprehensive income, net of income tax			
Total comprehensive income for the financial year			

The accompanying notes form an integral part of the financial statements

MS SINGAPORE SHIPPING PTE. LTD.

(Incorporated in Singapore)

BALANCE SHEET

AS AT 31 DECEMBER 2014

	Note	2014	2013
		US$	US$
ASSETS			
Non-current assets			
Plant and equipment	9		
Derivative financial instruments	10		
Current assets			
Inventories	11		
Trade receivables	12		
Other receivables	13		
Derivative financial instruments	10		
Cash and cash equivalents	14		
Assets classified as held for sale	15		
Total assets			
EQUITY AND LIABILITIES			
Capital and Reserves attributable to equity holders of the Company			
Share capital	16		
Retained earnings	17		
Other reserves	17		
Total equity			
Non-current liabilities			
Borrowings	18		
Finance lease liabilities	19		
Deferred tax liabilities	20		
Derivative financial instruments	10		

The accompanying notes form an integral part of the financial statements

(cont'd)

	Note	
Current liabilities		
Trade payables	21	
Other payables	22	
Provisions	23	
Borrowings	18	
Finance lease liabilities	19	
Current tax liabilities		
Derivative financial instruments	10	
Total liabilities		
Total equity and liabilities		

The accompanying notes form an integral part of the financial statements

MS SINGAPORE SHIPPING PTE. LTD.

(Incorporated in Singapore)

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

	Share Capital	Retained Earnings	Other Reserves	Total
	US$	US$	US$	US$
At 1 January 2014				
Profit for the year				
Other comprehensive income				
Total comprehensive income for the financial year				
At 31 December 2014				
At 1 January 2013				
Profit for the year				
Other comprehensive income				
Total comprehensive income for the financial year				
At 31 December 2013				

The accompanying notes form an integral part of the financial statements

MS SINGAPORE SHIPPING PTE. LTD.

(Incorporated in Singapore)

STATEMENT OF CASH FLOWS/CASH FLOW STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

	2014	2013
	US$	US$
Cash flows from operating activities		
Profit before income tax		
Adjustments for:		
Depreciation of plant and equipment		
Gain/loss on disposal of plant and equipment		
Impairment loss on plant and equipment		
Interest expense		
Interest income		
Net foreign exchange gain/loss		
Provision for litigation claims		
Operating cash flows before changes in working capital		
(Increase)/Decrease in trade and other receivables		
(Increase)/Decrease in inventories		
Decrease/(Increase) in trade and other payables		
Cash (used in)/generated from operations		
Income tax paid		
Interest paid		
Interest received		
Net cash (used in)/generated from operating activities		
Cash flows from investing activities		
Proceeds from disposal of plant and equipment		
Purchase of plant and equipment		
Net cash (used in)/generated from investing activities		
Cash flows from financing activities		
Proceeds from borrowings		
Repayment of borrowings		
Net cash (used in)/generated from financing activities		

The accompanying notes form an integral part of the financial statements

(cont'd)

Net increase/(decrease) in cash and cash equivalents

Cash and cash equivalents at the beginning of the financial year

Effects of currency translation on cash and cash equivalents

Cash and cash equivalents at the end of the financial year (Note 16)

The accompanying notes form an integral part of the financial statements

MS SINGAPORE SHIPPING PTE. LTD.

(Incorporated in Singapore)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2014

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1 General Information

MS Singapore Shipping Pte. Ltd. (the "Company") is a private limited company, incorporated and domiciled in Singapore. The address of its registered office and principal place of business is 10 Anson Road, #29-15 International Plaza, Singapore 079903.

The principal activities of the Company are that of ship owning, provision of ship management services and provision of ship brokerage services.

The immediate parent and ultimate controlling party is MS Limited, incorporated in USA and MS Global Limited, incorporated in United Kingdom.

The Board of Directors has authorised these financial statements for issue on the date of the Statement by Directors.

2 Significant Accounting Policies

(a) Basis of Preparation

The financial statements have been prepared in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards ("FRS"). The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with FRS requires management to exercise judgement in the process of applying the Company's accounting policies. It also requires the use of critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and the reported amounts of revenue and expenses during the financial year.

Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

2 Significant Accounting Policies (cont'd)

(a) Basis of Preparation (cont'd)

Adoption of New and Revised Financial Reporting Standards (" FRS")

For the financial year ended 31 December 2014, there are no new and revised FRS mandatory for application and which are relevant to the Company.

or

For the financial year ended 31 December 2014, the Company has adopted the following new and revised FRS that are mandatory for application and which are relevant to the Company:

[Details of new and revised FRS]

New and Revised FRS Issued But Not Yet Effective

At the date of authorisation of these financial statements, the Company has not adopted the following standards that have been issued but not yet effective:

[Details of new and revised FRS that are issued but not yet effective]

(b) Plant and equipment

All items of plant and equipment are initially recognised at cost. Subsequent to recognition, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of plant and equipment initially recognised includes its purchase price and any cost, including borrowing costs that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Subsequent expenditure relating to plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in profit or loss when incurred.

2 Significant Accounting Policies (cont'd)

(b) Plant and equipment (cont'd)

The residual values, estimated useful lives and depreciation method of plant and equipment are reviewed, and adjusted as appropriate, at the end of the reporting period. The effects of any revision are recognised in profit or loss when the changes arise. Ships under construction are not depreciated as these assets are not yet available for use. Depreciation is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives as follows:

Ships:	10 to 25 years
Plant and equipment:	3 to 5 years

Drydocking costs are expenditure incurred for major overhauls of the fleet, which is deferred when incurred and depreciated over a period from the current drydocking date to the next estimated drydocking date, which is generally 5 years. When significant drydocking expenditures recur prior to the expiry of the depreciation period, the remaining carrying value of the previous drydocking is expensed in the month of the subsequent drydocking.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. On disposal of an item of plant and equipment, the difference between the disposal proceeds and its carrying amount is recognised in profit or loss. Fully depreciated assets are retained in the financial statements until they are no longer in use and no further charge for depreciation is made in respect of these assets.

(c) Impairment of Non-Financial Assets

The Company assesses at each reporting date whether there is any objective evidence or indication that an asset may be impaired. If any such indication exists, the Company makes an estimate of the asset's recoverable amount.

Recoverable amount is the higher of fair value less costs of disposal and value in use and is determined on an individual asset basis unless the asset does not generate cash inflows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the cash generating unit to which the asset belongs. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

2 Significant Accounting Policies (cont'd)

(c) Impairment of Non-Financial Assets (cont'd)

If the recoverable amount of the asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss, unless the asset is carried at revalued amount, in which case, such impairment loss is treated as a revaluation decrease.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years.

A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense, a reversal of that impairment is also credited to profit or loss.

(d) Foreign Currencies

Functional and Presentation Currencies

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The financial statements of the Company are presented in United States dollar ("US$"), which is the functional currency of the Company. *[All financial information presented in US$ have been rounded to the nearest thousand, unless otherwise stated.]*

Transactions and Balances

Transactions in currencies other than the Company's functional currency ("foreign currencies") are translated into the functional currency using the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the closing exchange rates at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in foreign currencies are translated using the exchange rates at the dates of the initial transactions and are not re-translated.

2 Significant Accounting Policies (cont'd)

(d) Foreign Currencies (cont'd)

Transactions and Balances (cont'd)

Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are measured.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.

(e) Joint Operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Company recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly.
- its liabilities, including its share of any liabilities incurred jointly.
- its revenue from the sale of its share of the output arising from the joint operation.
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Company accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the accounting policies applicable to the particular assets, liabilities, revenues and expenses.

When the Company enters into transaction involving a sale or contribution of assets with a joint operation in which it is a joint operator, the Company recognises gains and losses resulting from such a transaction only to the extent of the interests held by the other parties to the joint operation.

When the Company enters into a transaction involving purchase of assets with a joint operation in which it is a joint operator, the Company does not recognise its share of the gains and losses until it resells those assets to a third party. When such transactions provide evidence of a reduction in the net realisable value of the assets to be purchased or of an impairment loss of those assets, the Company recognises its share of those losses.

2 Significant Accounting Policies (cont'd)

(f) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivables, taking into account contractually defined terms of payment and excluding taxes or duty.

Revenue on freight operations/voyage charter/freight income recognised as income by reference to the percentage of completion of the voyage at the end of the reporting period. Full provision is made for any losses on voyages in progress at the end of the reporting period. Unearned revenue received is recognised as deferred income.

Charter hire revenue under time charters and bareboat charters are recognised in profit or loss on a straight line and time-apportioned basis.

Pool revenue is recognised upon delivery of service in accordance with the pooling agreement.

Ship management, operation services, agency fees revenue are recognised when the services are rendered.

Interest income is recognised on an accrual basis using the effective interest method.

(g) Employee Benefits

Employee benefits are recognised as an expense, unless the cost qualifies to be capitalised as an asset. Defined contribution plans are post-employment benefits plans under which the Company pays fixed contributions into a separate entity such as the Central Provident Fund on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid.

2 Significant Accounting Policies (cont'd)

(h) Leases

Lessee – Finance Leases

Leases where the Company assumes substantially all risks and rewards incidental to ownership of the leased assets are classified as finance leases. The leased assets and the corresponding lease liabilities (net of finance charges) under finance leases are recognised at the end of the reporting period as plant and equipment and loans and borrowings respectively, at the inception of the leases based on the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is apportioned between the finance expense and the reduction of the outstanding lease liability. The finance expense is recognised in profit or loss on a basis that reflects a constant periodic rate of interest on the finance lease liability.

Lessee – Operating Leases

Leases where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in profit or loss on a straight-line basis over the period of the lease. Contingent rents are recognised as an expense in profit or loss when incurred.

Lessor – Finance Leases

Lesses where the Company has transferred substantially all risks and rewards incidental to ownership of the leased assets to the lessees, are classified as finance leases. The leased asset is derecognised and the present value of the lease receivable (net of initial direct costs) for negotiating and arranging the lease) is recognised at the end of the reporting period and included in "trade and other receivables". The difference between the gross receivable and the present value of the lease receivable is recognised as unearned finance income.

Each lease payment received is applied against the gross investment in the finance lease receivable to reduce both the principal and the unearned finance income. The finance income is recognised in profit or loss on a basis that reflects a constant periodic rate of return on the net investment in the finance lease receivable. Initial direct costs incurred by the Company in negotiating and arranging finance leases are added to finance lease receivables and recognised as an expense in profit or loss over the lease term on the same basis as the lease income.

Lessor – Operating Leases

Leases where the Company retains substantially all risks and rewards incidental to ownership are classified as operating leases. Rental income from operating leases (net of any incentives given to the lessess) is recognised in profit or loss on a straight-line basis over the lease term.

Initial direct costs incurred by the Company in negotiating and arranging operating leases are added to the carrying amount of the leased assets and recognised as an expense in profit or loss over the lease term on the same basis as the lease income. Contingent rents are recognised as income in profit or loss when earned.

2 Significant Accounting Policies (cont'd)

(i) Non-Current Assets Classified as Held for Sale

Non-current assets are classified as assets held-for sale and carried at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use. The assets are not depreciated or amortised while they are classified as held-for-sale. Any impairment loss on initial classification and subsequent measurement is recognised as an expense. Any subsequent increase in fair value less costs to sell (not exceeding the accumulated impairment loss that has been previously recognised) is recognised in profit or loss.

(j) Inventories

Inventories comprising bunkers are carried at the lower of cost and net realisable value. Costs are determined using the first-in, first out method / weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

(k) Financial Assets

<u>Classification</u>

The Company classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the nature of the asset and the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at each financial reporting date.

Financial assets, at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair values through profit or loss at inception. Financial assets are classified as held for trading if they are acquired principally for the purpose of selling in the short term. Financial assets designated as at fair value through profit or loss at inception are those that are managed and their performances are evaluated on a fair value basis, in accordance with a documented Company investment strategy. Assets in this category are presented as current assets if they are either held for trading or are expected to be realised within twelve months after the financial reporting date.

2 Significant Accounting Policies (cont'd)

(k) Financial Assets (cont'd)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those expected to be realised later than twelve months after the financial reporting date which are presented as non-current assets. Loans and receivables are presented as "trade receivables", "other receivables" and "cash and cash equivalents" on the balance sheet/statement of financial position.

Recognition and Derecognition

Regular way purchases and sales of financial assets are recognised on trade-date - the date on which the Company commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the net sales proceeds is recognised in profit or loss.

Initial Measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets, at fair value through profit or loss, which are recognised at fair value. Transaction costs for financial assets, at fair value through profit or loss are recognised immediately as an expense.

Subsequent Measurement

Financial assets, at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair values of financial assets, at fair value through profit or loss including the effects of currency translation, interest and dividends are recognised in profit or loss when the changes arise.

2 Significant Accounting Policies (cont'd)

(k) Financial Assets (cont'd)

Impairment

The Company assesses at the financial reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or significant delay in payments are considered indicators that the receivable is impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in profit or loss.

The impairment allowance is reduced through profit or loss in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost had no impairment been recognised in prior periods.

(l) Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows/cash flow statement, cash and cash equivalents include cash on hand, deposits with financial institutions which are subject to an insignificant risk of changes in value and bank overdrafts. Bank overdrafts are presented as loans and borrowings on the balance sheet/statement of financial position.

2 Significant Accounting Policies (cont'd)

(m) Financial Liabilities

Financial liabilities are recognised when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs. The subsequent measurement of financial liabilities depends on their classification as financial liabilities at fair value through profit or loss or financial liabilities at amortised cost.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term, such as derivatives financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationship. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial liabilities are recognised in profit or loss.

Financial liabilities at amortised costs are subsequently measured at amortised cost using the effective interest method. Gain and losses are recognised in profit or loss when the liabilities are derecognised and through the amortisation process.

Financial liabilities are de-recognised when the obligation under the liabilities are discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(n) Trade and Other Payables

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised costs using the effective interest method.

2 Significant Accounting Policies (cont'd)

(o) Borrowings

Borrowings are initially recognised at fair value (net of transaction costs) and subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings are presented as current liabilities unless the Company has an unconditional right to defer settlement for at least twelve months after the end of the reporting period, in which case there are presented as non-current liabilities.

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period using the effective interest method in which they are incurred.

(p) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably. Provisions are reviewed at the end of the reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed.

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist when the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

(q) Derivative Financial Instruments

Derivatives are initially recognised at fair value on the date the derivative contracts are entered into and are subsequently carried at fair value. The method of recognisng the resulting gain or loss depends on whether the derivative is designed as a hedging instrument, and if so, the nature of the item being hedged. The Company designates each hedge as either: (a) fair value hedge; (b) cash flow hedge; or (c) net investment hedge.

2 Significant Accounting Policies (cont'd)

(q) Derivative Financial Instruments (cont'd)

Fair value changes on derivatives that are not designated or do not qualify for hedge accounting are recognised in profit or loss when the changes arise. Derivatives with a positive fair value is recognised as a financial asset whereas derivatives with a negative fair value is recognised as a financial liability. Derivatives are presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than twelve months and it is not expected to be realised or settled within twelve months.

For financial instruments designated as hedging instruments, the Company documents at the inception of the transaction the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategies for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives designates as hedging instruments are highly effective in offsetting changes in fair value or cash flows of the hedged items.

Fair Value Hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The changes in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in profit or loss.

Cash Flow Hedges

The fair value changes on the effective portion of the derivative instruments designated and qualifying as cash flow hedges are recognised directly in equity to the extent that the hedge is effective. Any ineffective portion is recognised in profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity remains until the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss in equity is recognised in profit or loss.

Interest Rate Swaps

The Company has entered into interest rate swaps for the Company's exposure to interest rate risk arising from borrowings. These contracts entitle the Company to receive interest at floating rates on notional principal amounts and the Company is obliged to pay interest at fixed rates on the same or different notional principal amounts, thus allowing the Company to raise borrowings at floating rates and swap them into fixed rates. The difference between fixed and floating rate interest is recognised in profit or loss on an accrual basis.

2 Significant Accounting Policies (cont'd)

(r) Income Tax

Current income taxes for current and prior years are recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

Deferred income tax liabilities are recognised on temporary differences arising on investments in subsidiaries, associated companies and joint ventures, except where the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax assets and liabilities are determined using tax rates that are expected to apply when the related deferred tax income asset is realised or the deferred income tax liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred income tax assets and liabilities reflect the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amounts of its assets and liabilities.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets against current income tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current income tax assets and liabilities on a net basis. Deferred income tax is charged or credited to profit or loss except when it relates to items charged or credited directly to equity, in which case the deferred income tax is also dealt with in equity.

(s) Share Capital

Proceeds from issuance of ordinary shares are classified as share capital in equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

3 Critical Accounting Estimates, Assumptions and Judgements

Estimates, assumptions and judgements are made in the preparation of the financial statements. They affect the application of the Company's accounting policies, reported amounts of assets and liabilities, income and expenses, and disclosure made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectation of future events that are believed to be reasonable under the circumstances.

(a) Critical Accounting Estimates and Assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment of Plant and equipment

At each financial reporting date, the Company determines whether there is any indication of impairment on the Company's plant and equipment. When considering impairment indicators, the Company considers both internal (e.g. adverse changes in operating and financial performance of the ships) and external sources (e.g. adverse changes in the business environment). These are analysed primarily by reviewing the day rate and broker valuation of the ships. If any such indication exists, the recoverable amount (i.e. higher of the fair value less costs of disposal and value in use) of the asset is estimated to determine the impairment loss. In cases where such independent valuations of the ships are below the carrying amounts, the Company also evaluates the value in use which is supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate.

The cash flow projections have been discounted at approximately ● % per annum. During the financial year, the Company did not provide any impairment loss for its ships (2013: Nil). The carrying amount of the plant and equipment as at 31 December 2014 amounted to US$● (2013: US$●).

If the management's estimated pre-tax discount rate applied to the forecast cash flows increased by 1% and all other variable unchanged, the carrying amounts of the plant and equipment would still be lower than the value in use and no impairment loss will be recognised.

(ii) Estimated Useful life and Residual Value of the Ships

The Company has ships used for generating freight income / charter hire income. The carrying amount of the ships is after depreciation charge that enables the ships to be carried at contractually based recoverable amount under voyage charter, bareboat, time charter and pool agreements. The Company assesses annually the residual values and the useful lives of the ships. This estimate is based on the historical experience of the actual useful lives of ships of a similar nature and function. Management will review the useful lives if expectations differ from the original estimates due to changes in the expected level of usage and/or technological developments. Any differences in such estimates will impact the depreciation charges in the period. The carrying amount of the ships as at 31 December 2014 amounted to US$● (2013: US$●).

3 Critical Accounting Estimates, Assumptions and Judgements (cont'd)

(a) Critical Accounting Estimates and Assumptions (cont'd)

(ii) Estimated Useful life and Residual Value of the Ships (cont'd)

There is no change in the estimated useful lives of the ships during the current financial year. If the expected useful life is to increase/decrease by 10% from management's estimates, the Company's profit before tax will increase/decrease by about US$● (2013: US$●).

During the current financial year ended 31 December 2014, the Group revised the estimated scrap value of its fleet from US$415/l.w.t to US$435/l.w.t (2013: US$450/l.w.t to US$415/l.w.t). The financial impact of this change in estimate on the results for the previous financial year was to decrease the depreciation charge by approximately US$● (2012: US$●).

(b) Critical Judgements made In Applying Accounting Policies

In the process of applying the Company's accounting policies, the Company makes the following judgments, apart from those involving estimations, that have a significant effect on the amounts recognised in the financial statements are discussed below.

(i) Impairment of Plant and equipment

At each financial reporting date, the Company determines whether there is any indication of impairment on the Company's plant and equipment. When considering impairment indicators, the Company considers both internal (e.g. adverse changes in operating and financial performance of the ships) and external sources (e.g. adverse changes in the business environment). These are analysed primarily by reviewing the day rate and broker valuation of the ships. If any such indication exists, the recoverable amount (i.e. higher of the fair value less costs of disposal and value in use) of the asset is estimated to determine the impairment loss. In making this judgement, the Company obtains independent valuations of its ships on a charter free basis between a willing buyer and a willing seller.

Management has exercised their judgment and is satisfied that the fair value is reflective of current market conditions.

During the financial year, the Company did not provide any impairment loss for its ships (2013: Nil). The carrying amount of the plant and equipment as at 31 December 2014 amounted to US$● (2013: US$●).

3 Critical Accounting Estimates, Assumptions and Judgements (cont'd)

(b) Critical Judgements made In Applying Accounting Policies (cont'd)

(ii) Contingencies

The Group is involved from time to time in the course of its business in disputes resulting from its operating activities, which may or may not result in legal action being taken by or against the Group.

Based on consultations with its legal counsel, management considers the likely outcome of the disputes in which it is currently involved, and has concluded it will not have a material impact on the Group's financial statements.

(iii) Impairment of Trade and Other Receivables

Management reviews its trade receivables and other receivables for objective evidence of impairment at least annually. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or significant delay in payments are considered objective evidence that a receivable is impaired. In determining this, management makes judgement as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant changes with adverse effect in the technological, market, economic or legal environment in which the debtor operates.

Where there is objective evidence of impairment, management makes judgements as to whether an impairment loss should be recorded in profit or loss. In determining this, management uses estimates based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between the estimated loss and actual loss experience.

During the financial year ended 31 December 2014 and 2013, the Company did not write-off trade receivables and other receivables. The carrying amount of trade receivables and other receivables as at 31 December 2014 amounted to US$● (2013: US$●) and US$● (2013: US$●) respectively.

4 Revenue

	2014	2013
	US$	US$
Bareboat charters / Time charters		
Freight income / Voyage charters		
Ship management income / Operation services income / Agency fees income		

5 Other Operating Income

	2014	2013
	US$	US$
Fair value gain on derivatives		
Foreign exchange gain		
Gain on disposal of plant and equipment		
Interest income		
Other income		

6 Other Operating Expenses

	2014	2013
	US$	US$
Impairment loss on plant and equipment		
Loss on disposal of plant and equipment		

7 Profit before Income Tax

This was arrived at after charging / (crediting):

	2014 US$	2013 US$
Amortisation of dry-docking costs *		
Depreciation of plant and equipment *		
Foreign exchange loss		
Office rental expenses		
Staff costs:		
- Salaries and other staff benefits		
- Employer's contribution to Central Provident Fund		

* Included in Cost of Sales / General and Administrative Expenses

8 Income Tax Expense

	2014	2013
	US$	US$
Current income tax expense		

The income tax expense on the results for the financial year varies from the amount of income tax determined by applying the Singapore statutory rate of income tax on the Company's profit as a result of the following:

	2014	2013
	US$	US$
Profit before income tax		
Tax at statutory rate of 17%		
Non-deductible expenses		
Tax benefit under special tax scheme		

The Company has been awarded Maritime Sector Incentive – Shipping-Related Support Service status for a period of 5 years from 1 April 2013 to 31 March 2018. Under the scheme, incremental income derived from qualifying ship broking and trading activities shall be eligible for the concessionary tax rate of 10%.

The Company derived qualifying shipping income from its Singapore registered ships which are not taxable under Section 13A of the Singapore Income Tax Act.

The Company has unutilised capital allowances of approximately US$● as at 31 December 2014 (2013: US$●) available for offset against future taxable profits. The deferred tax assets arising from these capital allowances amounting to US$● (2013: US$●) are not recognised in accordance with the accounting policy disclosed in Note 2(q).

MS SINGAPORE SHIPPING PTE. LTD.

(Incorporated in Singapore)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2014

9 Plant and equipment

	Ships	Dry-docking Costs	Plant and Equipment	Ships under Construction	Total
	US$	US$	US$	US$	US$
2014					
Cost					
At 1 January 2014					
Additions					
Disposals/write off					
Impairment					
Transferred to assets classified as held for sale					
At 31 December 2014					
Accumulated Depreciation / Amortisation					
At 1 January 2014					
Charge for the year					
Disposals/write off					
Impairment					
Transferred to assets classified as held for sale					
At 31 December 2014					
Net book value					
At 31 December 2014					
2013					
Cost					
At 1 January 2013					
Additions					
Disposals/write off					
Impairment					
Transferred to assets classified as held for sale					
At 31 December 2013					

(cont'd)

Accumulated Depreciation / Amortisation	
At 1 January 2013	
Charge for the year	
Disposals/write off	
Impairment	
Transferred to assets classified as held for sale	
At 31 December 2013	
Net book value	
At 31 December 2013	

MS SINGAPORE SHIPPING PTE. LTD.

(Incorporated in Singapore)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2014

10 Derivative Financial Instruments

	Contract Notional Amount	Assets	Liabilities
	US$	US$	US$
2014			
Interest rate swaps			
Less: Current portion			
Non-current portion			
2013			
Interest rate swaps			
Less: Current portion			
Non-current portion			

The interest rate swap receives floating interest equal to 1 month SIBOR/LIBOR, pays an average fixed rate of interest of approximately ● % (2013: ● %) per annum and matures between June 2015 and March 2019 (2013: August 2014 and March 2019).

11 Inventories

	2014	2013
	US$	US$
Bunkers		

12 Trade Receivables

	2014	2013
	US$	US$
Trade receivables:		
- Third parties		
- Related companies		

13 Other Receivables

	2014	2013
	US$	US$
Other receivables:		
- Deposits		
- Immediate holding company		
- Related companies		

The non-trade amounts due from immediate holding company and related companies are unsecured, interest-free and repayable on demand in cash.

14 Cash and Cash Equivalents

	2014	2013
	US$	US$
Cash on hand		
Cash in bank		

The weighted average effective interest rate for the bank deposits as at 31 December 2014 is ● % (2013: ● %) per annum.

15 Interests in Joint Operations

The Company has entered into various non-incorporated joint operation agreements with its business partners. These agreements provide for cost and/or revenue sharing at an agreed percentage.

Summarised financial information in respect of the Company's interest in non-incorporated joint operations is set out below:

	2014	2013
	US$	US$
Assets and Liabilities		
Current assets		
Non-current assets		
Total assets		
Current liabilities		
Non-current liabilities		
Total liabilities		

(cont'd)

Income and expenses	
Revenue	
Cost of sales	
Gross profit	
Operating expenses	
Profit for the year	
Amount due from joint operations (Note 11)	
Amount due to joint operations	

There are no commitments or contingent liabilities outstanding in these joint operations as at 31 December 2014 and 2013.

16 Assets Classified as Held for Sale

	2014	2013
	US$	US$
Ship and dry-docking costs		
Representing:		
Ship and dry-docking costs		
At 1 January		
Transfer from plant and equipment		
Disposal		
Impairment loss on re-measurement to fair value		
Less costs of disposal		
At 31 December		
Total deadweight tonnage (dwt)		

17 Share Capital

	2014		2013	
	No. of shares	US$	No. of shares	US$
Issued and Fully Paid Shares				
At 1 January and 31 December				

There is no par value for this ordinary share.

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions.

18 Reserves

	2014	2013
	US$	US$
Retained earnings		
Other reserves		

Movements in reserves for the Company are set out in the statement of changes in equity.

19 Borrowings

	2014	2013
	US$	US$
Secured bank borrowings		
Due within 1 year		
Due more than 1 year		

As at 31 December 2014, the secured bank loans shown above are net of amortised costs of US$ ● (2012: US$ ●).

The Company entered into a loan agreement dated ● as amended and supplemented by a letter of amendment and consent dated ● (the "loan agreement") in order to finance the acquisition of certain ships.

The total amount drawn down from the facility as of 31 December 2014 amounted to US$ ● (2013: US$ ●) of which US$ ● (2012: US$ ●) was repaid during the year. The syndicated loan is repayable in ● consecutive quarterly payments of US$ ● with a final balloon payment after the eight year period and carries interest at LIBOR plus 2.25%. The Company has entered into an interest rate swap arrangement to hedge its exposure to variations in the interest rate (Note 10).

The bank loan is secured by mortgages over the ships of the Company, assignment of earnings and insurances, assignment of ship employment contracts, assignment of ship management agreement, pledge over the operating account, pledge over the deposit accounts and pledge over shares of the Company.

20 Finance Lease Liabilities

The Company entered into a sale and leaseback transaction with a third party ("owner") in respect of a ship in the Company's fleet. The lease was originally for ● years terminating on ● and the Company had an option to repurchase the ship on the termination date for US$ ●.

The Company's obligation under the finance lease agreement is as follows:

	Minimum value of payments 2014 US$	Present value of payments 2014 US$	Minimum value of payments 2013 US$	Present value of payments 2013 US$
Within 1 year				
Between 1 and 5 years				
After 5 years				
Total minimum lease payments				
Less: Future finance charges				
Present value of minimum lease payments				
Less: Amounts due within 1 year				
Amounts due after 1 year				

As at 31 December 2014, the effective interest rate on the Company finance lease obligations is ● % per annum (2013: ●% per annum)

21 Deferred Tax Liabilities

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The deferred tax provision mainly relates to ●. The amounts, determined after appropriate offsetting, are shown on the balance sheet/statement of financial position as follows:

	2014	2013
	US$	US$
Due within 1 year		
At 1 January		
Addition during the year		
At 31 December		

MS SINGAPORE SHIPPING PTE. LTD.

(Incorporated in Singapore)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2014

22 Trade Payables

	2014	2013
	US$	US$
Trade payables:		
- Third parties		
- Related companies		

23 Other Payables

	2014	2013
	US$	US$
Other payables:		
- Accrued expenses		
- Immediate holding company		
- Related companies		

The non-trade amounts due to immediate holding company and related companies are unsecured, interest-free and repayable on demand in cash.

24 Provisions

	2014	2013
	US$	US$
Provision for onerous contract		
Analysis of movement of provision for onerous contract		
At 1 January		
Provision made for the year		
Payment during the year		
At 31 December		

On ●, the Company entered into an agreement with the lessee to revise the daily charter hire rates for the charter hire period from ●. The provision for onerous contract of US$● is estimated based on the cost of meeting the obligations under the contract amounting to US$● less compensation amount received from lessee of US$●.

25 Commitments

(a) Operating lease commitments - where the Company is a lessor

The Company leases out ships to third parties under non-cancellable operating lease agreements. The future minimum lease receivable under non-cancellable operating leases contracted for at the financial reporting date but not recognised as receivables, are as follows:

	2014	2013
	US$	US$
Within 1 year		
Between 1 and 5 years		
After 5 years		

(b) Operating lease commitments - where the Company is a lessee

The Company leases ships from third parties under non-cancellable operating lease agreements. The future minimum lease payable under non-cancellable operating leases contracted for at the financial reporting date but not recognised as liabilities, are as follows:

	2014	2013
	US$	US$
Within 1 year		
Between 1 and 5 years		
After 5 years		

26 Related Party Transactions

A related party is a person or entity that is related to the entity that is preparing its financial statements ("reporting entity").

Parties are considered to be related if (a) a person or a close member of that person's family is related to a reporting entity, if that person (i) has control or joint control over the reporting entity; (ii) has significant influence over the reporting entity; or (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity. (b) An entity is related to a reporting entity if (i) the entity and the reporting entity are members of the same group; (ii) one entity is an associate or joint venture of the other entity; (iii) both entities are joint ventures of the same third party; (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity; (iv) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity; (v) the entity is controlled or jointly controlled by a person identified in (a); (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity.

26 Related Party Transactions (cont'd)

In addition to the information disclosed elsewhere in the financial statements, the following transactions took place between the Company and related parties at terms determined and agreed between the parties.

	2014	2013
	US$	US$
With the immediate holding company		
Income:		
Expenses:		
With related companies under common control		
Income:		
Expenses:		

Remuneration of Key Management Personnel

The remuneration of the directors of the Company, who are the key management personnel of the Company, are as follows:

	2014	2013
	US$	US$
Salaries and related costs		
Contribution to defined contribution plans		

or

[There was no key management remuneration incurred during the financial years ended 31 December 2014 and 2013.]

27 Financial Instruments

(a) Financial Risk Management Objectives and Policies

The Company's financial risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of the financial performance. Under the Company's risk management programme, management identifies and documents key risks and sets out policies and procedures required to mitigate these risks. The identified key risks are:

(i) Credit risk

Credit risk refers to the risk that the customer or counterparty failed to discharge an obligation and resulted in a financial loss to the Company.

As the Company does not hold any collateral, the maximum exposure to credit risk is the carrying amount of the related financial assets presented on the balance sheet/statement of financial position.

The Company's credit risk is primarily attributable to its trade receivables, other receivables and cash and cash equivalents.

Trade receivables and other receivables balances are monitored on an ongoing basis and whether the trade receivables and other receivables are recoverable are estimated by the management based on prior experience and the current economic environment.

Financial assets that are neither past due nor impaired

The receivables are neither past due nor impaired and are placed with reputable financial institutions with high credit-ratings assigned by international credit-rating agencies.

Financial assets that are past due and/or impaired

There is no other class of financial assets including other receivables that are past due and/or impaired.

(ii) Currency risk

There are no significant exchange rate risks as substantially all financial assets and financial liabilities are denominated in United States Dollar (US$). The sensitivity analysis to currency risk exposure is not disclosed as management's view is that it is not significant.

27 Financial Instruments (cont'd)

(iii) Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's term loan with floating interest rates. To manage this, the Company entered into interest rate swaps, in which the Company agrees to exchange, at specific intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed notional principal amount. These swaps are designated to hedge the underlying debt obligations. The sensitivity analysis to interest rate risk exposure is not disclosed as management's view is that it is not significant given that the term loan and swap agreements described above have the same critical terms.

(iv) Liquidity risk

The Company manages its liquidity risk by ensuring it has sufficient liquid cash balances to meet its payment obligations as they fall due. The Company maintains a good working relationship with lending banks.

The Company closely monitors its exposure to liquidity risk by reviewing its cash position as well as its cash flow forecasts. It appoints dedicated personnel to ensure its loans are serviced on a timely and accurate basis.

The table below analyses the maturity profile of the Company's financial liabilities based on the remaining year from the balance sheet date to the contractual maturity rate. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
	US$	US$	US$	US$
2014				
Term loan				
Derivative financial instruments (Note a)				
- Interest rate swap contract				
Trade payables				
Other payables				
2013				
Term loan				
Derivative financial instruments (Note a)				
- Interest rate swap contract				
Trade payables				
Other payables				

Note

(a) Net settled derivative financial instruments represent derivative financial liabilities whose terms result in settlement by a netting mechanism, such as settling the difference between the contract price and the market price of the financial assets.

27 Financial Instruments (cont'd)

(b) Capital Management

The Company actively and regularly reviews and manages its capital structure to ensure an optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Company and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditure and projected strategic investment opportunities. The Company's capital management remains unchanged from 31 December 2013.

As part of the capital risk management process, the Company monitors the ratio of ● as shown below:

	2014	2013
	US$	US$

The Company is not subject to any externally imposed capital requirements for the financial year ended 31 December 2014 and 31 December 2013.

28 Fair Value of Assets and Liabilities

(a) Fair value hierarchy

The Company categories fair value measurements using a fair value hierarchy that is dependent on the valuation inputs used as follows:

- Level 1 – Quoted prices (unadjusted) in active market for identical assets or liabilities that the Group can access at the measurement date,
- Level 2 – Inputs other that quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and
- Level 3 – Unobservable inputs for the asset or liability.

Fair value measurements that use inputs of different hierarchy levels are categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

MS SINGAPORE SHIPPING PTE. LTD.
(Incorporated in Singapore)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2014

28 Fair Value of Assets and Liabilities (cont'd)

(b) Assets and Liabilities measured at fair value on a recurring basis

The following table shows an analysis of each class of liabilities measured at fair value at the end of the reporting period.

	Fair value measurements at the end of the reporting period using			
	Quoted prices in active markets for identical assets	Significant observable inputs other than quoted prices	Significant unobservable inputs	
	(Level 1)	(Level 2)	(Level 3)	Total
	US$	US$	US$	US$
Recurring fair value measurements				
2014				
Financial Liabilities:				
Derivatives for hedging				
2013				
Financial Liabilities:				
Derivatives for hedging				
Non-Recurring fair value measurements				
2014				
Non-Financial Assets:				
Assets classified as held for sale				
2013				
Non-Financial Assets:				
Assets classified as held for sale				

28 Fair Value of Assets and Liabilities (cont'd)

(c) Level 2 fair value measurements

The following is a description of the valuation techniques and inputs used in the fair value measurement for liabilities that are categorised within Level 2 of the fair value hierarchy:

Derivatives

Interest rate swaps contracts are valued using a valuation technique with market observable inputs. The applied valuation techniques include using future cash flows estimated based on forward interest rates and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties.

Assets Classified as Held for Sale

Vessels are carried at fair value at the financial reporting date based on the independent professional valuations. In determining the fair value, the valuer has performed on a 'willing seller and willing buyer' basis based on the market condition at the reporting date.

28 Fair Value of Assets and Liabilities (cont'd)

(d) Liabilities not carried at fair value on a recurring basis but for which fair value is disclosed

The following table shows an analysis of the Company's liabilities not measured at fair value at 31 December 2014 but for which fair value is disclosed:

	Fair value measurements at the end of the reporting period using				
	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs other than quoted prices (Level 2)	Significant unobservable inputs (Level 3)	Fair value Total	Carrying amount
	US$	US$	US$	US$	US$
2014					
Financial Liabilities:					
Loans					
Finance lease liabilities					
2013					
Financial Liabilities:					
Loans					
Finance lease liabilities					

Determination of fair value

The fair values as disclosed in the table above are estimated by discounting expected future cash flows at market incremental lending rate for similar types of lending, borrowing or leasing arrangements at the financial reporting date.

28 Fair Value of Assets and Liabilities (cont'd)

(e) Other financial assets and liabilities

Other financial instruments include cash and cash equivalents, deposits, trade receivables, other receivables, trade payables and other payables. The fair values of these financial instruments approximate their carrying amounts.

29 Subsequent Events

Moore Stephens LLP Singapore

Moore Stephens LLP Singapore is a member firm of Moore Stephens International Limited, which is regarded as one of the world's leading accounting and consulting association with 626 offices in 103 countries and more than 26,000 partners and professionals with billing in excess of US$2.6 billion per annum.

We provide our services to a diverse range of clients, from large corporations, listed companies to private businesses, entrepreneurs and individuals across a broad array of industry sectors.

At Moore Stephens LLP Singapore, our goal is to look beyond numbers and compliance issues, to provide our clients with practical advice to resolve problems and help them achieve their business goals.

Moore Stephens Globally

Moore Stephens International Limited is a global accountancy and consulting association with its headquarters in London.

With our global network spanning 106 countries, you can be confident that we have access to the resources and capabilities to meet your needs. Moore Stephens International independent member firms share common values: integrity, personal service, quality, knowledge and a global view.

By combining local expertise and experience with the breadth of our worldwide networks, clients can be confident that, whatever their requirement, Moore Stephens will provide the right solution to their local, national and international needs.

Contact Information

If you would like further information on any item within this publication, or information on our services please contact:

Mick Aw - Senior Partner and Head,
Corporate Finance and Corporate Restructuring
T +65 6329 2701
mickaw@moorestephens.com.sg

Chris Johnson - Partner and Head,
Shipping Group and Risk Management
T +65 6329 2703
chrisjohnson@moorestephens.com.sg

Neo Keng Jin - Partner and Head,
Audit and Assurance and Initial Public Offerings
T +65 6329 2707
neo-kj@moorestephens.com.sg

Willy Ng - Partner and Head,
China Services
T +65 6329 2708
willyng@moorestephens.com.sg

Lao Mei Leng - Partner and Head,
Practice Development
T +65 6329 2706
laomeileng@moorestephens.com.sg

Poh Lay Choo - Partner,
Training, Compliance and Methodology
T +65 6329 2709
pohlaychoo@moorestephens.com.sg

Wong Koon Min - Director,
Technical, Compliance and Methodology
T +65 6329 2723
wongkoonmin@moorestephens.com.sg

Stacey Kwok - Director,
Audit and Assurance
T +65 6329 2725
staceykwok@moorestephens.com.sg

Chan Rouh Ting - Director,
Audit and Assurance
T +65 6329 2700
chanrt@moorestephens.com.sg

Koo Kah Yee - Director,
Audit and Assurance
T +65 6329 2771
kookahyee@moorestephens.com.sg

MOORE STEPHENS LLP
CHARTERED ACCOUNTANTS OF SINGAPORE

10 Anson Road #29-15, International Plaza, Singapore 079903
T +65 6221 3771
F +65 6221 3815
E email@moorestephens.com.sg
www.moorestephens.com.sg

We believe the information contained herein to be correct at going to press, but we cannot accept any responsibility for any loss occasioned to any person as a result of action or refraining from action as a result of any item herein. This brochure is not a substitute for professional advice. Printed and published by © Moore Stephens LLP, a member firm of Moore Stephens International Limited, a worldwide association of independent firms. MSIL and its member firms are legally distinct and separate entities. Moore Stephens LLP (Unique Entity No : T08LL0862H) is an accounting limited liability partnership registered in Singapore under the Limited Liability Partnerships Act (Chapter 163A).

Copyright 2015 Moore Stephens LLP. All rights reserved.