



Yangzijiang Shipbuilding (Holdings) Ltd.
揚子江船業(控股)有限公司

RESILIENCE AND **STRENGTH**

ANNUAL
REPORT
2017





TABLE OF CONTENTS

01	CORPORATE PROFILE	60	BALANCE SHEETS
02	FINANCIAL HIGHLIGHTS	62	CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
06	CHAIRMAN'S STATEMENT	63	CONSOLIDATED STATEMENT OF CASH FLOWS
10	CORPORATE MILESTONES	65	NOTES TO THE FINANCIAL STATEMENTS
14	BOARD OF DIRECTORS	147	STATISTICS OF SHAREHOLDINGS
16	SENIOR MANAGEMENT	149	NOTICE OF TWELFTH ANNUAL GENERAL MEETING
20	OPERATIONS AND FINANCIAL REVIEW	155	APPENDIX
24	SUSTAINABILITY REPORT		PROXY FORM
29	CORPORATE GOVERNANCE REPORT		
49	DIRECTORS' STATEMENT		
52	INDEPENDENT AUDITOR'S REPORT		
58	CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME		



CORPORATE PROFILE

WE ARE A STRONG SHIPBUILDER WITH
INCREASED MARKET SHARE GLOBALLY AS
THE INDUSTRY CONSOLIDATED IN RECENT YEARS.
WE ASPIRE TO BE ONE OF
THE **BEST SHIPBUILDING COMPANIES**
IN THE WORLD.

We produces a broad range of commercial vessels such as containerships, bulk carriers and LNG vessels, our shipbuilding bases are strategically located along the Yangtze River:

Jiangsu New Yangzi Shipbuilding Co., Ltd (“New Yangzi”)

Jiangsu Yangzi Xinfu Shipbuilding Co., Ltd (“Xinfu”)

Jiangsu Yangzijiang Shipbuilding Co., Ltd (“Jiangsu Yangzijiang”)

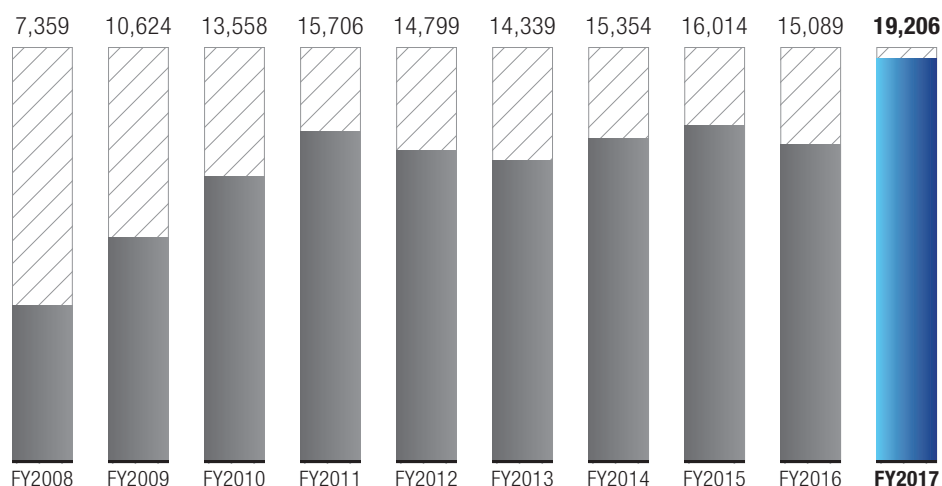
Jiangsu Yangzijiang Offshore Engineering Co., Ltd (“JYOEK”)

FINANCIAL HIGHLIGHTS

REVENUE (RMB'MILLION)

161.0%

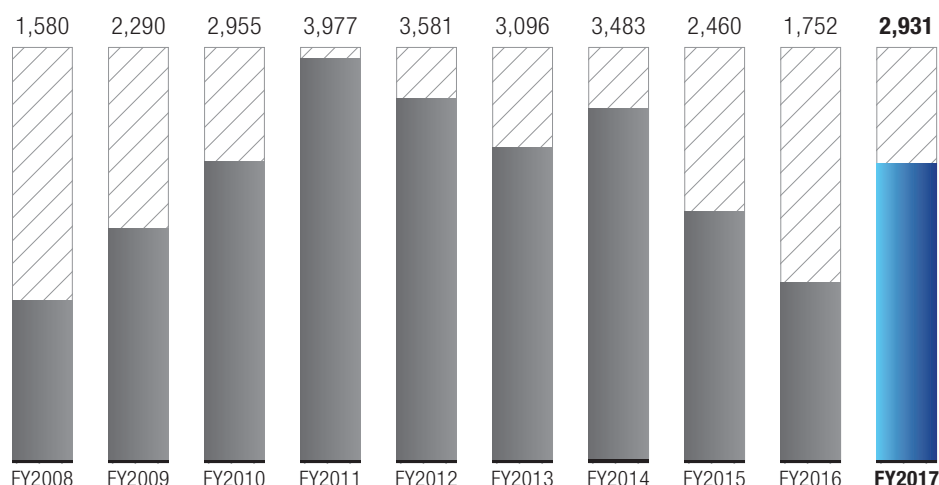
increase from
FY2008-FY2017



PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY (RMB'MILLION)

85.5%

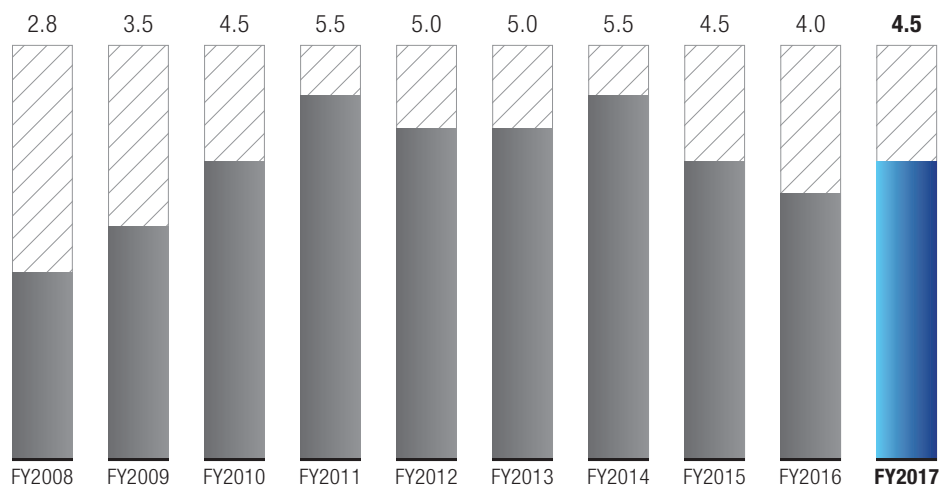
increase from
FY2008-FY2017



DIVIDEND (SINGAPORE CENTS)

60.7%

increase from
FY2008-FY2017



	2017 31 December RMB'000	2016 31 December RMB'000	2015 31 December RMB'000	2014 31 December RMB'000	2013 31 December RMB'000
Results					
Revenue	19,205,596	15,089,438	16,014,348	15,353,551	14,338,637
Gross Profit	3,311,963	3,636,622	3,719,271	4,143,882	4,761,895
Other Income	670,253	903,681	271,008	631,131	281,764
Other Gains	188,146	338,603	623,121	(150,182)	169,978
Net Profit Attributable to Shareholders	2,931,498	1,752,432	2,459,600	3,482,922	3,095,878
Basic EPS (Rmb cents)	75.59	45.73	64.19	90.89	80.79
Financial Position					
Total Assets	43,372,653	41,234,183	41,246,062	40,777,982	43,211,180
Shareholders' Equity	25,884,714	22,691,966	21,799,389	20,473,394	17,800,809
Cash and Cash Equivalents	6,195,431	7,085,796	5,992,935	2,652,565	1,436,246
Net Asset Value per Ordinary Shares (RMB cents)	652.20	592.20	568.90	534.30	464.55
Market Valuation at Period End					
Dividends (Singapore Dollar)	0.045	0.04	0.045	0.055	0.05
Share Price at Period End (Singapore Dollar)	1.47	0.815	1.1	1.21	1.19
Payout Ratio	29%	43%	33%	28%	30%
P/E	9.72	8.55	7.86	6.15	7.02
P/B	1.10	0.66	0.89	1.05	1.22
Dividend Yield	3.06%	4.91%	4.09%	4.56%	4.22%
No. of Shares ('000)	3,968,838	3,831,838	3,831,838	3,831,838	3,831,838
Outstanding orderbook (USD billion)	4.7	4.3	5.4	4.6	4.2

WITH A STRONG TRACK RECORD

Over the past over 60 years, Yangzijiang has transformed from a small shipyard to the largest private shipbuilding company in China. It went through several business cycles and became a highly-respected market leader, with outstanding profitability and operational efficiency.







CHAIRMAN'S STATEMENT

With a strong track record of vessel delivery, extensive customer network, and constant upgrading in technology and vessel types, Yangzijiang has always maintained a healthy order book of more than US\$4 billion. An increasing proportion of the vessels in the order book are LNG ready and suitable for voyage into waters with strict emission standards.

DEAR SHAREHOLDERS,

Yangzijiang Shipbuilding had a spectacular year in 2017. We secured 74 new vessel orders with total contract value amounting to US\$2.1 billion, more than double of FY2016 when we secured a total of 19 orders amounting to US\$823 million. The Group's key operating subsidiary, New Yangzi, was ranked world no. 2 in terms of the value of new orders received by shipyards¹.

Our strong order momentum was helped by buoyancy in certain segments of the global shipping and shipbuilding industry after a decade of harsh industry consolidation. The Baltic Dry Index reached a 3-year high, reflecting strong underlying demand for dry bulk carriers. IMO's stricter restrictions on the pollution emitted by vessels constructed on or after 1 January 2016 also lifted demand for vessel replacement. New orders secured by PRC shipyards increased by about 60% year-on-year (yoy) to about 33 million tons.²

We delivered our two maiden LNG carriers in April 2017, four months ahead of schedule. The successful construction progress and launch of these clean-energy vessels is a milestone achievement that enhances Yangzijiang's profile as a leading shipbuilder. It also opens doors for further orders for high-tech and clean-energy vessels.

During the year, we also delivered 3 new 11,800-TEU containerships out of the 12 containership vessel orders placed by Pacific International Lines (PIL) Group. Each is fitted with 1,400 reefer plugs that can accommodate up to 2,800-TEUs of refrigerated containers. We wish to thank the ship owners who have given us their commendation on the quality of our 11,800-TEU containerships as well as on our on time delivery track record.

The Group is positioned to benefit from the first signs of sector recovery because of the following competitive advantages that we offer:

- **Economies of Scale**

We have 4 shipbuilding facilities strategically located along the Yangtze River. Our scale of operations is large compared to other private commercial shipyards. We offer competitive vessel prices for orders with multiple units of the same model.

- **Strong Delivery Track Record**

Our management team is able to respond more quickly to market developments. We are one of the most efficient shipyards and have an outstanding delivery track record.

- **Strong Cash Reserves**

We had unrestricted cash reserves of RMB6.2 billion as at 31 December 2017. Our healthy cash reserves assure ship owners that we are more than able to ensure smooth production. When the sector recovers, we can scale up our operations without relying on external financing and capital investments.

GROWING NAME FOR ADVANCED TECHNOLOGY VESSELS

Our orderbook stood at US\$4.7 billion as at 31 December 2017, comprising of 123 vessels. A significant portion of the orders that we secured last year were for Kamsarmax (82,000-DWT) dry bulkers. We were able to keep up our order momentum as our vessel designs feature improved efficiencies such as enlarged loading capacity and fuel efficiency. We are the market leader for vessel types such as:

- Kamsarmax – vessel design is proprietary to Yangzijiang.
- Containerships with capacity of up to 12,000-TEU.
- 400,000-DWT Valemax, the largest dry bulk carriers ever constructed in the world.

1 <http://mp.weixin.qq.com/s/nJdzoRw3XXVWpjPywMO8Cg>

2 <http://www.cansi.org.cn/index.php/Information/detail/id/562.html?PHPSESSID=5cbc4fe50ef3b24a7ab5bacda1a81359>

LEADING PRC SHIPBUILDER

In FY2017, Group revenue was up 27% yoy at RMB19.2 billion with improved performance across all our business segments.

Shipbuilding remained our mainstay with a revenue contribution of 64% or RMB12.3 billion. We delivered 33 vessels according to schedule compared to 39 vessels in 2016. Despite a smaller number of vessel deliveries, revenue contribution from our shipbuilding business grew by 17% yoy as the vessels delivered were of higher value.

Other than our maiden LNG vessels delivered in April 2017, we launched a refrigerated containership that enabled vessel operators to compete for temperature-sensitive shipments in what was traditionally the domain of air-freight. Our 3800-TEU reefer containership (Polar Mexico) was a prototype designed to provide more robust refrigerated freight services for the perishable heavy duty market with shipment ranging from fruit to frozen meat and jam. The vessel was jointly designed with Shanghai Ship Research and Design Institute (SDARI) and features ship intelligence infrastructure such as equipment sensors for the collation and analysis of big data for operational risk management and efficiency. The vessel was commissioned by Hamburg Süd Group, one of the oldest and largest private shipping enterprises in Germany.

BETTER OVERALL PERFORMANCE

Turnover from our trading business was 67% higher at RMB5.4 billion due to a higher business volume. Revenue generated by other shipbuilding related businesses such as shipping logistics & chartering and ship design services was 45% higher yoy at RMB393 million due to higher charter rates. Interest income from our HTM financial assets was 7.5% higher at RMB1,079 million. Investment income from our micro finance business was 49% lower at RMB32 million due to a lower loan balance.

The Group's effective tax rate was 11%, significantly lower yoy (FY2016: 33%) due to the tax credit received by Xinfu Yard for its High/New Technology Enterprise status and higher non-taxable income recognised in FY2017. Our significant contribution to local tax revenues has garnered for us strong local government support in policy implementation and approval of programs. This goodwill, plus the Group's strong delivery track record and credit worthiness, is why our customers have consistently been able to obtain ship financing from PRC banks.

Net profit attributable to shareholders was RMB2.9 billion, up 67% yoy. To share the fruits of our success, the Board is pleased to declare a 4.5 Singapore cent cash dividend for FY2017. This represents a payout of 29%.

CHALLENGES

In 2017, steel prices rose by over 30% to more than RMB4,000 per ton, and at the same time, the USD depreciated by about 5% against RMB, which negatively impact our shipbuilding margin. We are monitoring the situation carefully and will implement the necessary risk management measures.

Global, regional, national and local policy action that support clean energy has been driving the booming demand for LNG fuel.³ The Group intends to address the increasing demand for cleantech vessels. We plan to expand our revenue contribution from LNG/LPG carrier vessels as well as vessels with marine LNG engines through R&D effort and M&A.

It is the Group's long term strategy to expand our product portfolio through R&D and innovation. Our M&A strategy is to diversify into sectors that are synergistic with our core shipbuilding business.

CLEAR VISIBILITY

This year, we will deliver our first Very Large Ore Carriers, the world's largest bulk carrier with a capacity of 400,000 DWT. Our strategy is to maintain a strong foothold in markets with strong demand such as ultra large bulk carriers and containerships as well as smaller vessels that are able to sail in inland waterways. We also have a track record for customised vessels such as the ConRo vessel, a hybrid between a roll-on/roll-off vessel and a container ship. We intend to maintain our market leadership by continuing to offer vessel specifications using advanced technology to address shipping demand trends.

We have been able to maintain our orderbook at more than US\$4 billion for close to a decade. In the year ahead, we aim to keep up the momentum for securing new orders to maintain our order book at more than US\$4 billion. The size of our orderbook plus the healthy utilization levels of our shipyard facilities provide clear earnings visibility over the next two to three years.

Last year, we retained our no.1 position in the PRC for shipyard orderbook size and rose to no.3 globally. The 10 largest shipbuilding enterprises in the PRC continued to dominate the market, accounting for close to 60% of shipbuilding output in China. We believe our industry position will continue to strengthen in the challenging environment.

STOCK PRICE OUTPERFORMANCE IN CHALLENGING SECTOR

In stark contrast to the rest of the marine and offshore sector, our stock price has done exceptionally well over the past year, increasing by about 80% over the year 2017. We had a free float of about 60% and an average daily trading value of over S\$20 million over the past year. We have an active investor relations programme for engaging our well-diversified shareholder structure of large institutional investors including sovereign funds and government pension funds.

We thank our shareholders for staying invested in us during the extended correction phase of the shipbuilding industry over the past decade. We also take this opportunity to thank our staff, customers, suppliers, bankers and other business partners who have played an important role in our progress, and continue to do so. We have emerged stronger through the industry consolidation and are committed to continue delivering value to our stakeholders.

Ren Yuanlin
Executive Chairman

3 https://www.shell.com/energy-and-innovation/natural-gas/liquefied-natural-gas-lng/lng-outlook/_jcr_content/par/textimage_864093748.steam/1519731114519/890e687a18cdc644e5b80609a8280bc474b0b8806046b6f3ee89bf231f00fa8f/shell-lng-outlook-2018-infographic-download-final.pdf

主席致辞

尊敬的各位股东，

扬子江船业2017年取得了辉煌业绩。我们获得了74艘新船订单，合同金额达21亿美元，比2016财年获得的19艘价值8.23亿美元的订单翻了一番多。按新订单价值排名，集团主要下属船厂新扬子船厂排名世界第二。

2017年，造船业经过十年的行业整合后，得益于全球航运和造船业的复苏态势，新订单势头良好。波罗的海干散货指数创3年新高，反映了干散货船的潜在需求强劲。国际海事组织对于2016年1月1日之后建造的船舶做出的新排放标准也提高了对船舶更换的需求。中国造船厂的新订单同比增长约60%至3300万吨左右。

2017年4月，我们比计划提前四个月交付了集团首制的两艘LNG液化天然气运输船。这两艘船的顺利建造和交付，优化了集团的产品结构并提升了市场地位也为集团争取更多的高科技和清洁能源船奠定了基础。

同年，我们还交付了太平洋国际(PIL)集团订制的12艘11,800-TEU集装箱船订单中的3艘。这些船每个都配有1,400个冷藏集装箱插头，可以容纳多达2,800个标准冷藏集装箱。我们感谢船东在生产过程中为我们提供的合作和支持，也感谢船东对我们的交船速度和船舶质量给予的高度赞誉。

集团先于同业受益于行业复苏，主要由于我们的以下竞争优势：

• 规模效应

我们在长江沿岸战略性位置拥有4个船厂，与其他私营船厂相比，我们的经营规模较大，能够通过接受多艘同型号订单来提高集团在市场、成本和价格上的竞争力。

• 交船记录良好

我们的管理团队能够迅速响应市场变化。我们是最高效的船厂之一，并且拥有出色的交付记录。



• 财务实力雄厚

于2017年12月31日，我们拥有人民币62亿元的现金储备，为顺利生产和交付提供了保证。行业复苏时，我们可以在不依赖外部融资和资本投资的情况下扩大生产规模。

发展建造高科技船舶实力

截止2017年12月31日，集团拥有123艘船的在手订单，订单总额为47亿美元。我们去年获得的大部分新订单都是Kamsarmax(82,000-DWT)干散货船。集团能够保持强劲的订单势头，得益于我们在设计中大幅提高了船舶运输效率，如增加装载能力和燃料效率。我们的以下船型在市场上处于领先地位：

- Kamsarmax — 扬子江自有产权设计
- 12,000标箱及以下的集装箱船
- 400,000-DWT Valemax，世界上最大的干散货船

世界领先的中国造船公司

2017财年，集团收入年同比上升27%至人民币192亿元，各项业务表现均有改善。

造船仍为主营业务，收入贡献达64%、123亿元。我们按计划交付了33艘船(2016年交付39艘)。尽管船舶交付量较少，但由于交付的船舶价值较高，我们造船业务的收入同比增长17%。

除了2017年4月交付的LNG船首制船，我们还推出了冷藏集装箱船，使船舶运营商能够在传统属于空运领域的温度敏感货物中获得业务机会。我们的3800-TEU冷藏集装箱船(极地墨西哥)是一个船舶初始型，旨在为易腐重型市场提供更稳健的冷藏货运服务，包括水果，冷冻肉和果酱等货物。该船是集团与上海船舶研究设计院SDARI联合设计，并配备船舶智能基础设施(如设备传感器)，用于整理和分析大数据以实现操作风险管理并提高效率。该船是由德国历史最悠久、规模最大的私营航运企业之一的汉堡南方集团定制的。





财务表现总体良好

由于业务量增加，我们贸易业务的收入增加67%至人民币54亿元。其他造船相关业务(如航运物流及租船、船舶设计服务)收入由于船舶租金较高而同比上涨45%至人民币3.9亿元。HTM金融资产收入较去年同期上涨7.5%至10.8亿元。小贷业务由于贷款余额较低，投资收益下降49%至人民币3200万元。

由于鑫福船厂获得高税务返还及2017年较高的非应税收入，2017年集团有效税率同比显著下降至11%(2016财年：33%)。我们对地方税收的重大贡献为我们带来了强有力的政府支持。集团的良好声誉和交付记录为我们的客户在中国获得银行融资提供了重要条件。

2017年，集团实现归属股东的净利润人民币29亿元，同比增长67%。为回馈股东，董事会决定2017财年每股分红4.5分新币，派息率为29%。

挑战

2017年，钢铁价格上涨超过30%，每吨价格高达4000元人民币以上，与此同时，美元对人民币贬值了约5%，影响了集团未来的盈利能力，我们会紧密观察事态变化，并实施必要的风险管理措施。

全球、区域、国家和地方支持清洁能源的行动一直在推动对液化天然气燃料的旺盛需求。为满足日益增长的清洁技术船舶需求，集团计划通过研发和并购来扩大液化天然气/液化石油气运输船以及配备海洋液化天然气发动机船舶的市场。

通过研发和创新来扩大我们的产品结构是集团的长期战略。我们的并购战略是将扩展业务多元化，进入与我们的核心造船业务相辅相成的行业。

发展方向

今年，我们计划开始交付世界最大的40万吨大型矿砂船。未来，我们将在需求强劲的市场领域中寻求发展，包括超大型散货船和集装箱船、以及能够在内河水道航行的小型船舶。我们还将为客户提供定制服务，如生产ConRo船，

滚装船和集装箱船之间的混合体。我们也将继续使用先进技术，提供多种船舶规格来满足航运需求趋势，从而保持我们的市场领导地位。

近十年来，集团在手订单保持在40亿美元以上。今年，我们的目标是保持新订单流入，维持在手订单稳定。稳定的在手订单以及集团健康的产能利用率为未来两三年的稳定盈利提供了基础。

去年，集团在手订单规模继续保持中国第一，并在全球升至第三位。中国十大造船企业继续占据市场主导地位，占中国造船产量的近60%。我们相信扬子江的行业地位在充满挑战的市场环境中将继续巩固。

股价表现强劲

与行业其他公司形成鲜明对比的是，扬子江股价在过去一年中表现非常出色，增长约80%。我们的流通股本占总股本的60%，每日平均交易价值超过2000万新币。我们的股东结构多元，包括主权基金和政府养老基金在内的大型机构投资者，集团通过投资者关系服务与这些股东保持密切沟通。

感谢

我们对各位股东在过去十年中、在造船业动荡起伏的环境下对扬子江的不懈支持表示衷心感谢。我们也感谢为扬子江的发展壮大做出重大贡献和给予帮助的集团员工、客户、供应商、银行和其他业务合作伙伴，并希望继续得到各位的支持。我们将继续努力，在行业整合中不断发展壮大，为股东创造价值，向成为世界最好的造船企业之一的目标不断迈进。

任元林
执行主席



CORPORATE MILESTONES

2017

- Successfully delivered our first Liquefied Natural Gas ("LNG") vessels
- Successfully delivered our largest 11,800TEU containerships
- Successfully launched the first batch of 400,000 DWT Very Large Ore Carrier ("VLOC"), largest dry bulk carriers in the world
- Xinfu Yard was qualified as a High/New Technology Enterprise and is entitled to enjoy a preferential corporate income tax rate of 15% for three years from FY2016

2016

- Successfully delivered our first 260,000DWT very large ore carrier, largest ever in terms of deadweight tonnage
- Awarded new shipbuilding orders for Six 400,000 DWT VLOCs by ICBC Leasing, marking a rare case where a state-owned ship owner in China places orders with a private shipyard

2015

- The Group diversifies Shipbuilding to LNG Vessels with Orders worth US\$135 Million
- Re-entered STI index from 21 September 2015
- Yangzijiang wins Gold at PR Awards 2015 for Best IR Campaign in March 2015
- Yangzijiang wins prestigious Shipbuilding & Repair Yard Award at Seatrade Maritime Awards Asia 2015 in November 2015

2014

- Yangzi Xinfu Yard become fully operational and successfully delivered six 10,000TEU containerships
- Group secured its four largest ever 260,000DWT very large ore carriers from its first Australian customer
- New Yangzi Yard was qualified as a High/New Technology Enterprise and is entitled to enjoy a preferential corporate income tax rate of 15% for three years from FY2013

2013

- Yangzijiang launched China's first ever 10,000TEU containership in September 2013.
- Yangzijiang became the first company to trade its shares in RMB on SGX, in addition to its existing SGD counter on SGX dual currency trading platform.
- Placement of 330,000,000 warrants at an issue price of RMB0.3072 (S\$0.0605) for each warrant, with each warrant carrying the right to subscribe for one (1) new share in the capital of the company at the price of RMB7.617 for each new share.


2012

- The Group's Executive Chairman, Mr Ren Yuanlin, was voted by Lloyd's List as one of the top 100 most influential personalities in the shipping industry
- YZJ Awarded Most Transparent Company Award 2012 (Foreign Listing Category) at SIAS Investor Choice Awards 2012
- The Group secured its maiden offshore deal to construct and deliver one unit of Letourneau Super 116E Class design self-elevating Mobile Offshore Jackup Drilling Rig worth US\$170 million
- Our new vessel designs, the 45,000-DWT, 46,500-DWT and 8,500-DWT vessels were awarded "New High Technology" certifications by the Jiangsu Provincial Technology Board in 2012

2011

- YZJ Awarded Most Transparent Company Award 2011 (Foreign Listing Category) at SIAS Investors Choice Awards 2011
- YZJ Launches first Chinese-built ship with a groot cross-bow
- First Chinese yard to receive orders for 10,000 TEU containership vessels

2010

- First Chinese-majority owned company listed on Taiwan Stock Exchange
- Largest S-Chip company listed on SGX and most profitable Singapore-listed China company

2009

- Runner-up for Most Transparent Company (Foreign Listing Category) at SIAS Investors Choice Awards 2009

2008

- Million square meters expansion plan completed

2007

- Successful listing on SGX
- Completion of new shipyard

WHILE UNCERTAINTIES REMAIN IN THE SHIPBUILDING MARKET

As the market recovered in 2017, we acquired new orders of US\$2.1 billion, accounting for 8% of the new orders in the world. We had a market share of 3% and 5% in the world, in terms of vessel deliveries in 2017 and outstanding order-book as at the end of 2017.





BOARD OF DIRECTORS



REN YUANLIN (Aged 64, Chinese)
EXECUTIVE CHAIRMAN

Mr Ren was appointed as a Director of the Company on 13 January 2006 and the Chairman on 18 March 2007. He is the founder of the Group and is currently responsible for the overall management and operations of the Group.

Mr Ren has over 40 years of experience in the shipbuilding industry, and has taken on various positions within the Group and its predecessors since 1973. From his humble beginnings as a worker, Mr Ren has transformed Yangzijiang to become a formidable force within the Chinese and global shipping industry with a vision to make Yangzijiang one of the most outstanding shipyard in the world. In spite of multiple foregoing

challenges faced by the Company and industry, Yangzijiang has time and again emerged stronger under the capable leadership of Mr Ren.

Mr Ren was crowned the country winner of the Mainland China region at the prestigious Ernst & Young Entrepreneur of the Year China 2011 awards. Recognized globally, Ernst & Young Entrepreneur of the Year awards honour the most outstanding entrepreneurs who inspire others with their vision, leadership and achievements.

In 2014, Mr Ren was awarded the 2013-2014 Outstanding Entrepreneur Award by the Chinese Enterprises Association, China Entrepreneurs Association and China Enterprise Management Science Foundation. The award is given in recognition of his success in heading Yangzijiang Shipbuilding and his contribution to the nation's social and economic development.

Mr Ren also holds a Diploma in Economics from Jiangsu Television Broadcasting University which he was conferred in 1986.

CHEN TIMOTHY TECK LENG @ CHEN TECK LENG (Aged 64, Canadian)
INDEPENDENT DIRECTOR

Mr Chen was appointed as Independent Director of the Company on 26 April 2013.

Mr Chen has more than three decades of management experience in banking, insurance, international finance and corporate advisory work. He has held positions in Bank of America, Wells Fargo Bank, Bank of Nova Scotia and Sun life Financial Inc.

He was formerly the General Manager, China for Sun Life Financial Inc., and the President & CEO of Sunlife Everbright Life Insurance Company in China.

Mr Chen earned his Bachelor of Science degree from University of Tennessee and his Master's of Business Administration degree from Ohio State University. He received his Certified Corporate Director (ICD.D) designation from the Canadian Institute of Corporate Directors.





TEO YI-DAR (Aged 47, Singaporean)
LEAD INDEPENDENT DIRECTOR

Mr Teo is the Lead Independent Director of our Company. Mr Teo was appointed as a Non-Executive Director of the Company on 28 July 2006, and was re-designated as Independent Director on 28 April 2009.

Mr Teo started his career as an Engineer with SGS-Thomson Microelectronics in 1996, and he joined Keppel Corporation Ltd's business development division in 1997. In 1999, Mr Teo joined Boston-based Advent International Private Equity Group, commencing his career in the direct investment business. Mr Teo is currently a Private Equity investor, managing buy-outs and direct investments in Asian companies in the chemical, engineering, manufacturing, industrial and technology sectors.

Mr Teo holds two Masters' degrees: Master of Science Degree in Industrial and Systems Engineering (1998) and Master of Science Degree in Applied Finance (2000) from the National University of Singapore. Mr Teo graduated from the same university with a Bachelor of Electrical Engineering (Honours) in 1996.

Mr Teo was awarded the Chartered Financial Analyst by the CFA Institute in 2001.

XU WEN JIONG (Aged 69, Chinese)
NON-INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr Xu was appointed as Non-Independent, Non-Executive director on 30 April 2014. Mr Xu possess more than 40 years of experience in marine industry, he graduated in Electrical Engineering from "Nan Jing Marine Institute" in the year of 1969. He joined Qing Dao Bei Hai Shipyard in the same year and later in 1975 he joined the COSCO Group to further his career until 1989.

In 1992, he acquired "West Gold International Pte Ltd" ("West Gold") (which was initially registered in Hong Kong). As the Chairman and Managing Director of West Gold, Mr Xu contributes greatly towards West Gold over the years, and shifted its headquarter from Hong Kong to Singapore in 1994.

West Gold is mainly engaged in shipbuilding, shipping-related businesses, including shipbuilding agency, ship chartering, ship navigation equipment and other marine equipment sales and technical services as well as business coverage in containers including reefer containers, storage as depot and repair and other related businesses with offices in Hong Kong, Shanghai and some major cities of Mainland China, as well as in Europe.



SENIOR MANAGEMENT



REN LETIAN (Aged 36, Chinese)

CHIEF EXECUTIVE OFFICER

Mr Ren Letian was appointed as Chief Executive Officer of the Group on 1 May 2015.

Mr Ren Letian joined the Group as a site project manager in year 2006. Since then, he has assumed several managerial roles at various levels and business divisions in the Group, and gained in-depth knowledge of the operations of the Group.

In 2014, under the management of Mr Ren Letian, the Group's Yangzi Xinfu Yard had successfully delivered 6 vessels of 10,000TEU containerships despite numerous challenges faced by the Yangzi Xinfu Yard which only turned operational in 2013. He has also received several recognitions from the local government for his outstanding achievements.

He now helms the Group's overall shipbuilding operations, and exhibits increased maturity and capability in overseeing various business functions that are integral to the successful delivery of quality vessels.

Mr Ren Letian is the son of Mr. Ren Yuanlin, the executive chairman of the Group, and holds a Master's Degree from London Southbank University.

WANG JIANSHENG (Aged 61, Chinese)

GENERAL MANAGER

Mr Wang was appointed as General Manager of Jiangsu New Yangzi Shipbuilding Co., Ltd on 1 January 2008. He is now the Deputy Chairman of the Group and responsible for operation of the Shipping Logistics & Ship Design Segment.

Mr Wang has over 30 years of experience in the shipbuilding industry. Prior to joining the Group, between 2004 and 2007 Mr Wang was the Vice President of Shanghai Waigaoqiao Shipbuilding Co., Ltd., and was responsible for the management of manufacturing. He joined Shanghai Shipyard Co. Ltd in 1982 as Assistant Manager in the workshop and was promoted to Vice General Manager in 1997.

Mr Wang holds a Degree from Wuhan University of Technology which he was conferred in 1982.



WANG DONG (Aged 59, Chinese)

DEPUTY GENERAL MANAGER

Mr Wang has about 40 years of experience in the shipbuilding industry. He first joined Jiangyin Shipbuilding Factory in 1977 as a workshop welder. Thereafter in 1985, he was transferred to the administrative management department.

In 1988, he was promoted to the position of Assistant Sales Supervisor of Jiangyin Shipbuilding Factory. Between 1992 and 1997, he held the position of assistant factory supervisor of Jiangyin Shipbuilding Factory (which was changed to Jiangsu Yangzijiang Shipbuilding Factory in 1992), where he was in charge of the daily operations of the factory.

Thereafter, he became the Deputy General Manager of Jiangsu Yangzijiang Shipbuilding Factory (which has since been changed to Jiangsu Yangzijiang in 1999). He is now the Deputy General Manager of the Group and in charge of the procurement of materials for the shipbuilding processes.

Mr Wang holds a high school certificate from Jiangyin City High School which he was conferred in 1975.



XIANG JIANJUN (Aged 58, Chinese)
DEPUTY GENERAL MANAGER

Mr Xiang has over 30 years of experience in the shipbuilding industry. He joined Jiangyin Shipbuilding Factory in 1978, and worked in the workshop for about one year. In May 1979, he became a Loftsmen, and since then, he has worked in various positions within Jiangyin Shipbuilding Factory (which was changed to Jiangsu Yangzijiang Shipbuilding Factory in 1992 and finally Jiangsu Yangzijiang in 1999). He was promoted as the Head of Production Process Department Section in 1985.

From January 1992 to December 1994, Mr Xiang was the Chief of the Technical Department Section of Jiangsu Yangzijiang Shipbuilding Factory. Between 1995 and 1998, he served in various positions including the Head of the Production Process, Technical Quality Control Department and Assistant Shipyard Supervisor of Jiangsu Yangzijiang Shipbuilding Factory. In January 1999, he became the Shipyard Supervisor of Jiangsu Yangzijiang.

He is now the Deputy General Manager of the Group and in charge of corporate management of the Group.

Mr Xiang holds a Diploma in Ship Engineering from Wuhan School of Transport by Water which was conferred in 1991.

DU CHENGZHONG (Aged 50, Chinese)
DEPUTY GENERAL MANAGER

He was appointed as the Deputy General Manager and Head of Quality Control Department in New Yangzi in January 2006. He is now the Deputy General Manager of the Group and the General Manager of Jiangsu Yangzi Xinfu Shipbuilding Co., Ltd. and Chief Engineer of the Group, and is responsible for operations of Jiangsu Yangzi Xinfu Shipbuilding Co., Ltd.

Mr Du has over 20 years of experience in the shipbuilding industry. In July 1991, he started as a trainee in the turbine workshop of the then Jiangyin Shipbuilding Factory. In July 1992, he became a technician in the same workshop where he held the position till December 1996. During the period between January 1997 and December 2001, he worked as a construction manager in the Production Department of Jiangsu Yangzijiang. In January 2002, he was promoted to the position of Deputy Head of Engineering Department of Jiangsu Yangzijiang and served in the position till December 2004. Thereafter, between January 2005 and December 2005, he held concurrent positions as Assistant General Manager cum Head of Technical Preparation Department.

Mr Du holds a Bachelor's Degree in Mathematics and Engineering from Harbin Engineering University (formerly known as Harbin Shipbuilding Engineering Institute) which he was conferred in 1991. He was accredited as an Engineer by the Wuxi City Human Resource Bureau in 1998.



4.5 SINGAPORE CENTS DIVIDEND PER SHARE FOR FY2017

As the largest Chinese entity listed on SGX and an STI component stock, Yangzijiang has consistently returned to shareholders through stable dividends. It has over 200 institutional investors around the world today, including government pension funds and sovereign funds.





OPERATIONS AND FINANCIAL REVIEW

1. LONG AWAITED RECOVERY

In 2017, the Baltic Dry Index recovered to a 3-year high of over 1700. Market conditions for the shipbuilding industry have improved, especially for dry bulkers. This was supported by the economic recovery in China and other major economies in the world, higher demand for commodities and a higher volume of international trade. Global shipbuilding orders increased by 78% year-on-year (yoy) to 23.2 million CGT in 2017 (Clarksons¹ data) with PRC shipbuilders receiving the most new orders in the world. Yangzijiang remained the PRC market leader, having secured vessel orders amounting to 745.8 million-DWT (no.1 in PRC, no.2 globally).

The Group had a global market share of 8% in terms of new vessel orders secured in 2017. We secured new orders with contract values totalling US\$2.1 billion, more than double of what we had achieved in FY2016. Our orderbook stood at US\$4.7 billion as at 31 December 2017, translating into a global market share of 5% in terms of orderbook size.

During the year under review, we rode on the dry bulk market recovery with an aggressive marketing strategy of offering package deals of multiple vessel orders with options at a competitive contract price. Bulk orders for 82,000-DWT and 208,000-DWT dry bulkers boosted our orderbook with the cost efficiencies of building multiple vessels with the same specifications. Orders for smaller and specialized vessels such as 2700-TEU and 2200-TEU feeder vessels, woodchip carriers, and ConRo vessels expanded our product portfolio.

Group revenue was up 27% yoy at RMB19.2 billion with improved performance across all our business segments. Net profit attributable to shareholders was RMB2.9 billion, up 67% yoy. To share the fruits of our success, the Board is pleased to declare a 4.5 Singapore cent cash dividend for FY2017. This represents a payout of 29%.

2. SHIPBUILDING

Last year, we delivered 33 vessels according to schedule compared to 39 vessels in 2016. Our shipbuilding output was 3.1 million-DWT, translating into a 3% global market share. Shipbuilding contributed RMB12.3 billion to FY2017 revenue. Despite a smaller number of vessel deliveries, revenue contribution from our shipbuilding business grew by 17% yoy as the vessels delivered were of higher value.

In 2017, steel prices rose by over 30% to more than RMB4,000 per ton, increasing our projected cost of goods sold. At the same time, the USD depreciated by about 5% and the Group incurred a foreign exchange related loss of RMB745 million. As volatility in cost of



raw materials and the exchange rate affects the Group's future profitability, we made a provision of RMB1.2 billion for risk of loss on construction contracts which haven't started construction in 2017 to be in line with prudent reporting policies.

The provision, plus increased shipbuilding activities, resulted in our shipbuilding cost of sales increasing by 29% to RMB10.2 billion in FY2017, which was more than segment revenue growth. Shipbuilding gross profit was 19% lower at RMB2.1 billion and segment margin was 8 percentage points lower at 17%.

3. OTHER SHIPBUILDING RELATED BUSINESS

Increased demand for iron ore continued to boost shipping demand. Revenue generated by other shipbuilding related businesses such as shipping logistics & chartering, ship design services was 45% higher yoy at RMB393 million due to higher charter rates. Segment gross profit was RMB77.5 million, reversing the gross loss of RMB5.3 million in FY2016.

¹ http://www.eworldship.com/html/2018/ship_market_observation_0113/135578.html



Revenue contribution from our trading business was 67% higher at RMB5.4 billion due to a higher trading volume. Gross profit margin was typically low at 1%. Segment gross profit was RMB67.3 million, up 46% yoy.

4. FINANCIAL INVESTMENTS

In FY2017, our Held-to-Maturity financial assets under management increased by 10% to RMB12.0 billion. Interest income from our HTM financial assets was 10% higher at RMB1,035 million. Net income from our micro finance business was 49% lower at RMB32 million due to a lower loan balance.

5. EXTENDING CAPABILITIES VIA M&A INVESTMENTS

Our venture capital investments support the Group's competitive position by providing synergies and diversified income streams. The Group's significant capital investment decisions over the past year included the following:

a. Foray into Steel Fabrication

The Group entered an agreement to form a joint venture to provide steel fabrication for infrastructure work related to international seas, ports, bridges, and offshore projects. The Group holds an effective

stake of 31.84% in the associated company, Jiangsu Yangzi Chengkang Marine Equipment Co. Limited ("Yangzi Chengkang"), which will have an authorised capital of RMB100 million. It will be a manufacturing enterprise providing integrated services ranging from design, manufacture, installation, and maintenance to technical consulting services.

China accounts for half of the world's steel production (2017: 49%). Its steelmaking industry has good prospects as it is an economic pillar of the nation with restructuring and upgrading enforced by the government. As China's economic growth is expected to remain stable, demand from infrastructure, automobile, and other sectors for steel is expected to remain healthy. Last year, lower steel production capacity, higher utilisation and increased use of technology boosted prices in the steelmaking industry.

Synergies exist between shipbuilding and steel structure fabrication businesses, and we believe that Yangzi Chengkang strengthens the Group's competitive position by providing an additional income stream for the Group as demand for steel structures will grow with the investment momentum on Belt and Road infrastructure projects in Southeast Asian countries.

b. Exit of Ship Demolishing Business

To focus on our core shipbuilding and related businesses, we divested our remaining interest in our ship demolishing business on arms-length basis. Our 50% equity interest in Jiangsu Huayuan Metal Processing Co., Ltd was sold to a third party for about S\$19 million.

In FY2017, we increased our investment in associated companies by 58% to RMB1.4 billion. This amount includes purchase considerations and capital injections offset by return of capital from our associated companies. We recognized a gain of RMB228 million from the disposal of subsidiaries. Share of profit from associated companies was RMB40 million, consisting mainly of fair value gain on venture capital investments in FY2017.

6. STRONGER FINANCIAL POSITION

Our administrative expenses decreased significantly by 62% to RMB608 million in FY2017. This was mainly due to a significantly lower impairment loss in FY2017 compared to FY2016. In FY2017, we made a total impairment provision of RMB296 million, down 76% yoy. This was mainly on HTM investment and financial assets, available-for-sale.

Finance cost decreased significantly to RMB113.2 million, down 74% yoy. This was mainly due to a reduced size of borrowing by 32% to RMB4.9 billion at the group level during the year under review. This reduced our gearing by 12.7 percentage points to 18.4%.

OPERATIONS AND FINANCIAL REVIEW



The High/New Technology Enterprise status of Jiangsu Yangzi Xinfu Shipbuilding Co., Ltd (the “Xinfu Yard”) entitles it to a 15% preferential income tax rate in FY2017 versus a 25% standard rate in FY2016. The Group’s effective tax rate was 11% in FY2017, significantly lower compared to 33% in FY2016 due to the following reasons:

- RMB78 million tax credit received by Xinfu Yard for tax previously paid for FY2016 earnings.
- Higher amount of non-taxable income recognised in FY2017 as compared to FY2016.

Cash and cash equivalents decreased by 13% to RMB6.2 billion during FY2017. We raised gross proceeds of S\$209.6 million from the placement of 137 million new shares at S\$1.53 each on 31 August 2017. The placement price represented a 4% discount to the market price at the time when the placement agreement was entered into. The placement shares represent 3.5% of the Group’s enlarged issued and paid-up capital.

We intend to use up to 50% of the net proceeds to fund new investments and business expansion through acquisitions, joint ventures and/or strategic alliances as and when opportunities arise. The remainder will be set aside for working capital and general corporate purposes of the Group, including the repayment of bank borrowings and loans.

Total equity attributable to equity holders increased by 14% to RMB25.9 billion as at 31 December 2017. This was contributed by FY2017 retained earnings and the share placement, and offset by the FY2016 dividend payment.

7. CHALLENGES

All of our vessel contracts are denominated in USD and a significant portion of our costs (including steel) are denominated in RMB. The appreciation of the RMB against USD and the increase in steel prices could affect the Group’s revenue and profit margin for the contracts in our current order book. While the probability of further

substantial strengthening of the RMB against USD or significant increase in steel price is limited, the Group will monitor the situation closely, actively manage other production costs, and improve production efficiency to mitigate any adverse impact. We will also take into account the prevailing situation in exchange rate and steel price when we negotiate the contract price for new orders.

Payment terms for the commencement of construction contracts have been less favourable in recent years. As such, receivables due from customers for construction contracts at the end of FY2017 further increased by 52% yoy to RMB6.0 billion.

The following 9 vessels were terminated in 2017:

- One unit of 10,000-TEU containership
- Four units of 36,500-DWT bulk carriers
- One unit of 82,000-DWT bulk carrier
- Two units of 84,000-VLGC
- The Group’s only jack-up rig



The Group will recognise the down payments from those terminated contracts according to its accounting policy. Out of the 9 terminated contracts, 6 of them have started construction. The Group has secured new buyers for the 5 commercial vessels, and is actively seeking the best resale price for the jack-up rig.

8. OUTLOOK

Global LNG demand grew by as much as 10% in 2017 to 293 million tons (Shell data²). Japan and China are the world's largest LNG importers while Qatar and Australia are the largest exporters. There is huge LNG carrier demand driven by international trade in LNG. Last year, we successfully delivered our maiden LNG carrier vessels, marking a new chapter in our technology capability roadmap. We will continue our R&D push in the LNG related vessel space and gradually build up our capabilities in this field.

The year ahead looks promising as the global economic growth is improving and the shipping and shipbuilding market is expected to continue to recover. Growth of e-commerce, China's Belt and Road initiative, and International Maritime Organization rules and regulations



on vessel emission standards are all expected to support the long-term demand for containerships and dry bulkers. The global fleet is being renewed and excess shipping capacity is being absorbed. The market for new shipbuilding orders is expected to remain strong. In China, supply-side reform will further propel the consolidation in the shipbuilding industry. Leading shipyards, including Yangzijiang, will benefit.

As the operating environment improves, the Group will further build up its order book in LNG carriers in addition to dry bulkers and containerships. The following initiatives will support our marketing activities to keep new order momentum strong:

- Win-win collaboration with ship owners to purchase semi-constructed vessels in the second hand vessel market and rework vessels to new owners' specification.
- The Group has a strong R&D team that supports our marketing team. In FY2017, our R&D team developed prototypes for 142 vessel models and brought to market 16 new vessel models.
- Workflow management to ensure timely delivery.
- Excellent aftersales service that contributes to customer satisfaction ratings.

Our new order inflow is healthy and our outstanding order book is stable. We expect a stable revenue stream for at least the next 2.5 years. Secondly, global deleveraging and in China means the cost of capital in China is on an uptrend. We expect the yield from our Held-to-Maturity Investment segment to be higher this year. This will mitigate some of our shipbuilding margin erosion. In view of the Group's robust financial position, stringent risk management, strong delivery track record and reputation as a leading shipbuilder in the world, we believe Yangzijiang is in a favourable position in a recovering market. The Board remains confident of the Group's stable operation and performance for FY2018.



² <https://www.shell.com/media/news-and-media-releases/2018/shell-sees-potential-lng-supply-shortage-as-global-demand-surges.html>

SUSTAINABILITY REPORT



OUR APPROACH

“As a world-leading shipbuilding company, Yangzijiang focuses on creating sustainable value for our stakeholders and the society. We seek thorough understanding in the matters that concern the stakeholders, and implement strategies throughout our operations to protect their long-term interests.”

Ren Yuanlin
Executive Chairman

1. GENERAL DISCLOSURE

Yangzijiang Shipbuilding Holdings Limited (or ‘the Group’) is primarily engaged in the manufacturing of commercial vessels, including containerships (1,668 TEU to 11,800 TEU), dry bulk carriers (6,500 DWT to 400,000 DWT), oil tankers and LNG carriers. Its customers are primarily ship owners in the United States, Canada, United Kingdom, Germany, France, Greece, Norway, Argentina, Turkey, Bulgaria, Poland, Australia, Japan, South Korea, Singapore, India, Thailand, Bangladesh, Mainland China, Hong Kong, Taiwan, etc.

The Group is headquartered in Jiangyin Industrial Park, Jiangyin City, Jiangsu Province, China, and has four shipyards in the vicinity. It has approximately 5,600 full-time employees.

Yangzijiang is a member of China Association of The National Shipbuilding Industry, Jiangsu Provincial Technical Innovation Association, Wuxi Overseas Investment Association, Jiangsu Shipbuilding Industry Association, Jiangsu Su-Shang Development Association, The Alliance of Ship Design System Application and Development and China Smart Shipbuilding Alliance.

2. VALUES AND PRINCIPLES

Innovation, efficiency, care for people

3. KEY MATTERS IN SUSTAINABILITY

(1) Economic

Direct economic contribution

The Group has been consistently profitable over the years of its listing on the Singapore Exchange, and it



distributes about 20% – 30% of its earnings as dividends to shareholders.

As one of the biggest companies in Jiangyin City and Jiangsu Province, China, Yangzijiang Group made significant contribution to local governments through tax payment and creating employment and welfare.

Promote technological advancement in shipbuilding

In line with the growing popularity of fuel-efficient and lower-emission vessels in the shipbuilding market, the Group has built up R&D capabilities in green vessels.

We established a Research Institute through the acquisition of two major naval architectural firms. We invested over RMB100 million in an office building in Shanghai and dedicated it to the R&D of high tech and green vessels. Over the years, we have built up a team of over 300 professionals specializing in vessel design.

The Research Institute's diligent work on product upgrading has led to several innovative fuel-efficient models, including the 2500-TEU, 4250-TEU, and 4800-TEU containerships, the 64000-DWT, 82000-DWT, and 93000-DWT dry bulkers, and the 27,500 CBM LNG Carriers. These products were very well received by the market.

In December 2015, New Yangzi, a major yard of Yangzijiang, was granted the status of a national level R&D base for Ph.D students. This was in recognition of Yangzijiang's superb capabilities in R&D and talent development. In 2016, a laboratory at the R&D base was established and the first batch of the Ph.D students came on board. Their work is expected to further enhance Yangzijiang's R&D capabilities.

The Group has comprehensive management procedures and action plans for R&D, with specific annual targets for innovations in advanced technology for product development. In 2016 and 2017, we submitted 50 new patent applications. As of today, the Group has 347 patents, of which, 17 were innovation patents, and 330 were practice patents.

High-and-New Technology Enterprise

Two major yards of the Group, New Yangzi and Yangzi Xinfu, enjoy the status of High-and-New Technology Enterprise granted by the government. The status is granted based on the Group's consistent effort in enhancing its R&D capabilities, and gives the yards preferential tax rates.

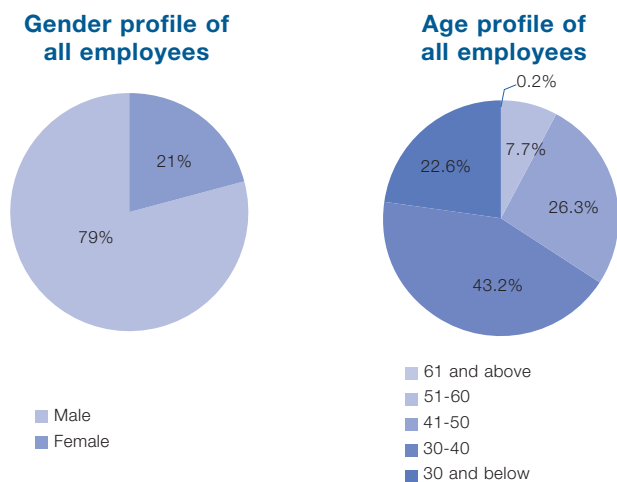
In the first list of “Top 100 most innovative enterprises in Jiangsu” released by the Jiangsu Research Institute of Development Strategy in 2016, New Yangzi was ranked No.15.

The national High-and-New Technology Enterprises status is jointly awarded by the Ministry of Science and Technology, Ministry of Finance, and the State Administration of Taxation. Eligibility criteria include R&D capability, track record in the development of intellectual property rights, use of technological innovations and improvements, and the proportion of technological personnel in the organization.

Employee matters

Yangzijiang’s achievements today are built on the effort of all in the Group. The Group has a comprehensive plan on human capital growth, which extends from collaborative training programs with vocational schools, manpower recruitment through M&A to continued training scheme for existing staff.

The Group is committed to gender and age equality. However, the nature of our shipbuilding business requires a higher proportion of male employees. Currently the Group’s employee profile is as follows.



The Group collaborated with vocational schools, which effectively created a talent pool, especially for technical personnel. An incentive program is in place to encourage our staff to pursue technical certificates and improve English language skills through continuous learning. We also set up various teams focusing on the training and development of fitters, welders, and engineers with overseas exposure.

We organize regular training for employees of all departments, especially for work unit heads on production sites and quality assurance staff. In 2017, each employee received 60 hours of training on average. We invite external speakers to conduct training on management procedures and organize various contests for technical staff to constantly improve their knowledge and skills.

We retain employee loyalty through a comprehensive incentive/reward scheme. A clear incentive structure gives our employees better visibility for their career



and compensation paths. This has led to a low staff turnover, reduced training costs, and improved production efficiency.

We also place a strategic focus on strengthening the educational profile of our employees that is in line with our target to enhance R&D capabilities. As of 2017, 40% of the Group’s employees had a qualification of a diploma or above, and R&D headcount accounted for 12% of our total staff strength.

Anti-corruption

We strictly adhere to integrity in business practice. We keep close checks on the cost structure to minimize cost in production, procurement, administration, sales and marketing. A detailed procedural guide containing meticulous rules to counter bribery and corruption is in place. It is intended to facilitate whistle blowing in relation to improper, unethical, or fraudulent conduct. All employees are informed of the policy. In 2017, there were no incidents of bribery or corruption within Yangzijiang.

(2) Environmental

Environmental protection is a key part of sustainability. It is a fact that shipbuilding business requires us to make special effort to monitor and improve material and energy efficiency and waste management, and to build and promote the use of clean-energy vessels. Yangzijiang has made significant progress in these aspects, which not only contributes to our operational and financial performance, but also positioned us as a responsible and environmental-friendly shipbuilder.

Operational Framework for Shipbuilding

To ensure that our vessel products are in line with the requirements of international accords, and rules and regulations on safety, environmental protection, energy efficiency and product quality, we established a comprehensive production workflow that is conducive for building green vessels. The use of TRIBON, SB3DS and other software ensures the effectiveness and efficiency of our workflow process, with performance targets for parts and components at each production phase.

Our internal environmental protection procedures take a plan-do-check-adjust (PDCA) approach, and are improved on a continuous basis. We have zero tolerance towards any waste of energy and resource.

SUSTAINABILITY REPORT



Our KPIs require employees to demonstrate effort in effective energy consumption and be responsible citizens in preserving the environment. Employees of all levels are encouraged to contribute ideas on the saving of raw materials and other production costs, which contributes to continuous optimization of production efficiency and cost structure. We received over 5,000 cost-saving and efficiency improvement ideas each in 2016 and 2017, which led to total savings of over RMB600 million (table below). We in turn reward employees contributing these ideas with prizes and bonuses of various forms, so as to encourage a constant flow of cost-saving innovations.

	No. of suggestions/ innovative ideas	Energy consumption/ production cost saved (RMB million)
2016	5,595	293.7
2017	5,948	331.2

By improving our infrastructure for “green shipbuilding” over the years, Yangzijiang is qualified for ISO9001 certification by the China Classification Society. Our environmental management system is ISO14001 and CSQA certified. Our quality management system has obtained BV ISO9002 and CCS ISO2000 certificates, and our vessels are CCS, ABS, BV, NK, GL, LR, DNV, and RINA certified. Regular reviews by government agencies have always found the Group compliant with national and international standards on emissions, such as wastewater, waste gas, solid waste, dust, and noise generated in production.

Raw material and energy consumption

The Group's stringent rules on utilities saving as well as technological breakthrough contributed to lower water, paper and electricity consumption. For example, non-production units, such as quality control, production management and cost management, are strictly only allowed to use electronic production charts which saved paper usage.

A summary of electricity and water consumption data for the past three years is as follows:

Energy consumption	Unit	2015		2016		2017	
		Total	YoY change %	Total	YoY change %	Total	YoY change %
Electricity	10,000 tons	25,717	10.6	20,866	-18.9	21,773	4.3
Of which – used for production	10,000 tons	25,075	12.1	20,248	-19.2	21,272	5.1
Water	Ton	3,512,058	29.0	3,116,465	-11.3	3,124,022	0.2
Of which – used for production	Ton	3,062,577	29.7	2,668,394	-12.9	2,748,956	3.0

The Group's utilities consumption patterns are also correlated to the level and the complexity of production and because of vessel types vary, the correlation might not be linear. Overall, we aim to contain the energy consumption to grow at a slower pace than the production growth.

(3) Social

We discussed the economic matters in relation to employment above. Here we would like to discuss the social matters, namely, occupational safety and health, and social responsibility.

Occupational safety

In accordance with relevant national laws, regulations and industry characteristics, the Group has 35 management procedures documents in place, covering production safety and environmental protection matters. The content stipulates accountability, training, hazardous operation control and hidden issue investigation etc.. The Group also has established a set of comprehensive safety operation procedures, covering safety operation requirements for 116 posts in 15 categories.



We have a Safety Production Committee at each yard that looks after safety in production related matters, as well as environmental protection, fire safety and industrial hygiene. The committee is headed by the yard's general manager and organizes safety training on a regular basis. We have a training center with a dedicated instructor team responsible for the orientation program on safety for new employees, as well as regular training and emergency drills for existing employees. We provide all the necessary safety equipment and have rigorous rules on the enforcement of safety procedures. We organize regular health checks for employees and provide complementary vaccination for early identification and prevention of health issues. We also ensure all heat-prevention equipments are handed out to workers in time before summer season.

In terms of emergency preparedness, we have both a comprehensive emergency plan and special emergency plans for various types of accidents. We have 12 emergency rescue teams with 400 team members. The local hospital also has a clinical center on our yards to ensure fast response.

Social responsibility

We organize regular recreational activities to promote employees' work life balance and team building, including sport activities such as participation in external night marathons and photography competitions.

We care about the people and the society as a whole. As the Group employs thousands of technical workers who have their family and children near the yard, we make an effort to help them, such as on their children's education needs. We organize younger employees with university degrees to provide free tuition to the children of the workers. In return, these tutors receive a certificate for their volunteer work, and enjoy priority status should they apply to be evaluated for entitlement for financial support from the Group's charity fund. The project started in 2014. Over 30 volunteers participated and it has helped over 30 families.

Charity

The Group and Mr. Ren, our Executive Chairman, believe in returning to the society. Over the years, the Group and Mr. Ren have given hundreds of millions of RMB to society for various purposes.

In fact, Mr. Ren Yuanlin is renowned for his charity work, and was listed as No.4 in the China Philanthropist

List by Forbes in 2014. He donates the dividends from his one billion Yangzijiang shares to the Yuanlin Charity Foundation which he founded in 2011.

The Foundation primarily funds charitable work in elderly service facilities, disaster rescue, and assistance of the financially needy. It also finances technological innovation. The Yuanlin University for Senior Citizens in Jiangyin, with a capacity for 5,000 people and 100 classes, has substantially improved the quality of life for the elderly. The Foundation also plans to donate one billion RMB to another eight to ten such universities in neighbouring cities and one to two geriatric rehabilitation centres. The principal donation to Yuanlin Charity Foundation was made from Mr. Ren's personal wealth. The Foundation is managed by an independent institution with 3rd party supervision. In 2017, the Foundation donated RMB16 million to the universities and the geriatric rehabilitation centers. Since 2013, the Group has donated RMB200 million to various causes.

In 2016, Mr. Ren received accolades such as "Outstanding Entrepreneur of Jiangsu Province", "Outstanding Contribution Award for the Internationalization of Jiangsu's Businesses", and "Most Respected Businessman of Jiangsu".

4. Governance

Along with our financial and operational excellence, the Group has taken concrete action to improve corporate governance. One major step taken in 2015 was to appoint Mr. Ren Letian as the Group CEO. Mr. Ren Yuanlin, the former CEO of the Group, remains as Executive Chairman. This was part of the Group's succession planning strategy for sustained growth. We improved corporate governance by separating the roles of Chairman and CEO.

On sustainability reporting, Yangzijiang adheres to SGX guidance and publishes details on the environmental, social and governance (ESG) aspects of our business and strategy for investors to make informed investment decisions. Our sustainability performance is supervised by the Sustainability Committee and the sustainability reporting process is managed by the Investor Relations team.

Risk Management

The Group adopts conservative financial management and accounting policies. We make provisions for warranties on vessels delivered, as well as impairments for fleet, plant, property, and equipment to reflect market conditions. In FY2017, we made a provision of RMB1.2 billion to manage the risk of volatility in raw material prices and currency.

Over the years, we have built up a comprehensive risk management system to safeguard the Group's profitability. Measures adopted include the following:

Managing operational risk

- The Group's shipbuilding customer base is well-diversified geographically, with sales contribution from Asia countries, Australia, European countries, as well as from Canada and USA.
- Vessel building contract terms and conditions are prudently negotiated to deter vessel cancellation.

SUSTAINABILITY REPORT

- We proactively liaise with ship owners to understand the charter demand outlook and customer needs so as to pre-empt and work out solutions that lower the risk of vessel cancellation.
- We assist ship owners in obtaining ship financing.
- We renegotiate on delivery schedule and rework of vessel types.
- We provide temporary docking space in the event that a customer is unable to secure a charter contract by contracted vessel delivery date.

Managing financial risk

- We use derivative financial instruments to reduce risk
- We have a stringent, multi-tier risk management system in financial investment.
- It is our policy not to extend credit to newly established real estate companies, or small medium enterprises that do not come with a strong cash flow projection.
- Our HTM financial assets are well-protected fixed-income investments backed by collateral of shares, land, guarantees by institutions of high credit rating such as banks, insurers or governments.
- To manage currency risk, USD/RMB forward currency contracts are used as hedging instruments for our USD shipbuilding contracts.

5. Stakeholders

In addition to employees and local communities that we mentioned above, other groups of stakeholders that the Group actively engages include customers, suppliers and shareholders.

Customers

The Group has a systematic approach to ensure that customers receive thorough and high quality services from the time the shipbuilding order becomes effective to the warranty period after sales.

When any shipbuilding order becomes effective, a dedicated project management team will provide a detailed list with technological specifications for the customer to sign off. If the customer has any suggestions or requests, the project management team will coordinate with procurement, technology and other departments of the Group to amend the list accordingly until the customer approves.

The Group also provides all necessary support to the customer's representative assigned to the yard, and streamlines the collaboration and communication during each milestone in the construction period. Once the construction is completed, the Group will plan and coordinate with the customer regarding trial voyage, all documentation, cost settlement, balance payment, delivery ceremony and schedule, to ensure successful delivery and customer satisfaction.

In some occasions a customer might request for early or late delivery. As long as feasible, the Group makes necessary arrangements to meet the customer's request.

Suppliers

The Group's procurement department is responsible for engaging suppliers for equipment, raw materials and thousands of small consumable goods. All qualified suppliers on the Group's supplier list will need to go through a bidding process in order to supply to the Group for a stipulated period. The department reviews and updates the supplier list according to quality, pricing, client service, delivery and post-sales service, etc. on a regular basis.

The Group has stable, reliable and professional relationships with a wide range of suppliers in China and the world. Its strong financial position allows it to always make payments to suppliers on time, or provide more favorable payment terms to suppliers, in which case suppliers would be happy to offer more competitive price to Yangzijiang for goods supplied.

Shareholders

Yangzijiang's current shareholders include over 200 financial institutions, including pension funds and sovereign funds as well as thousands of retail shareholders. Financial institutions hold approximately 35% of the Group's shares traded on SGX¹.

Headed by the CFO based in Singapore and its investor relations team, Yangzijiang engages shareholders on a regular basis. It organizes analyst briefings after every quarterly results announcement, and management attends road shows organized by local and foreign banks throughout the year. The management and its IR team keep close conversation with institutional shareholders in Singapore, Hong Kong, Mainland China, US, UK, India and other parts of the world. It also organizes site visit to the shipyards in China for analysts and investors. All site visit requests from the investment community are carefully attended to by the Chairman's office.

Yangzijiang has a good proportion of long-term shareholders, many of them have held the Group's shares since Yangzijiang's IPO days. In the 10-year listing celebration dinner held on April 28, 2017, some of these long-term retail shareholders were invited.

CONCLUSION

Through various business cycles and social conditions, Yangzijiang has developed into a large-scale shipbuilding company with an established business concept and strategy, a stable and competent management team, and a well-defined corporate culture. Our public listing in 2007 on the Singapore Exchange has further enhanced our framework in corporate governance that protects the interest of shareholders, customers, suppliers, the government, and society. The Group won the SIAS Most Transparent Company Award 3 times in a row from 2010 to 2012. In 2015, Yangzijiang re-entered the Straits Times Index as one of its constituent stocks, an endorsement on Yangzijiang as a quality listed company on the SGX.

¹ As of Feb 28 2018

CORPORATE GOVERNANCE REPORT

The Board of Directors of Yangzijiang Shipbuilding (Holdings) Ltd. (the “**Company**”) is continue to be committed to achieving and maintaining high standards of corporate governance, business integrity and professionalism within the Company and its subsidiaries (the “**Group**”) to protect the interests of all its stakeholders and to promote investors’ confidence and supports for long term value creation.

This report describes the Group’s ongoing efforts in the financial year ended 31 December 2017 (“**FY2017**”) in keeping pace with the evolving corporate governance practices and complying with the Code of Corporate Governance 2012 (the “**Code**”). The Company confirms that it has adhered to the principles and guidelines set out in the Code, except where otherwise stated. The Board will continue to improve its practices with developments by enhancing its principle and framework.

BOARD MATTERS

Principle 1: The Board’s Conduct of its Affairs

The Board of Directors (the “**Board**”) is primarily responsible for overseeing the management of the business affairs, corporate affairs and the overall performance of the Group. Board members are expected to act in good faith and exercise independent judgment in the best interests of the Group.

The Group is led and controlled by an effective Board that has the overall responsibility for corporate governance, strategic direction, overseeing the investments, operations, internal controls, financial reporting and compliance of the Group and approving the nominations of Board of Directors.

The Board recognises that its principal duties include:

- Providing entrepreneurial leadership, setting the strategic directions and the long-term goals of the Group and ensuring that adequate resources are available to meet these objectives;
- Reviewing and approving corporate plans, annual budgets, investment proposal and merger & acquisition proposals of the Group;
- Reviewing and evaluating the adequacy and integrity of the Group’s internal controls, compliance, risk management and financial report systems;
- Reviewing and monitoring management performance towards achieving organisational goals;
- Overseeing succession planning for management;
- Setting corporate values and standards for the Group to ensure that the obligations to shareholders and other stakeholders are understood and met;
- Ensuring accurate and timely reporting in communication with shareholders; and
- Considering sustainability issues including environmental and social factors in the Group’s strategic formulation.

CORPORATE GOVERNANCE REPORT

The Board's approval is specifically required for matters such as corporate restructuring, mergers and acquisitions, major investments and divestments, material acquisitions and disposal of assets and release of the Group's quarterly and full-year financial results.

The Management is responsible for day-to-day operations/administration of the Group and they are accountable to the Board. Clear directions have been given out to the Management that such reserved matters must be approved by the Board.

The Board has delegated specific responsibilities to the committees of the Board, namely, the Nominating Committee ("**NC**"), the Remuneration Committee ("**RC**") and the Audit Committee ("**AC**") (collectively, the "**Board Committees**") to assist the Board in carrying out and discharging its duties and responsibilities efficiently and effectively. These Board Committees are made up of Non-Executive Directors and Independent Directors and each chaired by an Independent Director. Each Board Committee has its own specific Terms of Reference which clearly set out its objectives, scope of its duties and responsibilities, rules and regulations, and procedures governing the manner in which it is to operate and how decisions are to be taken.

The Board meets on a quarterly basis to approve, among others, announcements of the Group's quarterly and full year financial results. Additional meetings are also convened to discuss and deliberate on urgent substantive matters or issues when circumstances require. The dates of Board and Board Committees meetings as well as the annual general meeting ("**AGM**") will be scheduled in advance. To assist directors in planning their attendance, the Company Secretary will first consult every director before fixing the dates of these meetings.

The Company's Constitution provides for meetings to be held via telephone conference or other methods of simultaneous communication by electronic or telegraphic means in the event when Directors were unable to attend meetings in person. Management has access to the Directors for guidance or exchange of views outside of the formal environment of the Board meetings.

The number of meetings of Board and Board Committees held during FY2017 and the attendance of each Director at those meetings are set out as follows:

Name of Directors	Board of Directors		Audit Committee		Nominating Committee		Remuneration Committee	
	No. of meeting		No. of meeting		No. of meeting		No. of meeting	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Ren Yuanlin	4	4	–	–	–	–	–	–
Teo Yi-dar	4	4	5	5	1	1	1	1
Chen Timothy Teck Leng @ Chen Teck Leng	4	4	5	5	1	1	1	1
Xu Wen Jiong	4	4	5	5	1	1	1	1

CORPORATE GOVERNANCE REPORT

Currently, the Company does not have a formal training programme for new Director(s). However, the Board ensures that incoming new Director(s) are given comprehensive and tailored induction on joining the Board including onsite visits, if necessary, to get familiarised with the business of the Group and corporate governance practices upon their appointment and to facilitate the effectiveness in discharging their duties. Newly appointed Director(s) will be provided a formal letter setting out their duties and obligations. They will be given briefings by the Management on the business activities of the Group and its strategic directions as well as its corporate governance practices. There was no new Director appointed during FY2017.

All Directors are encouraged to constantly keep abreast of developments in regulatory, legal and accounting frameworks that are of relevance to the Group through the extension of opportunities for participation in the relevant training courses, seminars and workshops as relevant and/or applicable.

Principle 2: Board Composition and Guidance

The Board currently has four (4) Directors, comprises three (3) Non-Executive Directors with two (2) of them independent and one (1) Executive Director. The current members of the Board and their membership on the Board Committees of the Company are as follows:–

Name of Directors	Board Membership	Audit Committee	Nominating Committee	Remuneration Committee
Ren Yuanlin	Executive Chairman	–	–	–
Teo Yi-dar	Lead Independent Director	Member	Chairman	Chairman
Chen Timothy Teck Leng @ Chen Teck Leng	Independent Non-Executive Director	Chairman	Member	Member
Xu Wen Jiong	Non-Independent Non-Executive Director	Member	Member	Member

The Directors bring with them a broad range of business and financial experience, skills and expertise in finance, industry, business and management and general corporate matters. Their profiles are set out on pages 14 to 15 of this Annual Report.

The size and composition of the Board are reviewed annually by the NC, taking into account the scope and nature of operations of the Company, to ensure that the size of the Board is appropriate to facilitate effective decision-making, and that the Board has an appropriate balance of independent Directors. During FY2017, the NC conducted its annual review of the Directors' independence and was satisfied that the Company has complied with the guidelines of the Code, including the guideline that at least one-third of the Board is made up of Independent Directors. As the Chairman is not an Independent Director, the NC also reviewed the composition of Independent Directors on the Board and was satisfied that the Independent Directors made up to at least half of the Board.

The NC is of the view that the present Board size of four is appropriate for the Group's present scope of operations to facilitate decision making and the Board has an adequate mix of competency to discharge its duties and responsibilities. Further, no individual or small group of individuals dominates the Board's decision making process.

CORPORATE GOVERNANCE REPORT

Each of the Independent Directors has confirmed that he does not have any relationship with the Company or its related corporations, its 10% shareholders or its officers including confirming not having any relationships and circumstances provided in Guideline 2.3 of the Code, that could interfere, or be reasonably perceived to interfere, with the exercise of independent judgment in carrying out the functions as an Independent Director with a view to the best interests of the Group.

The independence of each Independent Non-Executive Director is assessed at least annually by the NC as mentioned under Guideline 2.3 of the Code. The NC has affirmed that Mr Teo Yi-dar and Mr Chen Timothy Teck Leng @ Chen Teck Leng are independent and free from any relationship outlined in the Code. Each of the Independent Directors has also confirmed his independence. Particular scrutiny is applied in assessing the continued independence of Directors having served beyond nine (9) years from the date of his first appointment, with attention to ensuring their allegiance remains clearly aligned with the shareholders' interest.

In respect of the Independent Director, namely Mr Teo Yi-dar, having served more than 9 years, the Board has considered specifically his length of services and his continued independence. The Board has determined that the Director concerned remained independent of character and judgement and there was no relationship or circumstance which would likely to affect, or could appear to affect the Director's judgement. The independence of character and judgement of the Director concerned was not in any way affected or impaired by the length of services. The Board has also conducted a review of the performance of Independent Director and considers that this Director brings invaluable expertise, experience and knowledge to the Board and that he continues to contribute positively to the Board and Board Committees deliberation. Therefore, the Board is satisfied as to the performance and continued independence of judgement of this Director.

The Board does not consider it to be in the interests of the Company or shareholders to require the Director who has served more than 9 years or longer to retire and favours ensuring continuity and stability.

Non-Executive Directors contribute to the Board process by monitoring and reviewing the Management's performance against goals and objectives. Their views and opinions provide alternative perspectives to the Group's business. They constructively challenged and helped develop the Group's business strategies. Management's progress in implementing such agreed business strategies were monitored by the Non-Executive Directors.

The Non-Executive Directors communicated without the presence of Management as and when the need arose. The Company also benefited from the Management's ready access to its Directors for guidance and exchange of views both within and outside the formal environment of the Board and Board Committees meetings.

Principle 3: Chairman and Chief Executive Officer

The Code advocates that there should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the Group's business and no one individual should represent a considerable concentration of power.

The Company has a clear division of responsibilities at each level of the Company, with the Executive Chairman and the Chief Executive Officer ("CEO") having separate roles to ensure an appropriate balance of power, increased accountability and a greater capacity of the Board for independent decision-making.

CORPORATE GOVERNANCE REPORT

The division of responsibilities between the Chairman and the CEO is also clearly established in the Constitution of the Company. The Chairman manages the business of the Board whilst the CEO and his management team translate the Board's decisions into executive action. The CEO has executive responsibilities for the Group's businesses and is accountable to the Board.

Nonetheless, the Chairman, Mr Ren Yuanlin is the father of the CEO, Mr Ren Letian.

The Chairman:

- is responsible for leadership of the Board and is pivotal in creating the conditions for overall effectiveness of the Board, Board Committees and individual Directors.
- takes a leading role in the Company's drive to achieve and maintain high standards of corporate governance with the full support of the Directors, Company Secretary and Management.
- approves agendas for the Board meeting and ensures sufficient allocation of time for thorough discussion of agenda items.
- promotes an open environment for debates and ensures Non-Executive Directors are able to speak freely and contribute effectively.
- exercises control over the quality, quantity and timeliness of information flow between the Board and Management.
- provides close oversight, guidance, advice and leadership to the CEO and Management.
- plays a pivotal role in fostering constructive dialogue between shareholders, the Board and Management at AGMs and other shareholders' meetings.

Whereas the CEO is the highest ranking executive officer of the Group who is responsible for:

- running the day-to-day business of the Group, within the authorities delegated to him by the Board.
- ensuring the implementation of policies and strategy across the Group as set by the Board.
- day-to-day management of the executive and senior management team.
- leading the development of senior management within the Group with aim of assessing the training and development of suitable individuals for future Director's roles.
- ensuring that the Chairman is kept apprised in a timely manner of issues faced by the Group and of any important events and developments.
- leading the development of the Group's future strategy including identifying and assessing risks and opportunities for the growth of its business and reviewing the performance of its existing businesses.

CORPORATE GOVERNANCE REPORT

In view of Mr Ren Yuanlin as the Executive Chairman and Mr Ren Letian as the CEO, Mr Teo Yi-dar remains as the Lead Independent Director of the Company for the shareholders in situations where there are concerns or issues which communication with the Chairman and CEO and/or Chief Financial Officer (“CFO”) has failed to resolve or where such communication is inappropriate. Mr Teo Yi-dar will also take the lead in ensuring compliance with the Code.

The Chairman schedules the meeting and sets the meeting agenda of the Board, and reviews the Board papers before they are presented to the Board. In addition, the Chairman also assists to ensure the Company’s compliance with the Code.

Led by the Lead Independent Director, the Independent Directors meet periodically without the presence of the other Directors, and the Lead Independent Director will provide feedback to the Chairman after such meetings as appropriate.

Principle 4: Board Membership

The NC consists of two (2) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director, the majority of whom, including the NC Chairman, are independent:

Mr Teo Yi-dar, Chairman	(Lead Independent Director)
Mr Chen Timothy Teck Leng @ Chen Teck Leng	(Independent Director)
Mr Xu Wen Jiong	(Non-independent Non-executive Director)

The NC will meet at least once a year. During FY2017, the NC held once scheduled meeting with full attendance. The NC, which has written terms of reference, is responsible for making recommendations to the Board on all Board appointments and re-appointments. The key terms of reference of the NC include the following:

- (a) determining the process for search, nomination, selection and appointment of new Board members and assessing nominees or candidates for appointment and re-election to the Board;
- (b) making recommendations to the Board on the nomination of retiring Directors and those appointed during the year standing for re-election at the Company’s annual general meeting, having regard to the Director’s contribution and performance and ensuring that all Directors submit themselves for re-election at regular intervals;
- (c) review the Board structure, size and composition regularly and making recommendation to the Board, where appropriate;
- (d) review the Board succession plans for directors, in particular, the Chairman and CEO;
- (e) determine the independence of Directors annually (taking into account the circumstances set out in the Code and other salient factors);
- (f) develop a process for assessing and evaluating the effectiveness of the Board as a whole and the Committees of the Board and the contribution of each individual Director to an effective Board;
- (g) decide on how the Board’s performance may be evaluated and to propose objective performance criteria for Board approval;

CORPORATE GOVERNANCE REPORT

- (h) review training and professional development programmes for the Board; and
- (i) determine whether or not a Director is able to and has been adequately carrying out his/her duties as a Director of the Company, particularly when he/she has multiple Board representations.

The Board, through the NC, reviews annually the effectiveness of the Board as a whole and its required mix of skills and experience and other qualities, including core competencies, which Directors should bring to the Board.

The NC has in place a formal process for the selection of new Directors and re-appointment of Directors to increase transparency of the nominating process in identifying and evaluating nominees or candidates for appointment or re-appointment. In selecting potential new Directors, the NC will seek to identify the competencies and expertise required to enable the Board to fulfill its responsibilities. The NC will evaluate the suitability of the nominee or candidate based on his qualifications, business and related experience, commitment, ability to contribute to the Board process and such other qualities and attributes that may be required by the Board, before making its recommendation to the Board. In recommending a candidate for re-appointment to the Board, the NC considers, amongst other things, his/her contributions to the Board (including attendance and participation at meetings, time and effort accorded to the Company's or Group's business and affairs) and his/her independence. The Board is to ensure that the selected candidate is aware of the expectations and the level of commitment required. The Board, on the recommendation of the NC, appoints new Directors. All new Directors who are appointed by the Board are subject to re-election at the next Annual General Meeting ("**AGM**") but shall not be taken into account in determining the numbers of Directors who are retire by rotation at such meeting.

Pursuant to the Company's Constitution, one-third of the Directors other than the Managing Director, shall retire from office at least once every 3 years at each AGM. The NC has recommended Mr Chen Timothy Teck Leng @ Chen Teck Leng and Mr Xu Wen Jiong, who are retiring and to be re-elected at the forthcoming 12th AGM in accordance with Article 94 of the Company's Constitution. They had offered themselves for re-election. The Board has accepted the recommendation of NC.

In making the recommendations, the NC considers the overall contribution and performance of the Directors. The NC members, had abstained from deliberation in respect of his own nomination and assessment.

The NC reviewed the independence of the Directors as mentioned under Guidelines 2.3 and 2.4. The NC has affirmed that Mr Chen Timothy Teck Leng @ Chen Teck Leng and Mr Teo Yi-dar are independent and free from any relationship outlined in the Code. Each of the Independent Directors has also confirmed his independence.

In assisting the NC to determine whether Directors who are on multiple boards have committed adequate time to discharge their responsibilities towards the Company's affairs, the NC had considered the attendances and contributions of Directors to the Board and Board Committees but does not make any recommendation on setting the maximum number of listed company board appointment to which any Director may hold given that the multiple Board representation by the Non-executive Directors do not hinder each Director from carrying out his duties as a Director of the Company adequately.

Presently, the Company does not have any Alternate Director on the Board.

Key information of each director's academic, professional qualifications and other principal commitments can be found in pages 14 to 15 of the "Board of Directors" section of this Annual Report.

CORPORATE GOVERNANCE REPORT

Directors' key information are set out below:

Name of Directors	Date of First Appointment	Date of Last Re-election	Present Directorships and Chairmanships in Other Listed Companies	Directorships and Chairmanships in Other Listed Companies over the preceding three years
Ren Yuanlin	13 January 2006	28 April 2017	Nil	Nil
Teo Yi-dar	28 July 2006	28 April 2017	1. China Yuanbang Property Holdings Limited 2. Smartflex Holdings Ltd 3. HG Metal Manufacturing Ltd 4. Denox Environmental & Technology Holdings Limited	1. Net Pacific Financial Holdings Limited
Chen Timothy Teck Leng @ Chen Teck Leng	26 April 2013	28 April 2016	1. Boldtek Holdings Ltd. 2. Tianjin Zhongxin Pharmaceutical Group Corporation Ltd. 3. Sysma Holdings Limited 4. Tye Soon Ltd.	1. TMC Education Corporation Ltd 2. XinRen Aluminum Holdings Limited 3. Hu An Cable Holdings Ltd.
Xu Wen Jiong	30 April 2014	28 April 2016	Nil	Nil

Principle 5: Board Performance

The NC has in place a framework for annual individual Board and Board as a whole as well as Board Committees performance evaluations to assess the effectiveness of the Board and its Board Committees and to facilitate discussion to enable the Board to discharge its duties more effectively. The annual Board and Board Committees performance evaluations is carried out by means of a questionnaire relating to the size and composition of the Board, information flow to the Board, Board procedures and accountability, matters concerning CEO/key management personnel and standards of conduct of Board members being completed by each individual Director. Completed questionnaires are collated by the Company Secretary and the findings presented to the NC for discussion with comparatives from the previous year's results. The NC and the Board were satisfied with the results of the Board and Board Committees performance evaluation for FY2017, which indicated areas of improvements compared with FY2016. No significant problems were identified. Both the NC and Board agreed to work on those areas which had the lowest average score. Recommendations to further enhance the effectiveness of the Board and Board Committees will be implemented, as appropriate.

Principle 6: Access to Information

Management recognises the importance of ensuring the flow of complete, adequate and timely information to the Directors on an ongoing basis to enable them to make informed decisions to discharge their duties and responsibilities. To allow Directors sufficient time to prepare for the meetings, all Board and Board Committees papers are distributed to the Directors a week in advance of the meetings. Any additional material or information requested by the Directors is promptly furnished.

CORPORATE GOVERNANCE REPORT

Management's proposals to the Board for approval provide background and explanatory information such as facts, resources needed, risk analysis and mitigation strategies, financial impact, regulatory implications, expected outcomes, conclusions and recommendations. Employees who can provide additional insight into matters to be discussed will be present at the relevant time during the Board and Board Committees meetings. In order to keep Directors abreast of the Group's operations, the Directors are also updated on initiatives and developments on the Group's business as soon as practicable and/or possible and on an on-going basis.

All Directors have access to the Company's senior management, including CEO, CFO and other key management, as well as the Group's internal and independent auditors. Wherever possible, the Directors are provided Board papers prior to each Board meeting. Board papers provided are, amongst others, financial and corporation information, significant operational, financial and corporate issues, results and performance of the Company and of the Group, and management's proposals which require the approval of the Board. Queries by individual Directors on circulated paper are directed to management who will respond accordingly.

To facilitate direct access to management, Directors are also provided with the names and contact details of the management team. The Directors also have separate and independent access to the Company Secretary through e-mail, telephone and face-to-face meetings. The Company Secretary is responsible for, among other things, ensuring that the Board's procedures are observed and the Company's Constitution, relevant rules and regulations, including requirements of the Securities and Futures Act, Companies Act and SGX-ST Listing Manual ("Listing Manual") are complied with. She also assists the Chairman and the Board in implementing and strengthening corporate governance practices and processes, with a view to enhancing long-term shareholder value.

The role of the Company Secretary is, *inter alia*, advising the Board on all governance matters and ensuring that all Board procedures are followed. The Company Secretary assists the Chairman in ensuring good information flows within the Board and its Board Committees and between senior management and the Non-Executive Directors. The Company Secretary attends all Board meetings and Board Committees meetings and records the proceedings and decisions of the Board and of the Board Committees. The Company Secretary ensures that the corporate secretarial aspects of procedures concerning the Board are duly complied. The appointment and the removal of the Company Secretary are subject to the Board's approval.

The Directors, whether as a full Board or in their individual capacity may seek independent professional advice in the furtherance of their duties from time to time. The advisor so selected shall be approved by the Board and the cost of such professional advice will be borne by the Company. There was no such requirement during the year under review.

REMUNERATION MATTERS

Principle 7: Procedures for Developing Remuneration Policies

Principle 8: Level and Mix of Remuneration

Matters relating to the remuneration of the Board, key management personnel and other employees who are related to the controlling shareholders and/or Directors (if any) are handled by the RC whose primary function is to develop formal and transparent policies on remuneration matters in the Company. The RC also ensures that the Company's remuneration system is appropriate to attract, retain and motivate the required talents to run the Company successfully.

Matters which are required to be disclosed in the annual remuneration report have been sufficiently disclosed in this Report under Principles 7, 8 and 9; and in the Financial Statements of the Company and of the Group.

CORPORATE GOVERNANCE REPORT

The RC consists of two (2) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director, the majority of whom, including the RC Chairman, are independent:

Mr Teo Yi-dar, Chairman	(Lead Independent Director)
Mr Chen Timothy Teck Leng @ Chen Teck Leng	(Independent Director)
Mr Xu Wen Jiong	(Non-independent Non-executive Director)

The RC will meet at least once a year. During FY2017, the RC held once scheduled meeting with full attendance. The RC carries out its duties in accordance with a set of terms of reference which includes mainly, the following:

- reviewing and recommending to the Board for endorsement, a framework of remuneration policies to determine the specific remuneration packages for each Director and key management personnel, including employees related to the Executive Directors and controlling shareholders. The framework covers all aspect of remuneration, including but not limited to Director's fees, salaries, allowances, bonuses, options, share-based incentives and awards and benefits in kind;
- reviewing and recommending the remuneration of the Non-Executive Directors, taking into account factors such as their effort, time spent and their responsibilities;
- reviewing and recommending to the Board for endorsement on the payment of performance bonus to certain Executive Directors and executive officers pursuant to the profit-sharing scheme of the Company;
- reviewing and determining the contents of any service contracts for any Director; and
- carrying out other duties as may be agreed by the RC and the Board, subject always to any regulations or restrictions that may be imposed upon the RC by the Board of Directors from time to time.

The RC is responsible for ensuring a formal and transparent procedure is in place for fixing the remuneration packages of individual Directors and key management personnel. All aspects of remuneration frameworks, including but not limited to directors' fees, salaries, allowances, bonuses and other benefits-in-kind are reviewed by the RC. The recommendations of the RC are submitted for endorsement by the Board. Such frameworks are reviewed periodically to ensure that the Directors and key management personnel are adequately but not excessively remunerated as compared to industry benchmarks and other comparable companies. The RC also considers and recommends the CEO's remuneration package including salary, bonus and benefits-in-kind for endorsement by the Board.

The RC ensures that the remuneration of the Non-Executive Directors are appropriate to their level of contribution taking into account factors such as effort and time spent, and their responsibilities. Non-Executive Directors receive a basic fee for their services. Each member of the RC abstains from voting on any resolutions in respect of his own remuneration package. Directors' fees are further subjected to the approval of shareholders at the AGM.

The remuneration of related employees will be reviewed annually by the RC to ensure that their remuneration packages are in line with the staff remuneration guidelines and commensurate with their respective job scopes and level of responsibilities. Any bonuses, pay increments and/or promotions for these related employees will also be subject to the review and approval of the RC. In the event that a member of the RC is related to the employee under review, he will abstain from participating in the review. Where necessary, the RC will consult external professionals on remuneration matters of Directors and key management personnel.

CORPORATE GOVERNANCE REPORT

The Executive Director has a service agreement with the Company with last renewed in 2016. The service agreement may be terminated by either the Company or the Executive Director giving not less than six months' notice in writing. The remuneration package of the Executive Director and other senior management consists of the following components:

(a) Fixed Component

Fixed pay comprises basic salary, social security contributions, and employer's fixed allowances. Eligibility of employer's fixed allowances depends on the length of service.

(b) Variable Component

This component comprises variable bonus based on the Group's and the individual's performance. To link rewards to performance, the more senior the executive is in the Group, the higher is the percentage of the variable component against total compensation.

Having reviewed and considered the salary components of the Executive Directors and the Key Management Personnel which is considered reasonable and commensurate with their respective job scopes and level of responsibilities, the RC is of the view that there is no requirement to institute contractual provisions to allow the Company to reclaim incentive components of the remuneration paid in prior years in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss.

Principle 9: Disclosure on Remuneration

Details of the remuneration of Directors and top five (5) key management personnel of the Group for the financial year ended 31 December 2017 are set out below:

Name of Directors	Breakdown of Remuneration in Percentage (%)				Total (\$)
	Fees ² (%)	Salary ¹ (%)	Variable Bonus (%)	Total (%)	
Ren Yuanlin	–	15	85	100	49,900
Teo Yi-dar	100	–	–	100	45,500
Chen Timothy Teck Leng @ Chen Teck Leng	100	–	–	100	45,500
Xu Wen Jiong	100	–	–	100	45,500

(1) These are under the service contract.

(2) The directors' fees are subject to the approval of the shareholders at the 12th AGM.

CORPORATE GOVERNANCE REPORT

Name of Top 5 Key Management Personnel	Designation	Breakdown of Remuneration in Percentage (%)		
		Salary (%)	Variable Bonus (%)	Total (%)
Below S\$250,000				
Ren Letian	CEO	97	3	100
Wang Jiansheng	General Manager	54	46	100
Du Chengzhong	Deputy General Manager	24	76	100
Wang Dong	Deputy General Manager	26	74	100
Xiang Jianjun	Deputy General Manager	26	74	100

The remuneration of each of the above top five (5) key management personnel did not exceed S\$250,000. In aggregate, the total remuneration (including CPF contribution thereon and bonus) paid to the top 5 key management personnel in the financial year ended 31 December 2017 was approximately S\$434,000.

During FY2017, the following immediate family member of a Director or the CEO was the employee of the Group:–

Name of employee who is the immediate family member	Family relationship
Ren Letian	Son of Ren Yuanlin

The aggregate remuneration (including contributions to defined contribution plans thereon and bonus) paid to Ren Letian amounted to approximately S\$83,000.

Save as disclosed above, the Group does not have any other employee who is an immediate family member of a Director or CEO and whose remuneration exceeded S\$50,000 during the financial year.

ACCOUNTABILITY AND AUDIT

The Board recognises the importance of providing accurate and relevant information on a timely basis. In this respect, the AC reviews all financial statements and recommends them to the Board for approval. In addition, the AC ensures that the Company maintains a sound system of internal controls to safeguard the shareholders' investments and the Group's assets as well as to manage potential risks.

Principle 10: Accountability

Principle 11: Risk Management and Internal Controls

In discharging its responsibility of providing accurate relevant information on a timely basis to shareholders in compliance with statutory and regulatory requirements, the Board strives to ensure the timely release of the Group's financial results and that the results provide a balanced and understandable assessment of the Group's performance, position and prospects.

CORPORATE GOVERNANCE REPORT

The Board takes steps to ensure compliance with legislative and regulatory requirements, including requirements under the Listing Manual, where appropriate. The Independent Directors in consultation with Management will request for Management's consideration for the establishment of written policies for any particular matter that is deemed to be essential to form part of management control.

On a quarterly basis, the Management will report to the AC ensuring the financial processes and controls are in place, highlighting material financial risks and impacts and providing updates on status of significant financial issues of the Group, if any.

In accordance with the Singapore Exchange's requirements, the Board issued negative assurance statements in its quarterly financial results announcement, confirming to the best of its knowledge that nothing had come to the attention of the Board which might render the financial statements false or misleading in any material aspect.

The Board is responsible for the governance of risk. It should ensure that the Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the Group's assets and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

The Management is responsible to the Board for the design, implementation and monitoring of the Group's risk management and internal control systems and to provide the Board with a basis to determine the Group's level of risk tolerance and risk policies. The Board acknowledges that it is responsible for reviewing the adequacy and effectiveness of the Group's risk management and internal control systems including financial, operational, compliance and information technology controls. The Board also recognises its responsibilities in ensuring a sound system of internal controls to safeguard shareholders' investments and the Group's assets.

The Group had set up its own internal audit team to conduct a full review of its internal control and accounting system (the "**Internal Audit Team**"). The Internal Audit Team reports audit conclusions directly to the AC. It reviews, identifies and analyses the risks incurred by the Group in its activities and examines if there are any material non-compliance and internal control weaknesses as well as monitoring the implementation. The AC will oversee and monitor implementation of any improvements thereto.

The risk management system performed by the Internal Audit Team has also been integrated throughout the Group and has become an essential part of its business planning and monitoring process. On an annual basis, the AC reviews and reports to the Board the Group's risk profile, evaluates results and counter-measures to mitigate or transfer identified potential risks so as to assure itself and the Board that the process is operating effectively as planned. The risk management policy of the Group consists of the framework of formal, systematic and comprehensive guidelines and rules to identify and manage significant risks that might affect the Group's achievement of its business objectives. A Risk Management Framework has been in place to assist the Board, the Management and staff in identifying, reviewing and monitoring potential risks. Comprehensive guidelines and rules are set to identify and manage significant risks that may affect the Group's achievement of its business objectives, outputs, projects or operating processes. The Group recognises risk management as a collective effort beginning with the individual subsidiaries and business units, followed by the operating segments and ultimately the management and the Board, working as a team. The process identifies relevant potential risks across the Group's operations with the aim to bring them to within acceptable cost and tolerance parameters.

CORPORATE GOVERNANCE REPORT

The Management regularly reviews and updates the Board on the Group's business and operational activities in respect of the key risk control areas including financial, operational, compliance and information technology risk controls and continues to apply appropriate measures to control and mitigate these risks. All significant matters are highlighted to the Board and the AC for further discussion. The Board and the AC also work with the Internal Audit Team, independent auditors and Management on their recommendations to institute and execute relevant controls with a view to managing such risks.

The Board notes that no cost effective system of internal controls could provide absolute assurance against the occurrence of material errors, losses, fraud or other irregularities. In view of the above and based on the internal controls established and maintained by the Group, work performed by the Internal Audit Team, independent auditors, and reviews performed by the Management, various Board Committees and the Board so far, the AC and the Board are of the opinion that the Group's risk management and internal control systems, addressing financial, operational, compliance and information technology risks, put in place during the financial year were adequate and effective. This is in turn supported by the assurance from the CEO and the CFO that (a) the financial records of the Company have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances are in accordance with the relevant accounting standards; and (b) an effective risk management and internal control systems have been put in place.

The Board also notes that no system of risk management and internal control can provide absolute assurance against the occurrence of errors, losses, fraud or other irregularities and the containment of business risk. Nonetheless, the Board believes its responsibility of overseeing the Group's risk management framework and policies are well supported. The Board will look into the need for establishment of a separate board risk committee at the relevant time when necessary.

Principle 12: Audit Committee

The Board recognises the importance of providing accurate and relevant information on a timely basis. To ensure that the corporate governance is effectively practiced, the Board has established self-regulatory and monitoring mechanisms, including the establishment of the AC to ensure that the Company maintains a sound system of internal controls to safeguard the shareholders' investments and the Group's assets as well as to manage potential risks. The AC consists of two (2) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director, the majority of whom, including the AC Chairman, are independent:

Mr Chen Timothy Teck Leng @ Chen Teck Leng, Chairman	(Independent Director)
Mr Teo Yi-dar	(Lead Independent Director)
Mr Xu Wen Jiong	(Non-Independent Non-Executive Director)

The Board has ensured that all the AC members, having the necessary accounting and/or related financial management expertise, are appropriately qualified to discharge their responsibilities.

The AC meets on a quarterly basis and plays a key role in assisting the Board to review significant financial reporting issues and judgments to ensure the quality and integrity of the accounting reports, the audit procedures, internal controls, financial statements and any announcements relating to the Group's financial performance. During FY2017, the AC held five scheduled meetings with full attendance.

CORPORATE GOVERNANCE REPORT

The members of AC carry out their duties in accordance with a set of terms of reference which includes, mainly, reviewing the following:

- (a) The audit plan of the Company's independent auditor, results of its audit and its report on the weaknesses of internal accounting controls arising from the statutory audit;
- (b) The audit plan of the Internal Audit Team, results of its audit and evaluation of the Group's systems of internal accounting controls;
- (c) The nature and extent of the independent auditor's non-audit services to the Group, seeking to balance the maintenance of objectivity and value for money, as well as the assistance given by management to the independent auditor;
- (d) The significant financial reporting issues and judgments so as to ensure the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial statements;
- (e) The balance sheet of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2017, prior to the submission to the Board, as well as the Independent Auditor's Report on the balance sheet of the Company and the consolidated financial statements of the Group, and assisting the Board in the discharge of its responsibilities on financial and accounting matters;
- (f) The adequacy and effectiveness of the Group's internal audit function, and the adequacy of the Group's internal financial controls, operational, compliance and information technology control, and risk management systems;
- (g) Interested person transactions and potential conflicts of interest, if any;
- (h) The hedging policies and instruments implemented by the Group;
- (i) Financial assets, held-to-maturity to ensure that the Group's financial performance and position are not compromised;
- (j) The appointment, re-appointment and removal of the independent auditor, and approving the terms of engagement of the internal auditors and making recommendations to the Board; and
- (k) Undertake such other reviews and projects as may be requested by the Board and report to the Board its findings from time to time on matters arising and requiring the attention of the AC.

Apart from the duties listed above, the AC shall commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any Singapore law, rule or regulation which has or is likely to have a material impact on the Group's operating results and/or financial position. Each member of the AC shall abstain from voting on any resolutions in respect of matters in which he is interested.

The AC has reviewed and is satisfied with the level of co-operation rendered by the Management to the independent auditors, the adequacy of the scope and quality of their audits after having regard to the adequacy of the resources and experience of the auditors as well as the independence and objectivity of the independent auditor. In the course of its review, the AC also met with the independent auditors without the presence of the Management to discuss any matters deemed appropriate to be discussed privately, at least once a year.

CORPORATE GOVERNANCE REPORT

The Board, through its announcements of quarterly and full-year financial results, aims to provide shareholders with a balanced and understandable assessment of the Company's performance and prospects. The Management provides the Board with quarterly management accounts for the Board's review.

The AC discussed with the Management on the accounting treatment and methodology applied as well as the assumptions used in judgemental assessment which might impact the results of financial statements. The external auditors had reviewed the financial statements of the Group and highlight some key audit matters that might significantly impact the financial statements and were reviewed by AC as follows:–

The AC has discussed significant financial reporting matters with management and the external auditors which have been included as key audit matters ("KAMs") in the independent auditors' report for the financial year ended 31 December 2017, as set out on pages 53 to 55 of this Annual Report.

In assessing each KAM, the AC took into consideration the approach and methodology applied by management in the determination of construction revenue recognition using percentage of completion method, provision of foreseeable losses on certain construction contracts and the valuation of assets. The reasonableness of the estimates and key assumptions used were also considered by the AC. Where necessary, views of subject matter experts such as independent valuers were consulted.

The AC also considered the report from the external auditors, including their findings and views on the key areas of audit focus. The AC concluded that the Group's accounting treatment and estimates in each of the KAMs were appropriate.

The AC also reviews the independence and objectivity of the independent auditors and having reviewed the scope and value of non-audit services provided to the Group by the independent auditors, PricewaterhouseCoopers LLP, AC is satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the independent auditors. The aggregate amount of audit and non-audit fees paid or payable to the PricewaterhouseCoopers LLP Singapore for FY2017 were S\$711,100 and S\$35,000 respectively. The AC has recommended to the Board the nomination of PricewaterhouseCoopers LLP for re-appointment as auditors of the Company at the forthcoming 12th AGM. The Group has also complied with Rules 712 and 716 of the Listing Manual of SGX-ST in relation to the appointment of its independent auditors.

The AC has explicit authority to investigate any matter within its terms of reference. It has full access to, and has had the full co-operation of the Management. It also has full discretion to invite any Director or any member of the Management to attend its meetings or be provided with reasonable resources to enable it to discharge its functions properly.

To keep abreast of the changes in accounting standards and issues which have a direct impact on the financial statements, the AC will seek advice from the independent auditors as and when necessary.

Whistle Blowing Policy

To encourage proper work ethics and eradicate any internal improprieties, unethical acts, malpractices, fraudulent acts, corruption and/or criminal activities in the Group, the Company has implemented a whistle-blowing policy. The Policy stipulates the mechanism by which concerns about plausible improprieties in matters of financial reporting, etc, may be raised. A dedicated secured e-mail address allows whistle blowers to contact the AC directly. The Whistle blowing policy, its procedures and contact details of the AC have been made available to all employee and external parties at the Company's Bulletin Board.

CORPORATE GOVERNANCE REPORT

The Company's Whistle Blowing Policy allows not just employees but also external parties to raise concerns and offer reassurance that they will be protected from reprisals or victimisation for whistle blowing in good faith.

The AC addresses issues/concerns raised and arranges for investigation and/or follow-up of appropriate action. The AC reports to the Board any issues/concerns received by it at the ensuing Board meeting. Should the AC receive reports relating to serious offences, and/or criminal activities in the Group, they and the Board have access to the appropriate external advice where necessary. Where appropriate or required, a report shall be made to the relevant governmental authorities for further investigation/action.

Principle 13: Internal Audit

The AC's responsibilities over the Group's internal controls and risk management are complemented by the work of the Internal Audit Team. The Group had established its own internal audit team that is independent of the activities it audits and its primary line of reporting is to the Chairman of the AC. Administratively, the Internal Audit Team report to the CEO. The Internal Audit Team carries out its functions under the direction of the AC, and reports its findings and make recommendations to the AC.

The Internal Audit Team carrying out of its function in accordance with the standards set by the Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors. The AC ensures that Management provides good support to the Internal Audit Team and provides adequate access to documents, records, properties and personnel when requested in order for the Internal Audit Team to carry out its function accordingly. The Internal Audit Team also has unrestricted access to the AC on internal audit matters. The AC reviews and endorses the internal audit plan and internal audit reports of the Group. Any material non-compliance or failures in the internal audit function and recommendations for improvements are reported to the AC. The AC will review the adequacy and effectiveness of the internal audit function at least annually.

SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Principle 14: Shareholders Rights and Responsibilities

Principle 15: Communication with Shareholders

Principle 16: Conduct of Shareholders' Meetings

The Group acknowledges the importance of regular communication with shareholders and investors through which shareholders can have an overview of the Group's performance and operation. The Board ensures that all the Company's shareholders are treated equitably and the rights of all investors, including non-controlling shareholders are protected. Information is communicated to shareholders on a timely basis through the Company's annual report, circulars to shareholders (if any), quarterly financial results and the various announcements.

The Board embraces openness and transparency in the conduct of the Group's affairs, whilst safeguarding its commercial interests. Material information on the Group has been released to the public through the Company's announcements via the SGXNET.

The Group strongly encourages shareholders' participation at the AGM which will be held in Singapore. Shareholders are able to proactively engage the Board and Management on the Group's business activities, financial performance and other business related matters through dialogue sessions. The Group believes in regular, effective and fair communication with shareholders and is committed to hearing shareholders' views and addressing their concerns.

CORPORATE GOVERNANCE REPORT

The Company communicates with shareholders and the investing community through the timely release of announcements to the SGX-ST via SGXNET. Financial results of the Company and the Group were released within 45 days from the respective quarter ended and 60 days from the full year financial year ended during the year. In addition, the Annual Report 2017 (physical copy and digital copy in CD-ROM) is distributed to shareholders within the mandatory period before the 12th AGM to be held on 27 April 2018.

The Company has adopted a dividend policy that it believes appropriately reflects its goals, strategy and risk profile while providing attractive long-term return to investors. The Board is recommending 4.5 Singapore cents per ordinary share for FY2017 as the first and final one-tier tax-exempt dividend payable to the shareholders, subject to the approval of shareholders at the forthcoming 12th AGM. In considering the form, frequency and amount of dividends that the Board may recommend or declare in respect of any particular year or period, the Board takes into account various factors including:

- the results of operations and cash flow;
- the expected financial performance and working capital needs;
- future prospects; and
- capital expenditures and other investment plans;

as well as general economic and business operations in People's Republic of China and other factors deemed relevant by the Board and statutory restrictions on the payment of dividends.

The Group supports and encourages active shareholders' participation at general meetings. The Board believes that general meetings serve as an opportune forum for shareholders to meet the Board and key management personnel, and to interact with them. Information on general meetings is disseminated through notices in the annual reports or circulars sent to all shareholders. The notices are also released via SGXNET and published in local newspapers, as well as posted on the Company's website.

The Company's Constitution allows all shareholders to appoint proxies to attend general meetings and vote on their behalf.* Voting in absentia and by electronic mail may only be possible following careful study to ensure that the integrity of the information and authentication of the identity of shareholder via the internet is not compromised. Separate resolutions on each distinct issue are tabled at general meetings and explanatory notes are set out in the notices of general meetings where appropriate. All Directors including Chairman of the Board and the respective Chairman of the Board Committees, senior management and the independent auditors are intended to be in attendance at forthcoming 12th AGM to address any queries of the shareholders.

The Company Secretary prepares minutes of general meetings that include substantial and pertinent comments from shareholders relating to the agenda of the meetings and responses from Management and the Board, subsequently approved by the Board. Such minutes will be available to shareholders upon their written request.

The Board acknowledges voting by poll is integral in the enhancement of corporate governance and lead to greater transparency of the level of support for each resolution where shareholders are accorded rights proportionate to the shareholding and all votes counted. To enhance shareholders' participation, the Group puts all resolutions at general meetings to vote by manual poll and announces the results by showing the number of votes cast for and against each resolution and the respective percentage via SGXNET after the general meetings.

* Member who is a relevant intermediary may appoint more than two proxies to attend, speak and vote at the shareholders' meetings, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member's form of proxy appoints more than two proxies, the number and class of shares in relation to which each proxy has been appointed shall be specified in the form of proxy.

CORPORATE GOVERNANCE REPORT

OTHER CORPORATE GOVERNANCE MATTERS

INTERESTED PERSON TRANSACTIONS

(Rule 907 of the Listing Manual of SGX-ST)

The following table sets out the current total of all transactions with the interested persons for the financial year ended 31 December 2017:

Name of interested persons	Aggregate value of all interested person transactions during the financial period under review (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920) RMB'000	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000) RMB'000
Ren Yuanlin*	1,000	–
Xu Wen Jiong*	60,995	–

* Shareholder mandate is not applicable as the aggregate value was less than 3% of Group's NTA as at 31 December 2017.

The Group has adopted an internal policy which sets out the procedures for the identification, approval and monitoring of interested person transactions ("IPTs"). All IPTs are subject to review by the AC on a timely manner and the transactions are carried out on normal commercial terms and will not be prejudiced to the interests of the Group and its minority shareholders. The Company did not enter into any IPTs which require shareholders' approval under SGX-ST Listing Rules regulating IPTs during the financial year ended 31 December 2017.

RISK MANAGEMENT

(Rule 1207(4)(d) of the Listing Manual of SGX-ST)

Currently, the Group does not have a Risk Management Committee. However, the Management regularly reviews the Company's business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks. The Management reviews all significant control policies and procedures and will highlight all significant matters to the Directors and the AC.

Financial risk factors have been described in Note 37 of the Financial Statements.

MATERIAL CONTRACTS

(Rule 1207(8) of the Listing Manual of SGX-ST)

Save for the service agreements between the Company and the Executive Director and except as disclosed in the Directors' Statements and the Financial Statements, there were no other material contracts of the Company and its subsidiaries involving the interests of the CEO or any director or controlling shareholder, either subsisting at the end of the financial year or if not then subsisting, which were entered into since the end of the previous financial year.

CORPORATE GOVERNANCE REPORT

DEALING IN SECURITIES

(Rule 1207(19) of the SGX-ST)

The Group has adopted an internal code (the "Internal Code") on securities trading which provides guidance and internal regulation with regard to dealings in the Group's securities by its Directors and employees. The Internal Code is modelled after SGX-ST's Listing Rules on best practices on dealings in the Company's securities. The Internal Code prohibits the Directors and employees from dealing in listed securities of the Company on short-term considerations or while in possession of unpublished material or price-sensitive information. The Directors and employees are not allowed to deal in the Company securities during the period commencing two weeks before the date of announcement of its quarterly results and one month before the date of announcement of the full-year financial results and ending on the date of the announcement of the relevant results. The Directors and employees are also required to adhere to the provisions of the Securities and Futures Act, Companies Act, the Listing Manual and any other relevant regulations with regard to their securities transactions. They are also expected to observe insider trading laws at all times even when dealing in securities within the permitted trading period.

The Company has complied with SGX-ST's Listing Rules on best practices on dealing in the Company's securities in the financial year ended 31 December 2017.

USE OF PROCEEDS FROM THE PLACEMENT

(Rule 1207(20) of the Listing Manual of SGX-ST)

The Company has raised a net proceeds of S\$208.80 million after the deduction of expenses pursuant to the placement of 137,000,000 ordinary shares in the capital of the Company (the "Placement").

As at the date of this Corporate Governance Report, the net proceeds of S\$208.80 million from the Placement have been utilised as follows:

	Use of new placement proceed from the issuance of 137,000,000 ordinary shares	Planned use of Net Proceeds (S\$' million)	Net Proceeds utilised (S\$' million)	Balance of Net Proceeds (S\$' million)
a	Fund new investments and business expansion through acquisitions, joint ventures and/or strategic alliances	Up to 104.4	–	104.4
b	Working capital and general corporate purposes	104.4	104.4	–
	(a+b)	208.8	104.4	104.4
	Net proceeds received			208.8
	Balance of proceeds			104.4

The abovementioned use of the net proceeds from the Placement is in accordance with the intended use as stated in the Company's announcement for the Placement.

CORPORATE DISCLOSURE

The Company believes that a high level of disclosure is essential to enhance the standard of corporate governance. Hence, the Company is committed to provide a high level of disclosure in all public announcements, press releases and annual reports.

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

The directors present their statement to the members together with the audited financial statements of the Group for the financial year ended 31 December 2017 and the balance sheet of the Company as at 31 December 2017.

In the opinion of the directors,

- (a) the balance sheet of the Company and the consolidated financial statements of the Group as set out on pages 58 to 146 are drawn up so as to give a true and fair view of the financial position of the Company and of the Group as at 31 December 2017 and the financial performance, changes in equity and cash flows of the Group for the financial year covered by the consolidated financial statements, 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.

DIRECTORS

The directors of the Company in office at the date of this statement are as follows:

Ren Yuanlin
 Chen Timothy Teck Leng @ Chen Teck Leng
 Teo Yi-dar
 Xu Wen Jiong

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND 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 in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

- (a) According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

	Holdings registered in name of director or nominee		Holdings in which a director is deemed to have an interest	
	At 31.12.2017	At 1.1.2017	At 31.12.2017	At 1.1.2017
Company				
(No. of ordinary shares)				
Ren Yuanlin	3,200,000	3,200,000	1,002,845,825	1,002,845,825
Teo Yi-dar	150,000	150,000	–	–

- (b) Mr Ren Yuanlin, by virtue of his interest of not less than 20% of the issued capital of the Company, is deemed to have an interest in the whole of the share capital of the Company's wholly-owned subsidiaries and in the shares held by the Company in the subsidiaries that are not wholly-owned by the Group as set out in Note 42 of the financial statements.

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

DIRECTORS' INTERESTS IN SHARES OR DEBENTURES (CONTINUED)

- (c) The directors' interests in the ordinary shares of the Company as at 21 January 2018 were the same as those as at 31 December 2017.

SHARE OPTIONS

There were no options granted during the financial year to subscribe for unissued shares of the Company.

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

There were no unissued shares of the Company under option at the end of the financial year.

AUDIT COMMITTEE

The members of the Audit Committee ("AC") at the end of the financial year were as follows:

Chen Timothy Teck Leng @ Chen Teck Leng
Teo Yi-dar
Xu Wen Jiong

Two of the AC members are independent directors and one is a non-independent non-executive director.

The AC carried out its functions in accordance with Section 201B(5) of the Singapore Companies Act. In performing those functions, the AC reviewed the following:

- (a) The audit plan of the Company's independent auditor, results of its audit and its report on the weakness of internal accounting controls arising from the statutory audit;
- (b) The audit plan of the internal audit team, results of its audit and evaluation of the Group's systems of internal accounting controls;
- (c) The nature and extent of the independent auditor's non-audit services to the Group, seeking to balance the maintenance of objectivity and value for money, as well as the assistance given by management to the independent auditor;
- (d) The significant financial reporting issues and judgments so as to ensure the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial statement;
- (e) The balance sheet of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2017, prior to the submission to the Board, as well as the Independent Auditor's Report on the balance sheet of the Company and the consolidated financial statements of the Group, and assisting the Board in the discharge of its responsibilities on financial and accounting matters;

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

AUDIT COMMITTEE (CONTINUED)

- (f) The adequacy and effectiveness of the Group's internal audit function, and the adequacy of the Group's internal financial controls, operational and compliance and information technology control, and risk management systems;
- (g) Interested person transactions and potential conflicts of interest, if any;
- (h) The hedging policies and instruments implemented by the Group;
- (i) Financial assets, held-to-maturity to ensure that the Group's financial performance and position are not compromised; and
- (j) The appointment, re-appointment and removal of the independent auditor, and approving the terms of engagement of the internal auditors and making recommendations to the Board; and
- (k) Undertake such other reviews and projects as may be requested by the Board and report to the Board its findings from time to time on matters arising and requiring the attention of the AC;

The Audit Committee, having reviewed all non-audit services provided by the independent auditor to the Group, is satisfied that the nature and extent of such services would not affect the independence of the independent auditor.

The Audit Committee has recommended to the Board that the independent auditor, PricewaterhouseCoopers LLP, be nominated for re-appointment at the forthcoming Annual General Meeting of the Company.

INDEPENDENT AUDITOR

The independent auditor, PricewaterhouseCoopers LLP, has expressed its willingness to accept re-appointment.

On behalf of the directors

REN YUANLIN
Director

TEO YI-DAR
Director

21 March 2018

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our Opinion

In our opinion, the accompanying consolidated financial statements of Yangzijiang Shipbuilding (Holdings) Ltd. ("the Company") and its subsidiaries ("the Group") and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date.

What we have audited

The financial statements of the Company and the Group comprise:

- the consolidated statement of comprehensive income of the Group for the year ended 31 December 2017;
- the balance sheet of the Group as at 31 December 2017;
- the balance sheet of the Company as at 31 December 2017;
- the consolidated statement of changes in equity of the Group for the year then ended;
- the consolidated statement of cash flows of the Group for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

BASIS FOR OPINION

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

OUR AUDIT APPROACH

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the accompanying financial statements. In particular, we considered where management made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year ended 31 December 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD.

Key audit matter	How our audit addressed the key audit matter
1. Construction revenue recognition using percentage-of-completion method and allowance for expected losses	
<p><i>Refer to Notes 2.2(a), 3(a) and 4 of the financial statements</i></p> <p>Construction revenue amounted to RMB11,970.8 million, representing 62.3% of the Group's total revenue for the financial year ended 31 December 2017. Construction revenue is recognised using the percentage-of-completion ("POC") method. The stage of completion is measured by reference to the proportion of costs incurred to date to the estimated total costs for the construction contract.</p> <p>In addition, the Group recognised an allowance for expected losses, which amounted to RMB1,202.8 million, on construction contracts for the financial year ended 31 December 2017. These losses were recognised as it is probable that total contract costs for certain construction contracts would exceed the total construction revenue of these contracts.</p> <p>We focused on the recognition of construction revenue using the POC method and allowance for expected losses on construction contracts because of the use of significant judgement in estimating the total contract costs, including contingencies that could arise from variation to original contract terms and claims.</p>	<p>Our audit procedures included the following:</p> <ol style="list-style-type: none"> evaluated the key controls and tested the operating effectiveness of those relating to: <ul style="list-style-type: none"> the preparation of and revisions to the estimated total costs for the construction contracts; and the recording of actual costs incurred for each contract; based on our understanding of the components that make up the total estimated construction cost for each type of vessel, reviewed, on a sample basis, the appropriateness of the significant cost components against supporting documents such as quotations and contracts with suppliers; assessed the reliability of management's estimates by comparing the estimated costs with the actual costs for a sample of contracts completed during the year; on a sample basis, agreed material and subcontractor costs to the suppliers' invoices and approved payment vouchers, and also checked the allocation of overheads to each contract; on a sample basis, reviewed the overall reasonableness of the POC for vessels under construction through physical verification; and recomputed the revenue recognised for the year based on the POC; and recalculated the allowance for expected losses on construction contracts recognised. <p>Based on our procedures, we found the estimation of the total costs in respect of the construction contracts, the estimation of the percentage of completion and the allowance for expected losses on construction contracts to be reasonable.</p>

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD.

2. Impact of challenges in the marine industry on the valuation of assets

Refer to Notes 3(b)(i), 3(c), 7, 18, 19 and 37(b)(ii) of the financial statements

The marine industry continued to face challenges and this has had a significant impact on the valuation of assets of the Group, in particular over the amounts due from customers on construction contracts and inventories work-in-progress ("WIP").

As at 31 December 2017, the amounts due from customers on construction contracts and inventories WIP amounted to RMB5,960.3 million and RMB1,688.7 million respectively.

We focused on this area because of the significant judgement required in assessing:

- whether the Group's customers will be able to fulfil their contractual obligations to take delivery of their orders; and whether there is objective evidence that amounts due from customers on construction contracts are impaired; and
- the net realisable values ("NRV") of inventories WIP.

Based on management's assessment, no impairment of amount due from customers on construction contracts and write-down of inventories WIP were recognised for the financial year ended 31 December 2017.

Our audit procedures included the following:

- a. evaluated management's assessment of the recoverability of the amounts due from customers on construction contracts based on our understanding of the industry, past payment patterns, compliance with milestone payments during the year, as well as public announcements and other externally available information that would be relevant to understanding the financial position of major customers;
- b. assessed estimation of NRV made by management through:
 - evaluated the competence, capabilities and objectivity of the independent valuer engaged by management to estimate the recoverable amount of inventories WIP
 - assessed the reasonableness of the methodology adopted by the independent valuer and the valuation result of the inventories WIP based on our knowledge of the industry and by reference to industry reports; and
 - reviewed the reasonableness of the NRV of inventories WIP by checking against resale prices for vessels which have been resold, or comparable market transactions for vessels which remain unsold.

Based on our procedures, we found management's judgement around the recoverability of the amounts due from customers on construction contracts and estimation of inventories WIP to be appropriate.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD.

3. Valuation of held-to-maturity financial assets

Refer to Notes 3(b)(ii), 16 and 37(b)(vi) of the financial statements

As at 31 December 2017, the net amount of unlisted held-to-maturity financial assets was RMB11,978.9 million, representing 27.6% of the Group's total assets. An allowance for impairment of RMB1,222.8 million has been made as at 31 December 2017.

We focused on this area because of the application of judgement and assumptions by management in evaluating the credit risk of individual investments which in turn affects the classification of the investments against the Group's internal grading guidelines, which makes reference to industry practice in China. This would impact the amount of the allowance for impairment made.

Our audit procedures included:

- a. evaluated the key controls and tested the operating effectiveness of those relating to the following:
 - approval of investments in held-to-maturity financial assets; and
 - identification and timeliness of identifying impairment indicators;
- b. on a sample basis, checked that held-to-maturity financial assets were classified appropriately in accordance with the Group's internal grading guidelines; and
- c. re-computed the allowance for impairment loss in accordance with the Group's internal grading guidelines.

Based on our audit procedures, we found management's judgement and assumptions around the valuation of held-to-maturity financial assets to be appropriate.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises all the sections of the annual report, which we obtained prior to the date of this auditor's report, and excludes the financial statements and our audit reports thereon which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD.

RESPONSIBILITIES OF MANAGEMENT AND DIRECTORS FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, 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 financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Alex Toh Wee Keong.

PricewaterhouseCoopers LLP
Public Accountants and Chartered Accountants

Singapore, 21 March 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Note	The Group	
		2017 RMB'000	2016 RMB'000
Revenue	4	19,205,596	15,089,438
Cost of sales	7	(15,893,633)	(11,452,816)
Gross profit		3,311,963	3,636,622
Other income	5	670,253	903,681
Other gains – net	6	188,146	338,603
Expenses			
– Selling and distribution	7	(1,851)	(2,333)
– Administrative	7		
– Impairment loss		(295,783)	(1,255,396)
– Others		(312,233)	(345,815)
		(608,016)	(1,601,211)
– Finance	9	(113,202)	(442,868)
Share of profit/(losses) of associated companies and a joint venture	25, 26	40,069	(59,728)
Profit before income tax		3,487,362	2,772,766
Income tax expense	10	(395,440)	(926,808)
Net profit		3,091,922	1,845,958
Profit attributable to:			
Equity holders of the Company		2,931,498	1,752,432
Non-controlling interests		160,424	93,526
		3,091,922	1,845,958
Earnings per share attributable to equity holders of the Company (expressed in RMB cents per share)			
– Basic and diluted	11	75.59	45.73

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Note	The Group	
		2017 RMB'000	2016 RMB'000
Profit for the year		3,091,922	1,845,958
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
– Fair value losses, net of tax	34(d)	(48,882)	(20,284)
– Reclassification	34(d)	63,761	28,704
		14,879	8,420
Share of other comprehensive income from the associated companies and a joint venture			
– Currency translation (losses)/gains	25, 26	(8,052)	23,603
– Reclassification	25	(34,420)	–
		(42,472)	23,603
Currency translation losses arising from consolidation			
– Gains/(losses)		34,872	(75,559)
Other comprehensive income/(losses), net of tax		7,279	(43,536)
Total comprehensive income		3,099,201	1,802,422
Total comprehensive income attributable to:			
Equity holders of the Company		2,938,777	1,708,896
Non-controlling interests		160,424	93,526
		3,099,201	1,802,422

The accompanying notes form an integral part of these financial statements.

BALANCE SHEETS

AS AT 31 DECEMBER 2017

		The Group		The Company	
		2017	2016	2017	2016
	Note	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Current assets					
Cash and cash equivalents	12	6,195,431	7,085,796	832,021	1,422,015
Restricted cash	13	29,405	1,219,695	—	—
Financial assets, at fair value through profit or loss	14	748,523	605,429	—	—
Financial assets, available-for-sale	15	1,027,293	648,843	—	—
Financial assets, held-to-maturity	16	7,573,617	5,296,709	—	—
Trade and other receivables	17	5,290,056	5,346,997	10,075,526	6,736,769
Inventories	18	2,628,201	2,032,459	—	—
Due from customers on construction contracts	19	5,960,320	3,929,478	—	—
Derivative financial instruments	22	—	36,371	—	36,371
		29,452,846	26,201,777	10,907,547	8,195,155
Non-current assets					
Financial assets, available-for-sale	15	400,000	200,000	—	—
Financial assets, held-to-maturity	16	4,405,252	5,609,925	—	—
Trade and other receivables	20	1,238,174	1,258,379	2,345,870	2,347,406
Derivative financial instruments	22	—	23,002	—	23,002
Lease prepayments	23	990,795	1,080,656	—	—
Investments in subsidiaries	24	—	—	5,282,570	5,199,570
Investment in a joint venture	25	—	4,796	—	4,796
Investments in associated companies	26	1,394,702	882,622	134,062	134,062
Property, plant and equipment	27	4,820,729	5,476,950	22	37
Intangible assets	28	9,864	7,906	—	—
Deferred income tax assets	32	660,291	488,170	—	—
		13,919,807	15,032,406	7,762,524	7,708,873
Total assets		43,372,653	41,234,183	18,670,071	15,904,028

The accompanying notes form an integral part of these financial statements.

BALANCE SHEETS

AS AT 31 DECEMBER 2017

		The Group		The Company	
	Note	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
LIABILITIES					
Current liabilities					
Trade and other payables	29	5,859,041	5,605,757	4,192,887	3,869,948
Due to customers on construction contracts	19	3,607,332	1,808,605	—	—
Advances received on construction contracts	19	1,919	457,021	—	—
Derivative financial instruments	22	—	281,166	—	281,166
Borrowings	30	2,531,973	2,579,435	1,141,730	1,387,400
Provisions	31	371,993	488,633	—	—
Current income tax liabilities		1,203,376	1,130,020	—	406,529
		13,575,634	12,350,637	5,334,617	5,945,043
Non-current liabilities					
Derivative financial instruments	22	—	1,416	—	1,416
Borrowings	30	2,358,773	4,645,022	—	1,387,400
Deferred income tax liabilities	32	921,549	1,037,999	—	224,784
		3,280,322	5,684,437	—	1,613,600
Total liabilities		16,855,956	18,035,074	5,334,617	7,558,643
NET ASSETS		26,516,697	23,199,109	13,335,454	8,345,385
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	33	7,361,990	6,354,096	7,326,773	6,318,879
Treasury shares	33	(20,979)	(20,979)	(20,979)	(20,979)
Other reserves	34	568,680	324,938	(40,192)	(40,192)
Retained earnings		17,975,023	16,033,911	6,069,852	2,087,677
		25,884,714	22,691,966	13,335,454	8,345,385
Non-controlling interests		631,983	507,143	—	—
Total equity		26,516,697	23,199,109	13,335,454	8,345,385

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

Attributable to equity holders of the Company										
	Share capital	Treasury shares	Statutory reserve	Capital Reserve	Currency translation reserve	Fair value reserve	Warrant reserve	Retained earnings	Total	Non-controlling interests
Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2017										
As at 1 January 2017	6,354,096	(20,979)	3,329,625	(2,928,330)	(56,073)	(20,284)	-	16,033,911	22,691,966	507,143
Profit for the year	-	-	-	-	-	-	-	2,931,498	2,931,498	160,424
Other comprehensive income for the year	-	-	-	-	(7,600)	14,879	-	-	7,279	-
Total comprehensive income for the year	-	-	-	-	(7,600)	14,879	-	2,931,498	2,938,777	160,424
Dividends	-	-	-	-	-	-	-	(753,983)	(753,983)	(511)
Disposal of subsidiaries	-	-	-	60	-	-	-	-	60	(35,073)
Issuance of shares	1,007,894	-	-	-	-	-	-	-	1,007,894	-
Transfer	-	-	236,403	-	-	-	-	(236,403)	-	-
Total transactions with owners, recognised directly in equity	1,007,894	-	236,403	60	-	-	-	(990,386)	253,971	(35,584)
As at 31 December 2017	7,361,990	(20,979)	3,566,028	(2,928,270)	(63,673)	(5,405)	-	17,975,023	25,884,714	631,983
2016										
As at 1 January 2016	6,263,016	(20,979)	3,068,083	(2,930,480)	(4,117)	(28,704)	91,080	15,361,490	21,799,389	559,592
Profit for the year	-	-	-	-	-	-	-	1,752,432	1,752,432	93,526
Other comprehensive income for the year	-	-	-	-	(51,956)	8,420	-	-	(43,536)	-
Total comprehensive income for the year	-	-	-	-	(51,956)	8,420	-	1,752,432	1,708,896	93,526
Dividends	-	-	-	-	-	-	-	(818,469)	(818,469)	-
Acquisition of equity interest in existing subsidiaries from non-controlling interests	-	-	-	2,150	-	-	-	-	2,150	-*
Expiry of warrants	91,080	-	-	-	-	-	(91,080)	-	-	-
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	(143,825)
Transfer	-	-	261,542	-	-	-	-	(261,542)	-	-
Total transactions with owners, recognised directly in equity	91,080	-	261,542	2,150	-	-	(91,080)	(1,080,011)	(816,319)	(145,975)
As at 31 December 2016	6,354,096	(20,979)	3,329,625	(2,928,330)	(56,073)	(20,284)	-	16,033,911	22,691,966	507,143

* Consideration paid is less than RMB1,000

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Note	The Group	
		2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Net profit		3,091,922	1,845,958
Adjustments for:			
– Income tax expenses		395,440	926,808
– Depreciation of property, plant and equipment		461,432	510,438
– Amortisation of lease prepayments		20,192	30,712
– Amortisation of intangible assets		934	538
– Finance expenses		113,202	262,967
– Loss/(gain) on disposal of associated company		6,063	(6,841)
– Gain from disposal of jointly controlled company		(34,248)	–
– (Gain)/loss from disposal/dissolution of subsidiaries		(228,303)	15,186
– Loss on disposal of available-for-sale financial assets		–	28,704
– (Gain)/loss on disposal of property, plant and equipment		(74,639)	10,335
– Fair value change on derivative financial instruments		(223,209)	(176,980)
– Fair value change on financial assets at fair value, through profit and loss		(143,094)	298,677
– Impairment loss of financial assets, available for sale		91,159	–
– Impairment loss on property, plant and equipment		–	1,012,819
– (Reversal of impairment loss)/impairment loss on other receivables from non-related parties		(32,750)	32,750
– Interest income		(138,440)	(162,608)
– Dividend income		(71,516)	(28,465)
– Share of (profits)/losses of associated companies and a joint venture		(40,069)	59,728
		3,194,076	4,660,726
Change in working capital, net of effects from acquisition and disposal of subsidiaries:			
– Inventories		(627,206)	(419,584)
– Construction contract balances		(687,215)	(75,020)
– Trade and other receivables		(352,104)	279,711
– Trade and other payables		671,570	849,147
– Financial assets, held-to-maturity		(1,072,235)	43,944
– Provisions		(116,640)	(89,229)
– Restricted cash		1,190,290	(191,145)
Cash generated from operations		2,200,536	5,058,550
Interest paid		(173,352)	(262,967)
Interest received		138,440	162,608
Income tax paid		(583,523)	(670,125)
Net cash provided by operating activities		1,582,101	4,288,066

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

		The Group	
		2017	2016
	Note	RMB'000	RMB'000
Cash flows from investing activities			
Proceeds from sales of property, plant and equipment		252,518	3,865
Proceeds from sales of investment in associated companies		–	29,500
Proceeds from sales of financial assets, available-for-sale		18,000	75,235
Dividend received		71,516	28,465
Purchase of property, plant and equipment		(48,333)	(338,146)
Disposal of subsidiaries, net of cash disposed	12	88,761	(11,663)
Acquisition of financial assets, at fair value through profit or loss		–	(904,106)
Proceed from striking off joint venture		36	–
Acquisition of financial assets, available-for-sale		(670,104)	(672,687)
Acquisition of intangible assets		(2,892)	(6,184)
Acquisition/additions of investments in associated companies		(544,700)	(150,000)
Return of capital by an associated company		58,574	286,211
Repayment of loan from non-related parties		131,000	–
Loan to a non-related party		(137,218)	–
Dividends received from a joint venture		–	340,738
Net cash used in investing activities		(782,842)	(1,347,237)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	33	1,012,017	–
Share issuance cost	33	(4,123)	–
Proceeds from borrowings		2,548,991	2,001,860
Repayments of borrowings		(4,492,015)	(3,059,824)
Dividends paid to equity holders	35	(753,983)	(818,469)
Dividends paid to non-controlling interests		(511)	–
Net cash used in financing activities		(1,689,624)	(1,876,433)
Net (decrease)/increase in cash and cash equivalents		(890,365)	1,092,861
Cash and cash equivalents at the beginning of financial year		7,085,796	5,992,935
Cash and cash equivalents at the end of financial year	12	6,195,431	7,085,796

Reconciliation of liabilities arising from financing activities

	Non-cash changes					
	1 January 2017 RMB'000	Proceeds from borrowing RMB'000	Repayments of borrowings RMB'000	Interest payments RMB'000	Interest expense RMB'000	Foreign exchange movement RMB'000
Borrowings	7,224,457	2,548,991	(4,492,015)	(173,352)	173,352	(390,687)
						4,890,746

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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

1. GENERAL INFORMATION

Yangzijiang Shipbuilding (Holdings) Ltd (the “Company”) is listed on the Singapore Exchange and incorporated and domiciled in Singapore. The address of its registered office is 80 Robinson Road, #02-00 Singapore 068898.

The principal activities of the Company are investment holding and agency service for shipbuilding and related activities. The principal activities of its subsidiaries are set out in Note 42.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards (“FRS”) 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 its judgement in the process of applying the Group’s accounting policies. It also requires the use of certain critical accounting estimates and assumptions. 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.

Interpretations and amendments to published standards effective in 2017

On 1 January 2017, the Group adopted the new or amended FRS and Interpretations of FRS (“INT FRS”) that are mandatory for application for the financial year. Changes to the Group’s accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

The adoption of these new or amended FRS and INT FRS did not result in substantial changes to the accounting policies of the Group and the Company and had no material effect on the amounts reported for the current or prior financial years.

FRS 7 Statement of cash flows

The amendments to FRS 7 Statement of cash flows (Disclosure Initiatives) sets out required disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has included the additional required disclosures in Consolidated Statement of Cash Flows to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the Group's activities. Revenue is presented, net of value-added tax, rebates and discounts, and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue and related cost can be reliably measured, it is probable that the collectability of the related receivables is reasonably assured and when the specific criteria for each of the Group's activities are met as follows:

(a) *Revenue from construction contracts*

Contract revenue is recognised by reference to the stage of completion of the contract activity at the balance sheet date. The stage of completion is measured by reference to the contract costs incurred to date, as compared to the estimated total costs for the contract.

Please refer to Note 2.8 "Construction Contracts" for the elaboration of accounting policy for revenue from construction contracts.

(b) *Revenue from sales of goods – completed shipbuilding contracts*

Revenue from these sales is recognised when a Group entity has delivered the vessels to its customers and the customers have accepted the vessels in accordance with the terms and conditions of the shipbuilding contracts.

(c) *Revenue from sales of goods – material and others*

The Group assesses its role as an agent or principal for each transaction and in a transaction where the Group acts as an agent, revenue would exclude amounts collected on behalf of the principal.

Revenue from sales of goods (including scrap materials, metals and chemical products) is recognised when a Group entity has delivered the goods to its customers and the customers have accepted the goods in accordance with the sales contract.

(d) *Rendering of ship design services*

Revenue from these transactions is recognised when such services are rendered.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Revenue recognition (Continued)

(e) *Charter income*

Income from voyage charter is recognised on a percentage completion basis, which is determined by reference to the time proportioning of each individual voyage.

Income from time charter, which is of operating leases in nature, is recognised on a straight-line basis over the period of the charter.

(f) *Interest income*

Interest income, including income arising from finance leases, financial instruments and loans and receivables from non-related parties, is recognised using the effective interest method.

(g) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

(h) *Income from forfeiture of advances received*

Income from forfeiture of advances received is recognised when it is established that the economic benefits associated with the transactions will flow to the Group.

2.3 Group accounting

(a) *Subsidiaries*

(i) *Consolidation*

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on which that control ceases.

In preparing the consolidated financial statements, intercompany transactions and balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Group accounting (Continued)

(a) Subsidiaries (Continued)

(i) Consolidation (Continued)

Non-controlling interests comprise the portion of a subsidiary's net results of operations and its net assets, which is attributable to the interests that are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

(ii) Acquisitions

The acquisition method of accounting is used to account for business combinations entered into by the Group.

The consideration transferred for the acquisition of a subsidiary or business comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes any contingent consideration arrangement and any pre-existing equity interest in the subsidiary measured at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The excess of (a) the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the (b) fair value of the identifiable net assets acquired is recorded as goodwill. Please refer to the paragraph "Intangible assets – Goodwill" for the subsequent accounting policy on goodwill.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Group accounting (Continued)

(a) Subsidiaries (Continued)

(iii) Disposals

When a change in the Group's ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognised. Amounts previously recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained earnings if required by a specific Standard.

Any retained equity interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained interest at the date when control is lost and its fair value is recognised in profit or loss.

Please refer to the paragraph "Investments in subsidiaries, associated companies and joint ventures" for the accounting policy on investments in subsidiaries in the separate financial statements of the Company.

(b) Transactions with non-controlling interests

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control over the subsidiary are accounted for as transactions with equity owners of the Company. Any difference between the change in the carrying amounts of the non-controlling interest and the fair value of the consideration paid or received is recognised in a separate reserve within equity attributable to the equity holders of the Company.

(c) Associated companies and joint ventures

Associated companies are entities over which the Group has significant influence, but not control, generally presumed to be accompanied by a shareholding giving rise to voting rights of 20% and above but not exceeding 50%.

Joint ventures are entities over which the Group has joint control as a result of contractual arrangements, and rights to the net assets of the entities.

Investments in associated companies and joint ventures are accounted for in the consolidated financial statements using the equity method of accounting less impairment losses, if any.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Group accounting (Continued)

(c) Associated companies and joint ventures (Continued)

(i) Acquisitions

Investments in associated companies and joint ventures are initially recognised at cost. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Goodwill on associated companies and joint ventures represents the excess of the cost of acquisition of the associated companies or joint ventures over the Group's share of the fair value of the identifiable net assets of the associated companies and joint ventures and is included in the carrying amount of the investments.

(ii) Equity method of accounting

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise Group's share of its associated companies' or joint ventures' post-acquisition profits or losses of the investee in profit or loss and its share of movements in other comprehensive income of the investee's other comprehensive income. Dividends received or receivable from the associated companies or joint ventures are recognised as a reduction of the carrying amount of the investments. When the Group's share of losses in an associated company or joint venture equals to or exceeds its interest in the associated company or joint venture, the Group does not recognise further losses, unless it has legal or constructive obligations to make, or has made, payments on behalf of the associated company or joint venture. If the associated company or joint venture subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Unrealised gains on transactions between the Group and its associated companies or joint ventures are eliminated to the extent of the Group's interest in the associated companies or joint ventures. Unrealised losses are also eliminated unless the transactions provide evidence of impairment of the assets transferred. The accounting policies of associated companies or joint ventures are changed where necessary to ensure consistency with the accounting policies adopted by the Group.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Group accounting (Continued)

(c) Associated companies and joint ventures (Continued)

(iii) Disposals

Investments in associated companies or joint ventures are derecognised when the Group loses significant influence or joint control. If the retained equity interest in the former associated company or joint venture is a financial asset, the retained equity interest is measured at fair value. The difference between the carrying amount of the retained interest at the date when significant influence or joint control is lost, and its fair value and any proceeds on partial disposal, is recognised in profit or loss.

Please refer to the paragraph “Investments in subsidiaries, associated companies and joint ventures” for the accounting policy on investments in associated companies and joint ventures in the separate financial statements of the Company.

2.4 Property, plant and equipment

(a) Measurement

All property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

(b) Components of costs

The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost 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.

(c) Depreciation

Depreciation is calculated using the straight-line method to allocate their depreciable amount over their estimated useful lives, as follows:

	Useful lives
Buildings	20 years
Machinery	5 – 10 years
Vehicles	5 – 12 years
Furniture, fittings and equipment	5 – 12 years
Vessels	25 years

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Property, plant and equipment (Continued)

(c) Depreciation (Continued)

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

(d) Construction-in-progress

Construction-in-progress represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. This includes cost of construction, plant and equipment and other directly attributable costs. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to respective asset classes within property, plant and equipment and depreciated in accordance with the policy stated above.

(e) Subsequent expenditure

Subsequent expenditure relating to property, 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 Group and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in profit or loss when incurred.

(f) Disposal

On disposal of an item of property, plant and equipment, the difference between the disposal proceeds and its carrying amount is recognised in profit or loss within "other gains/(losses) – net".

2.5 Lease prepayment

Lease prepayment represents prepaid operating lease payments for land less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the prepaid operating lease payments for land over the lease period, which ranges from 46.5 years to 50 years.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Intangible assets

(a) *Goodwill on acquisitions*

Goodwill on acquisitions of subsidiaries and businesses represents the excess of (i) the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over (ii) the fair value of the identifiable net assets acquired.

Goodwill on subsidiaries is recognised separately as intangible assets and carried at cost less accumulated impairment losses.

Goodwill on associated companies and joint ventures is included in the carrying amount of the investments.

Gains and losses on the disposal of subsidiaries, associated companies and joint ventures include the carrying amount of goodwill relating to the entity sold.

(b) *Acquired computer software licenses*

Acquired computer software licenses are initially capitalised at cost which includes the purchase price (net of any discounts and rebates) and other directly attributable costs of preparing the asset for its intended use. Direct expenditures including employee costs, which enhance or extend the performance of computer software beyond its specifications and which can be reliably measured, are added to the original cost of the software. Costs associated with maintaining the computer software are expensed off when incurred.

Computer software licenses are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to profit or loss using the straight-line method over their estimated useful lives of three to five years.

The amortisation period and amortisation method of computer software licenses are reviewed at least at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

Research costs are recognised as an expense when incurred. Costs directly attributable to the development of computer software are capitalized as intangible assets only when technical and commercial feasibility of the project is demonstrated, the Group has an intention and ability to complete and use the software and the costs can be measured reliably. Such costs include purchases of materials and services and payroll-related costs of employees directly involved in the project.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Borrowing costs

Borrowing costs are recognised in profit or loss using the effective interest method, except for those costs that are directly attributable to assets under construction. This includes those costs on borrowings acquired specifically for assets under construction, as well as those in relation to general borrowings used to finance assets under construction.

Borrowing costs on general borrowings are capitalised by applying a capitalisation rate to assets under construction that are financed by general borrowings.

2.8 Construction contracts

A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and functions for their ultimate purpose or use.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date ("percentage-of-completion method"). When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that are likely to be recoverable and contract costs are recognised as an expense in the period in which they incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Variations in the contract work, claims and incentive payments are included in contract revenue when it is probable that the customer will approve the variation or negotiations have reached an advanced stage such that it is probable that the customer will accept the claim, and these amounts are capable of being reliably measured.

The stage of completion is measured by reference to the proportion of contract costs incurred to date to the estimated total costs for the contract. Costs incurred during the financial year in connection with future activities on a contract are excluded from the costs incurred to date when determining the stage of completion of a contract. Such costs are shown as construction contract work-in-progress on the balance sheet unless it is not probable that such contract costs are recoverable from the customers, in which case, such costs are recognised as an expense immediately.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Construction contracts (Continued)

At the balance sheet date, the cumulative costs incurred plus recognised profits (less recognised losses) on each contract is compared against the progress billings. Where the cumulative costs incurred plus the recognised profits (less recognised losses) exceed progress billings, the balance is presented as due from customers on construction contracts. Where progress billings exceed the cumulative costs incurred plus recognised profits (less recognised losses), the balance is presented as due to customers on construction contracts.

Progress billings not yet paid by customers are included within “trade and other receivables”. Advances received are included within “advances received on construction contracts”.

2.9 Investments in subsidiaries, associated companies and joint ventures

Investments in subsidiaries, associated companies and joint ventures are carried at cost less accumulated impairment losses in the Company’s balance sheet. On disposal of such investments, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

2.10 Impairment of non-financial assets

(a) Goodwill

Goodwill recognised separately as an intangible asset is tested for impairment annually and whenever there is indication that the goodwill may be impaired.

For the purpose of impairment testing of goodwill, goodwill is allocated to each of the Group’s cash-generating-units (“CGU”) expected to benefit from synergies arising from the business combination.

An impairment loss is recognised when the carrying amount of a CGU, including the goodwill, exceeds the recoverable amount of the CGU. The recoverable amount of a CGU is the higher of the CGU’s fair value less cost to sell and value-in-use.

The total impairment loss of a CGU is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU.

An impairment loss on goodwill is recognised as an expense and is not reversed in a subsequent period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Impairment of non-financial assets (Continued)

(b) *Intangible assets*

Property, plant and equipment

Investments in subsidiaries, associated companies and joint ventures

Intangible assets, property, plant and equipment and investments in subsidiaries, associated companies and joint ventures are tested for impairment whenever there is any indication or objective evidence that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) 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 CGU to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) 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.

An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the nature of the asset and the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and in the case of assets classified as held-to-maturity, re-evaluates this designation at each balance sheet date.

(i) 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 value through profit or loss at inception. A financial asset is classified as held for trading if it is 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 Group's investment strategy. Derivatives are also categorised as held for trading unless they are designated as hedges.

Assets in this category are presented as current assets if they are either held for trading or are expected to be realised within 12 months after the balance sheet date.

(ii) 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 12 months after the balance sheet date which are presented as non-current assets. Loans and receivables are presented as "trade and other receivables", "due from customers on construction contracts", "cash and cash equivalents" and "restricted cash" on the balance sheet.

(iii) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. They are presented as non-current assets, except for those maturing within 12 months after the balance sheet date which are presented as current assets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial assets (Continued)

(a) Classification (Continued)

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are presented as non-current assets unless the investment matures or management intends to dispose of the assets within 12 months after the balance sheet date.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date – the date on which the Group 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 Group has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount previously recognised in other comprehensive income relating to that asset is reclassified to profit or loss.

(c) 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 expenses.

(d) Subsequent measurement

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets 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.

Interest and dividend income on available-for-sale financial assets are recognised separately in "Other income". Changes in the fair values of available-for-sale equity securities (i.e. non-monetary items) are recognised in other comprehensive income and accumulated in the fair value reserve, together with the related currency translation differences.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial assets (Continued)

(e) Impairment

The Group assesses at each balance sheet 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.

(i) Loans and receivables Held-to-maturity financial assets

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or significant delay in payments are objective evidence that these financial assets are 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.

(ii) Available-for-sale financial assets

In addition to the objective evidence of impairment described in Note 2.11(e)(i), a significant or prolonged decline in the fair value of an equity security below its cost is considered as an indicator that the available-for-sale financial asset is impaired.

If there is objective evidence of impairment, the cumulative loss that had been recognised in other comprehensive income is reclassified from equity to profit or loss. The amount of cumulative loss that is reclassified is measured as the difference between the acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. The impairment losses recognised as an expense for an equity securities are not reversed through profit or loss in subsequent period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial assets (Continued)

(f) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.12 Financial guarantees

The Company has issued corporate guarantees to banks for borrowings of its customers and subsidiaries. These guarantees are financial guarantees as they require the Company to reimburse the banks if the customers and subsidiaries fail to make principal or interest payments when due in accordance with the terms of their borrowings.

Financial guarantees are initially recognised at their fair values plus transaction costs in the Company's balance sheet.

Financial guarantees are subsequently amortised to profit or loss over the period of the customers' and subsidiaries' borrowings, unless it is probable that the Company will reimburse the banks for an amount higher than the unamortised amount. In this case, the financial guarantees shall be carried at the expected amount payable to the banks in the Company's balance sheet.

Intra-group transactions are eliminated on consolidation.

2.13 Borrowings

Borrowings are presented as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the balance sheet date, in which they are presented as non-current liabilities.

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.

2.14 Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). Otherwise, they are presented as non-current liabilities.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Derivative financial instruments

A derivative financial instrument is initially recognised at fair value on the date the contract is entered into and is subsequently carried at its fair value.

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. The fair value of a derivative is presented as a non-current asset or liability if the remaining expected life of the derivative is more than 12 months, and as a current asset or liability if the remaining expected life of the derivative is less than 12 months.

2.16 Fair value estimation of financial assets and liabilities

The fair values of financial instruments traded in active markets (such as exchange-traded and over-the-counter securities and derivatives) are based on quoted market prices at the balance sheet date. The quoted market prices used for financial assets are the current bid prices; the appropriate quoted market prices for financial liabilities are the current asking prices.

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. The Group uses a variety of methods and makes assumptions based on market conditions that are existing at each balance sheet date. Where appropriate, quoted market prices or dealer quotes for similar instruments are used. Valuation techniques, such as discounted cash flow analysis, are also used to determine the fair values of the financial instruments.

The fair values of currency forwards and currency options are determined using actively quoted forward exchange rates.

The fair values of current financial assets and liabilities carried at amortised cost approximate their carrying amounts.

2.17 Leases

(a) *When the Group is the lessee:*

The Group leases land and certain plant and machinery under operating leases from non-related parties.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Leases (Continued)

(b) *When the Group is the lessor:*

The Group leases vessels under finance leases and operating leases to non-related parties.

(i) Lessor – Finance leases

Leases where the Group 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 is recognised on the balance sheet 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 Group 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.

(ii) Lessor – Operating leases

Leases of vessels where the Group 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 lessees) is recognised in profit or loss on a straight-line basis over the lease term.

Initial direct costs incurred by the Group 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Inventories

Inventories consist of raw materials and work-in-progress and are carried at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses. Raw materials will be used in the construction contracts, therefore they are not written down to net realisable value when the market prices for those inventories fall below cost, if the overall construction contract is expected to be profitable.

2.19 Income taxes

Current income tax for current and prior periods is 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 balance sheet date.

Deferred income tax is recognised 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.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries, associated companies and joint ventures, except where the Group 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.

A deferred income tax asset is 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 is measured:

- (a) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date; and
- (b) based on the tax consequence that will follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in profit or loss, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Provisions

Provisions for warranty are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

The Group recognises the estimated liability to repair or replace products still under warranty at the balance sheet date. This provision is calculated based on historical experience of the level of repairs and replacements.

Changes in the estimated timing or amount of the expenditure or discount rate are recognised in profit or loss when the changes arise.

2.21 Employee compensation

Employee benefits are recognised as an expense, unless the cost qualifies to be capitalised as an asset.

(a) *Defined contribution plans*

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as the Central Provident Fund in Singapore and the social security plans in People's Republic of China (the "PRC") on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

In accordance with the relevant regulations in the PRC, the premiums and welfare benefit contributions borne by the Group are calculated based on certain percentages of the total salary of employees, subject to a certain ceiling, and are paid to the labour and social welfare authorities.

2.22 Currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Company.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Currency translation (Continued)

(b) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency exchange differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in profit or loss.

When a foreign operation is disposed of or any loan forming part of the net investment of the foreign operation is repaid, a proportionate share of the accumulated currency translation differences is reclassified to profit or loss, as part of the gain or loss on disposal.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement within "finance expenses". All other foreign exchange gains and losses impacting profit or loss are presented in the income statement within "other gains – net".

(c) Translation of Group entities' financial statements

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities are translated at the closing exchange rates at the reporting date;
- (ii) income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated using the exchange rates at the dates of the transactions); and
- (iii) all resulting currency translation differences are recognised in other comprehensive income and accumulated in the currency translation reserve. These currency translation differences are reclassified to profit or loss on disposal or partial disposal of the entity giving rise to such reserve.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and translated at the closing rates at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the management team who are responsible for allocating resources and assessing performance of the operating segments.

2.24 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand and deposits with financial institutions which are subject to an insignificant risk of change in value. For cash subjected to restriction, assessment is made on the economic substance of the restriction and whether they meet the definition of cash and cash equivalents.

2.25 Share capital and treasury shares

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

When any entity within the Group purchases the Company's ordinary shares ("treasury shares"), the carrying amount which includes the consideration paid and any directly attributable transaction cost is presented as a component within equity attributable to the Company's equity holders, until they are cancelled, sold or reissued.

When treasury shares are subsequently cancelled, the cost of treasury shares are deducted against the share capital account if the shares are purchased out of capital of the Company, or against the retained profits of the Company if the shares are purchased out of earnings of the Company.

When treasury shares are subsequently sold or reissued, the cost of treasury shares is reversed from the treasury shares account and the realised gain or loss on sale or reissue, net of any directly attributable incremental transaction costs and related income tax, is recognised in the capital reserve.

2.26 Dividends to the Company's shareholders

Dividends to the Company's shareholders are recognised when the dividends are approved for payment.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Government grants

Grants from the government are recognised as a receivable at their fair value when there is reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants receivable are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Government grants relating to expenses are shown separately under “other gains – net”.

Government grants relating to assets are recognised as deferred income in the balance sheet.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Construction contracts

The Group uses the percentage-of-completion method in accounting for its construction contracts. The stage of completion is measured by reference to the contract costs incurred to date compared to the estimated total contract costs for the contract. When it is probable that the total contract costs will exceed the total consideration revenue, an allowance for expected losses on construction contracts is recognised as expense indirectly.

Significant assumptions are required to estimate the total contract costs and the recoverable variation works that will affect the stage of completion and the contract revenue respectively. In making these estimates, management have used their accumulative knowledge of the industry, market conditions, and its customers, and corroborated with the experience gained from the most recent deliveries.

The amount of revenue recognised in the year would decrease/increase by RMB985,468,000 and RMB831,331,000 respectively (2016: RMB676,717,000 and RMB707,289,000 respectively) if the total estimated contract costs were to increase/decrease by 10% (2016: 10%). In addition, allowance for expected losses would increase/decrease by RMB1,403,440,000 and RMB1,016,120,000 (2016:nil) respectively if the total estimated contract costs were to increase/decrease by 10% (2016:10%).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

(b) Impairment of financial assets

(i) *Trade receivables related to shipbuilding activities*

Trade receivables related to shipbuilding activities are classified as either trade receivables or due from customers on construction contracts.

The Group's management determines the allowance for impairment of those trade receivables. 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 has made judgements 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 in.

Where there is objective evidence of impairment, management has made judgements as to whether an impairment loss should be recorded as an expense. Based on management's assessment of the credit history of its customers and also that of the market conditions, it was determined that an impairment provision of RMB nil (2016: RMB429,790,000) was made to due from customers on construction contracts for one contract. No further impairment is required for the remaining balances of trade receivables related to shipbuilding activities.

(ii) *Held-to-maturity financial assets*

The Group's held-to-maturity financial assets pertain to fixed interest investments through intermediary financial institutions for specific borrowings arranged by the intermediaries.

Collaterals provided by the ultimate borrowers are held by the intermediaries as guarantee for the repayment of principal and interest.

In determining the allowance for impairment for held-to-maturity financial assets, management considers objective evidence of impairment and exercises judgement in estimating the expected recovery. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy, and default or significant delay in payment are objective evidence that these held-to-maturity financial assets are impaired. Allowance for impairment was provided based on management's assessment of the credit history of its counterparties, and that of the market conditions. Refer to Note 37(b)(vi) on the credit risk information in relation to these financial assets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

(c) Net realisable value of inventories work-in-progress

The Group holds certain vessels as inventories work-in-progress. In determining the net realisable value, management considers the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses. Based on management's assessment of the net realisable value of inventories work-in-progress, there was no write-down of inventories work-in-progress during the current financial year (2016: RMB303 million).

(d) Impairment of property, plant and equipment – vessels

The vessels are tested for impairment whenever there is an objective evidence or indication that they may be impaired. An impairment loss is recognised to the extent that the carrying amount is more than its recoverable amount. The recoverable amount is determined based on the higher of its fair value less costs of disposal and value-in-use. In assessing the fair value less costs of disposal, the Group engaged independent valuation specialists to determine the fair value less costs of disposal of the vessels. The independent valuers used a valuation technique based on recent vessel sales and other comparable market data. In assessing the value-in-use calculations, the Group used cash flow projections based on financial budgets approved by management.

As at 31 December 2017, the recoverable amounts of the vessels have been determined based on fair value less costs of disposal. As the recoverable amounts of the vessels are higher than its carrying amount, no impairment loss on property, plant and equipment – vessels were recognised for the current financial year (2016: RMB669,930,000).

4. REVENUE

	The Group	
	2017	2016
	RMB'000	RMB'000
Construction revenue	11,970,793	9,688,750
Sale of goods		
– completed shipbuilding contracts	329,764	537,105
– material and others	5,401,391	3,602,662
Interest income from loans to non-related parties		
– microfinance	32,075	63,491
Interest income from held-to-maturity financial assets	1,078,823	1,003,814
Rendering of ship design services	4,300	8,391
Charter hire income	270,134	182,646
Sales of vessel	83,094	–
Others	35,222	2,579
Total revenue	19,205,596	15,089,438

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

5. OTHER INCOME

	The Group	
	2017	2016
	RMB'000	RMB'000
Interest income		
– Cash and cash equivalents and restricted cash	64,485	91,101
– Finance lease	73,955	65,612
– Other receivables from a non-related party	–	5,895
Income from forfeiture of advances received [Note (a)]	80,556	659,673
Income from forfeiture of security guarantees [Note (b)]	321,550	–
Sales of bunker stock	18,315	–
Dividend income	71,516	28,465
Others	39,876	52,935
	670,253	903,681

(a) These represent forfeiture of advances received as a result of default by customers or cancellation of shipbuilding contracts determined on an individual contract basis.

(b) These represent forfeiture of security guarantees resulting from termination of finance lease agreements (Note 29 (c)).

6. OTHER GAINS – NET

	The Group	
	2017	2016
	RMB'000	RMB'000
Currency translation (loss)/gains – net	(745,161)	362,179
Available-for-sale financial assets		
– Reclassification from other comprehensive income on disposal [Note 34(d)]	–	(28,704)
Fair value change		
– Derivative financial instrument	223,209	176,980
– Financial assets, at fair value through profit or loss	143,094	(298,677)
(Loss)/gain on disposal of associated companies	(6,063)	6,841
Gain on disposal of a joint venture	34,248	–
Gain/(loss) on disposal of subsidiaries (Note 12)	228,303	(15,186)
Gain/(loss) on disposal of property, plant and equipment	74,639	(10,335)
Subsidy income	236,884	193,452
Others	(1,007)	(47,947)
	188,146	338,603

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

7. EXPENSES BY NATURE

	The Group	
	2017 RMB'000	2016 RMB'000
Raw materials and consumables used (Note 18)	11,772,140	8,360,995
Amortisation of lease prepayments (Note 23)	20,192	30,712
Amortisation of intangible assets (Note 28)	934	538
Depreciation of property, plant and equipment (Note 27)	461,432	510,438
Impairment loss on property, plant and equipment (Note 27)	–	1,012,819
Impairment loss on financial assets, held to maturity [Note 37(b)(vi)]	230,265	114,336
(Reversal of impairment loss)/impairment loss on other receivables from non-related parties [Note 37(b)(v)]	(32,750)	32,750
Impairment loss on loans to non-related parties – microfinance [Note 37(b)(iv)]	7,972	34,463
Impairment loss on available-for-sale financial assets (Note 15)	91,159	–
Impairment loss on due from customers on construction contracts [Note 37(b)(ii)]	–	61,028
Employee compensation (Note 8)	309,907	302,701
Subcontracting costs	1,376,817	1,515,765
Other project-related fees and charges	474,936	475,150
Business tax on interest income from held-to-maturity financial assets and loans to non-related parties – microfinance	7,688	7,808
(Reversal of)/inventory write-down (Note 18)	(143,775)	327,848
Write-back of warranty provision (Note 31)	(113,693)	(86,317)
Utilities	170,352	167,989
Transportation expenses	12,968	16,256
Allowance for expected losses recognised on construction contracts	1,202,840	–
Professional fees	16,572	27,748
Operating lease	6,194	11,413
Others	631,350	131,920
Total cost of sales, selling and distribution and administrative expenses	16,503,500	13,056,360

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

8. EMPLOYEE COMPENSATION

	The Group	
	2017	2016
	RMB'000	RMB'000
Salaries and wages	184,394	183,015
Employer's contributions to defined contribution plans [Note (a)]	36,572	52,092
Other employee benefits	88,941	67,594
	309,907	302,701

(a) Contributions to defined contribution plans

The employees of the Group who are employed in the PRC participate in a defined contribution plan administered by the relevant provincial government. For the financial year ended 31 December 2017, the Group is required to make monthly defined contribution to these plans at approximately 45% to 47% (2016: approximately 44% to 47%) of eligible employees' monthly salaries and wages as stipulated by local rules and regulations. These contributions are expensed as incurred.

The Group has no other obligations for the payment of retirement and other post-retirement benefits of employees or retirees other than the payments disclosed in this note.

9. FINANCE EXPENSES

	The Group	
	2017	2016
	RMB'000	RMB'000
Interest on bank borrowings	173,352	262,967
Net foreign currency translation (gain)/loss on bank borrowings	(60,150)	179,901
	113,202	442,868

10. INCOME TAXES

The Group is subject to income tax on an entity basis on profit arising or derived from the tax jurisdiction in which the Group entities are domiciled and operates in. According to the Corporate Income Tax Law of the PRC (the "CIT Law") which became effective from 1 January 2008, the income tax rate for these subsidiaries in PRC in 2017 was 25% (2016: 25%), except for Jiangsu New Yangzi Shipbuilding Co., Ltd ("JNYS") and Jiangsu Yangzi Xinfu Shipbuilding Co., Ltd ("JXF"), which enjoy reduced income tax rate of 15%.

In 2017, JXF has obtained the qualification as a "High and New Technology Enterprise" ("HNTE") for three years from November 2016 to November 2019, which entitles it to a reduced income tax rate of 15% from November 2016 to November 2019, as long as it maintains its qualification as a HNTE under the CIT Law.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

10. INCOME TAXES (CONTINUED)

(a) Income tax expense

	The Group	
	2017	2016
	RMB'000	RMB'000
Income tax expense attributable to profit is made up of:		
Current year		
– Current income tax	530,223	918,584
– Deferred income tax (Note 32)	(54,015)	8,224
	476,208	926,808
Over provision of current income tax in prior financial years	(80,768)	–
	395,440	926,808

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the PRC standard rate of income tax as follows:

	The Group	
	2017	2016
	RMB'000	RMB'000
Profit before tax	3,487,362	2,772,766
Share of (profit)/losses of associated companies and a joint ventures, net of tax	(40,069)	59,728
Profit before tax and share of profit/(loss) of associated companies and joint ventures	3,447,293	2,832,494
Tax calculated at the applicable tax rate of 25% (2016: 25%)	861,823	708,124
Effect of tax exemption and different tax rates	(534,828)	(205,255)
Deferred tax on undistributed profits	106,264	160,584
Expenses not deductible for tax purposes	38,002	134,206
Deferred tax asset on tax losses not recognised	4,305	124,983
Over-provision of current tax in prior year	(80,768)	–
Others	642	4,166
Tax charge	395,440	926,808

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

10. INCOME TAXES (CONTINUED)

(b) The tax (charge)/credit relating to each component of other comprehensive income is as follows:

Group	2017			2016		
	Before tax RMB'000	Tax credit/ (charge) RMB'000	After tax RMB'000	Before tax RMB'000	Tax credit/ (charge) RMB'000	After tax RMB'000
Fair value losses on available-for-sale financial assets	(58,654)	9,772	(48,882)	(23,864)	3,580	(20,284)
Reclassification adjustments on available-for-sale financial assets	76,159	(12,398)	63,761	28,704	–	28,704
	17,505	(2,626)	14,879	4,840	3,580	8,420
Currency translation (losses)/gains arising from share of other comprehensive income of associated companies and joint ventures	(8,052)	–	(8,052)	23,603	–	23,603
Reclassification on share of other comprehensive income of associated companies and joint ventures	(34,420)	–	(34,420)	–	–	–
Currency translation gains/(losses) arising from consolidation	34,872	–	34,872	(75,559)	–	(75,559)
Other comprehensive income	9,905	(2,626)	7,279	(47,116)	3,580	(43,536)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

11. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

	The Group	
	2017	2016
Net profit attributable to equity holders of the Company (RMB'000)	<u>2,931,498</u>	<u>1,752,432</u>
Weighted average number of ordinary shares in issue for basic earnings per share ('000)	<u>3,878,005</u>	<u>3,831,838</u>
Basic earnings per share (RMB cents)	<u>75.59</u>	<u>45.73</u>

Diluted earnings per share is equivalent to the basic earnings, as the Company does not have any dilutive potential ordinary shares.

12. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2017	2016	2017	2016
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Cash at bank and on hand	<u>6,195,431</u>	<u>7,085,796</u>	<u>832,021</u>	<u>1,422,015</u>

Disposal of subsidiaries

On 1 August 2017, the Group disposed of its entire interest in Jiangsu Huayuan Metal Processing Co Ltd ("JHMP") and Jiangsu Zhongzhou Vessel Component Manufacturing Co Ltd for a total cash consideration of RMB94,494,000.

On 30 June 2016, the Group disposed of its entire interest in Jiangsu Huaxi Yangzi Real Estate Development Co Ltd and Jiangsu Huaxi Yangzi Property Development Co Ltd for a total cash consideration of RMB8,077,000.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

12. CASH AND CASH EQUIVALENTS (CONTINUED)

Disposal of subsidiaries (Continued)

The aggregated effects of the disposal on the cash flows of the Group were:

	The Group	
	2017	2016
	RMB'000	RMB'000
Carrying amounts of assets and liabilities disposed of		
Cash and cash equivalents	5,733	19,740
Trade and other receivables	72,030	67,507
Inventories	31,464	–
Property, plant and equipment (Note 27)	15,610	41
Lease prepayments (Note 23)	69,669	–
Development properties	–	1,782,336
Land held for development	–	54,899
Total assets	194,506	1,924,523
Trade and other payables	413,698	779,263
Advances received on construction contracts	2	–
Borrowings	–	978,172
Total liabilities	413,700	1,757,435
Net (liabilities)/assets derecognised	(219,194)	167,088
Less: Non-controlling interests	(35,073)	(143,825)
Net (liabilities)/assets disposed of	(254,267)	23,263
Net (liabilities)/assets disposed of (as above)	(254,267)	23,263
Less: Reclassification of currency translation reserve	(2,456)	–
Less: Reclassification of capital reserve	(60)	–
Cash proceeds from disposal	(94,494)	(8,077)
(Gain)/loss on disposal	(346,245)	15,186
Less: Impairment of other receivables (i)	(117,942)	–
Net (gain)/loss on disposal	(228,303)	15,186

- (i) The Group has an amount of RMB117,942,000 due from JHMP prior to the disposal. As the receivables is deemed not recoverable, the Group has written off the receivables against the total gain on disposal of RMB346,245,000.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

12. CASH AND CASH EQUIVALENTS (CONTINUED)

Disposal of subsidiaries (Continued)

The aggregate cash inflows/(outflows) arising from the disposal of those entities disclosed as above were:

	The Group	
	2017	2016
	RMB'000	RMB'000
Cash proceeds from disposal of (as above)	94,494	8,077
Less: Cash and cash equivalents in subsidiaries disposed of	(5,733)	(19,740)
Net cash inflow/(outflow) on disposal	88,761	(11,663)

13. RESTRICTED CASH

The restricted cash was held in designated bank accounts as deposits for performance guarantees, letters of credits and borrowings.

	The Group	
	2017	2016
	RMB'000	RMB'000
Restricted cash	29,405	1,219,695

14. FINANCIAL ASSETS, AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group	
	2017	2016
	RMB'000	RMB'000
Designated at fair value on initial recognition		
– Unlisted preference shares of a listed corporation	748,523	605,429

The Group subscribed for the unlisted preference shares of a corporation whose common shares are listed on the New York Stock Exchange. These unlisted preference shares carried a dividend rate of 6.95% for the first 5 years, with a step-up of 1% each year thereafter till a maximum dividend rate of 10.5%, subject to the issuer meeting certain conditions. Effective from 1 January 2018, the dividend rate is maintained at 10.5% (the "Conditions") given that the issuer has failed to meet the Conditions.

The Group has the option to convert the preference shares to common shares of the listed corporation, while the issuer also has the right to redeem the shares once the dividend rate exceeds 6.95%.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

15. FINANCIAL ASSETS, AVAILABLE-FOR-SALE

	The Group	
	2017 RMB'000	2016 RMB'000
Beginning of financial year	848,843	275,255
Additions	670,104	672,687
Fair value losses recognised in other comprehensive income [Note 34(d)]	(58,654)	(23,864)
Impairment losses on an unlisted equity security	(15,000)	–
Disposals	(18,000)	(75,235)
End of financial year	1,427,293	848,843
Less: Current portion	(1,027,293)	(648,843)
Non-current portion	400,000	200,000

Available-for-sale financial assets are analysed as follows:

	The Group	
	2017 RMB'000	2016 RMB'000
Listed		
– Equity securities – PRC	289,889	237,043
Unlisted		
– Equity securities – PRC	1,137,404	611,800
	1,427,293	848,843

Financial assets, available-for-sale comprise of listed and unlisted equity securities. The listed equity securities are stated at their fair values (using quoted market prices), while the unlisted equity securities are stated at cost.

Fair value information has not been disclosed for the Group's investment in unlisted equity securities that are carried at cost because fair value cannot be measured reliably. The amount is largely made up of investments in venture capital funds which are not quoted on any market.

During the financial year, the Group recognised an impairment loss of RMB15,000,000 on an unlisted equity security as the issuer is in financial distress. A further RMB76,159,000 [Note 34(d)] impairment loss has been recognised against certain listed equity securities held by the Group as the trade prices of these securities had been below cost for a prolonged period. As such total impairment loss on financial assets, available-for-sales recognised in the current financial year amounted to RMB91,159,000 (2016: nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

16. FINANCIAL ASSETS, HELD-TO-MATURITY

	The Group	
	2017	2016
	RMB'000	RMB'000
Current		
Unlisted investment funds	8,427,310	5,811,680
Less: Allowance for impairment loss [Note 37(b)(vi)]	(853,693)	(514,971)
	<u>7,573,617</u>	<u>5,296,709</u>
Non-current		
Unlisted investment funds	4,774,370	6,087,500
Less: Allowance for impairment loss [Note 37(b)(vi)]	(369,118)	(477,575)
	<u>4,405,252</u>	<u>5,609,925</u>

Unlisted investment funds represent fixed-interest investments through financial institutions.

The table below analyses the maturity profile of the Group's gross investments in held-to-maturity financial assets into relevant maturity groupings based on the remaining maturity period from the balance sheet date.

	The Group	
	2017	2016
	RMB'000	RMB'000
Within one year	8,427,310	5,811,680
Between one year to two years	2,921,900	4,241,000
Over two years	1,852,470	1,846,500
	<u>13,201,680</u>	<u>11,899,180</u>

The fair value of the unlisted investment funds based on the discounted cash flows using market interest rate of 4.75% (2016: 4.75%) per annum for an equivalent investment at the balance sheet date are as follows:

	The Group	
	2017	2016
	RMB'000	RMB'000
Unlisted investment funds	<u>13,684,568</u>	<u>12,600,866</u>

The fair values are within Level 2 of the fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

17. TRADE AND OTHER RECEIVABLES – CURRENT

	The Group		The Company	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Finance lease receivables (Note 21)	50,610	31,725	–	–
Trade receivables				
– Loans to non-related parties				
– microfinance [Note (a)]	537,657	504,070	–	–
– Customers	445,343	1,527,421	–	–
	983,000	2,031,491	–	–
Less: Allowance for impairment of loans to non-related parties – microfinance	(122,430)	(114,523)	–	–
Trade receivables – net	860,570	1,916,968	–	–
Amount due from a related party [Note (b)]	–	208,790	–	–
Other receivables				
– Subsidiaries	–	–	10,060,207	6,736,633
– Non-related parties [Note (c)]	374,310	347,249	15,263	–
	374,310	347,249	10,075,470	6,736,633
Less: Allowance for impairment of other receivables from non-related parties	–	(32,750)	–	–
Other receivables – net	374,310	314,499	10,075,470	6,736,633
Other assets				
– Value added tax recoverable	1,523,013	786,694	56	–
– Deposits	3	136	–	136
– Others	4,860	–	–	–
Prepayments [Note (d)]	2,476,690	2,088,185	–	–
	5,290,056	5,346,997	10,075,526	6,736,769

(a) Loans to non-related parties related to microfinance activities are lending to small and medium sized entities by a Group's subsidiary.

(b) In the prior financial year, non-trade amount due from a related party pertains to amounts receivable from a related party who had bought over a previously defaulted held-to-maturity financial asset from the Group at a price determined through a court auction. These amounts are unsecured, interest-free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

17. TRADE AND OTHER RECEIVABLES – CURRENT (CONTINUED)

- (c) Included in these receivables is loan to non-related party of RMB137,218,000 (2016: RMB98,250,000) which is interest bearing at 4% per annum, secured against a pledge of RMB155,000,000 by a third party and repayable within one year from the balance sheet date.
- (d) Prepayments mainly represent advances paid to suppliers for the purchase of raw materials, such as steel, imported equipment to be installed in the vessels, and other materials for the Group's shipbuilding activities.

The non-trade amounts due from subsidiaries are unsecured, interest-free and expected to be received within one year after balance sheet date.

18. INVENTORIES

	The Group	
	2017	2016
	RMB'000	RMB'000
Raw materials	483,210	662,422
Work-in-progress	1,688,658	1,304,604
Trading goods	456,333	65,433
	2,628,201	2,032,459

Raw materials consist mainly of metal steel products and equipment which are used in the Group's shipbuilding activities. Work-in-progress consists of vessels under construction that are under conditional contracts or without a contract.

The cost of inventories recognised as expense and included in "cost of sales" amounts to RMB11,772,140,000 (2016: RMB8,360,995,000).

As at 31 December 2017, RMB nil (2016: RMB24,884,000) was provided on trading goods to bring the value to its net realisable value.

During the financial year ended 31 December 2017, the Group reversed RMB143,775,000 (2016: RMB nil) of a previous write-down in value of inventories work-in-progress. The reversal was due to sales of five vessels and this reversal has been included in "cost of sales".

During the year ended 31 December 2016, there was a write-down of RMB302,964,000 provided on work-in-progress to their net realisable value.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

19. DUE FROM/(TO) CUSTOMERS ON CONSTRUCTION CONTRACTS

	The Group	
	2017	2016
	RMB'000	RMB'000
Aggregate costs incurred and profits recognised (less losses recognised) to date	9,058,719	7,281,285
Less: Progress billings	(6,705,731)	(5,160,412)
	2,352,988	2,120,873
Presented as:		
Due from customers on construction contracts	5,960,320	3,929,478
Due to customers on construction contracts	(3,607,332)	(1,808,605)
	2,352,988	2,120,873
Advances received on construction contracts	(1,919)	(457,021)

20. TRADE AND OTHER RECEIVABLES – NON-CURRENT

	The Group		The Company	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Finance lease receivables (Note 21)	1,199,745	1,207,849	–	–
Trade receivables				
– Loans to non-related parties				
– microfinance	17,998	50,530	–	–
Less: Allowance for impairment of loans to non-related parties	(65)	–		
Other receivables				
– Loans to subsidiaries [Note (a)]	–	–	2,345,870	2,347,406
– Loans to non-related parties	20,496	–	–	–
	1,238,174	1,258,379	2,345,870	2,347,406

- (a) Loans to subsidiaries are unsecured, interest-free with no fixed terms of repayment, and are not expected to be repaid within the next 12 months from the balance sheet date. These loans are considered as quasi-equity in nature.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

20. TRADE AND OTHER RECEIVABLES – NON-CURRENT (CONTINUED)

The fair values of non-current trade and other receivables are computed based on cash flows discounted at market borrowing rates. The fair values and the market borrowing rates used are as follows:

	The Group		Borrowings rates	
	2017	2016	2017	2016
	RMB'000	RMB'000	%	%
Finance lease receivables	1,224,646	1,299,617	4.75	4.75
Trade receivables				
– Loans to non-related parties				
– microfinance	18,796	55,806	4.75	4.75

The fair values are within Level 2 of the fair value hierarchy.

21. FINANCE LEASE RECEIVABLES

The Group leases vessels to non-related parties under finance leases. The various agreements expire between 2019 and 2024, and the non-related parties have the obligation to purchase the vessel upon the expiry date.

	The Group	
	2017	2016
	RMB'000	RMB'000
Gross receivables due		
– Not later than one year	130,428	112,508
– Later than one year but not later than five years	878,862	773,698
– Later than five years	549,839	773,036
	1,559,129	1,659,242
Less: Unearned finance income	(308,774)	(419,668)
Net investment in finance leases	1,250,355	1,239,574

The net investment in finance leases is analysed as follows:

	The Group	
	2017	2016
	RMB'000	RMB'000
Not later than one year (Note 17)	50,610	31,725
Later than one year but not later than five years (Note 20)	676,834	507,178
Later than five years (Note 20)	522,911	700,671
	1,250,355	1,239,574

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

22. DERIVATIVE FINANCIAL INSTRUMENTS

	Contract notional amount RMB'000	Fair value			
		Assets		Liabilities	
		Current RMB'000	Non-current RMB'000	Current RMB'000	Non-current RMB'000
Group					
2017					
<i>Non-hedging instruments</i>					
– Currency options	-	-	-	-	-
Total	-	-	-	-	-
2016					
<i>Non-hedging instruments</i>					
– Currency options	16,369,749	36,371	23,002	(281,166)	(1,416)
Total	16,369,749	36,371	23,002	(281,166)	(1,416)
Company					
2017					
<i>Non-hedging instruments</i>					
– Currency options	-	-	-	-	-
Total	-	-	-	-	-
2016					
<i>Non-hedging instruments</i>					
– Currency options	16,369,749	36,371	23,002	(281,166)	(1,416)
Total	16,369,749	36,371	23,002	(281,166)	(1,416)

The contract notional amount included above is on a gross basis. The contracts are entered into mainly to manage the foreign currency risk arising from shipbuilding contracts, purchase contracts and borrowings entered by the Group.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

23. LEASE PREPAYMENTS

	The Group	
	2017	2016
	RMB'000	RMB'000
<i>Land use rights</i>		
<u>Cost</u>		
As at 1 January	1,227,837	1,227,837
Disposal of subsidiaries (Note 12)	(69,669)	–
As at 31 December	1,158,168	1,227,837
<u>Accumulated amortisation</u>		
As at 1 January	(147,181)	(116,469)
Amortisation charge (Note 7)	(20,192)	(30,712)
As at 31 December	(167,373)	(147,181)
Net book value at 31 December	990,795	1,080,656

The Group's interest in land use rights in the PRC is held on leases with periods ranging from 46.5 years to 50 years.

24. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2017	2016
	RMB'000	RMB'000
<i>Equity investments at cost</i>		
As at 1 January	5,199,570	5,638,707
Additions	83,000	–
Disposals	–	(29,137)
Return of capital by a subsidiary	–	(410,000)
As at 31 December	5,282,570	5,199,570

Details of significant subsidiaries are included in Note 42.

The directors are of the opinion that the non-controlling interests for each subsidiary are immaterial to the Group individually and in aggregate and accordingly, no summarised financial information for subsidiaries with non-controlling interests is disclosed.

Significant restrictions

Cash and restricted cash of RMB418,702,000(2016: RMB910,165,000) are held in PRC and are subject to local exchange control regulations. The conversion of these RMB denominated balances into foreign currencies is subject to the foreign exchange rules and regulations promulgated by the PRC government.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

25. INVESTMENT IN A JOINT VENTURE

	The Group		The Company	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
<i>Equity investment at cost</i>				
As at 1 January			4,796	349,249
Impairment			(4,796)	(344,453)
As at 31 December			–	4,796
As at 1 January	4,796	336,513		
Dividends received	–	(340,738)		
Strike-off of a joint venture	(4,796)	–		
Share of loss	–	(5,703)		
Share of other comprehensive income				
– Currency translation differences	–	14,724		
As at 31 December	–	4,796		

Set out below is the details of the joint venture of the Group as at 31 December 2017, which, in the opinion of the directors, is immaterial to the Group. The joint venture has share capital consisting solely of ordinary shares, which are held directly by the Group.

Name of company	Principal activity	Place of business/ country of incorporation	Effective equity holding	
			2017 %	2016 %
PPL Holding Pte Ltd ("PPL Holding")	Investment holding	Singapore	–	45

On November 2017, PPL Holding has obtained its approval from Accounting and Corporate Regulatory Authority ("ACRA") to be strike-off from Register of Companies ("Register") as it has become dormant. Cumulative translation gains amounting to RMB34,420,000 has been reclassified to the Income Statement and recognised as part of the gain on disposal of a joint venture (Note 6).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

26. INVESTMENTS IN ASSOCIATED COMPANIES

	The Group		The Company	
	2017	2016	2017	2016
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
<i>Equity investments at cost</i>				
As at 1 January and 31 December			<u>134,062</u>	<u>134,062</u>
As at 1 January	882,622	1,086,638		
Acquisition	274,000	–		
Additions	270,700	150,000		
Return of capital [Note (a)]	(58,574)	(286,211)		
Disposals	(6,063)	(22,659)		
Share of profit/(loss)	40,069	(54,025)		
Share of other comprehensive (loss)/income				
– currency translation reserve	(8,052)	8,879		
As at 31 December	<u>1,394,702</u>	<u>882,622</u>		

- (a) In 2017, four associated companies (2016: five associated companies) of the Group distributed their capital to all the shareholders based on the respective shareholding. This did not result in a change of significant influence over these associated companies.

There are no contingent liabilities relating to the Group's interest in the associated companies.

The directors are of the opinion that the associated companies are immaterial to the Group individually and in aggregate. Accordingly, no summarised financial information for associated companies is disclosed.

Details of significant associated companies are included in Note 42.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

27. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery RMB'000	Vehicles RMB'000	Furniture, fittings and equipment RMB'000	Vessels RMB'000	Construction in progress RMB'000	Total RMB'000
<u>Group</u>							
2017							
Cost							
As at 1 January	4,531,434	2,195,613	184,403	121,652	2,283,135	15,851	9,332,088
Additions	133	8,954	10	1,692	–	37,544	48,333
Transfers	25,058	7,815	–	24	–	(32,897)	–
Disposals	(23,842)	(7,619)	(877)	(4,656)	(373,617)	–	(410,611)
Disposals of subsidiaries (Note 12)	(147,329)	(45,507)	(1,421)	(276)	–	(6,019)	(200,552)
Currency translation difference	–	–	–	–	(90,655)	–	(90,655)
As at 31 December	4,385,454	2,159,256	182,115	118,436	1,818,863	14,479	8,678,603
Accumulated depreciation and impairment losses							
As at 1 January	(1,313,817)	(1,160,304)	(118,978)	(76,448)	(1,179,572)	(6,019)	(3,855,138)
Depreciation charge (Note 7)	(199,976)	(184,830)	(16,038)	(10,314)	(50,274)	–	(461,432)
Disposals	16	6,784	789	2,473	222,670	–	232,732
Disposals of subsidiaries (Note 12)	144,552	32,813	1,280	278	–	6,019	184,942
Currency translation difference	–	–	–	–	41,022	–	41,022
As at 31 December	(1,369,225)	(1,305,537)	(132,947)	(84,011)	(966,154)	–	(3,857,874)
Net book value							
As at 31 December 2017	3,016,229	853,719	49,168	34,425	852,709	14,479	4,820,729
2016							
Cost							
As at 1 January	3,881,149	2,196,291	184,492	120,617	1,930,163	378,189	8,690,901
Additions	11,000	12,116	595	3,986	211,021	290,989	529,707
Transfers	651,804	–	887	636	–	(653,327)	–
Disposals	(12,519)	(12,794)	(1,571)	(3,526)	–	–	(30,410)
Disposals of subsidiaries (Note 12)	–	–	–	(61)	–	–	(61)
Currency translation difference	–	–	–	–	141,951	–	141,951
As at 31 December	4,531,434	2,195,613	184,403	121,652	2,283,135	15,851	9,332,088
Accumulated depreciation and impairment losses							
As at 1 January	(809,656)	(924,376)	(102,349)	(65,460)	(387,093)	–	(2,288,934)
Depreciation charge (Note 7)	(211,262)	(206,018)	(18,109)	(11,677)	(63,372)	–	(510,438)
Disposals	1,590	10,090	1,571	2,959	–	–	16,210
Disposals of subsidiaries (Note 12)	–	–	–	20	–	–	20
Currency translation difference	–	–	–	–	(59,177)	–	(59,177)
Impairment charge (Note 7)	(294,489)	(40,000)	(91)	(2,290)	(669,930)	(6,019)	(1,012,819)
As at 31 December	(1,313,817)	(1,160,304)	(118,978)	(76,448)	(1,179,572)	(6,019)	(3,855,138)
Net book value							
As at 31 December 2016	3,217,617	1,035,309	65,425	45,204	1,103,563	9,832	5,476,950

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

27. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

- (a) In 2016, two vessels under finance lease were acquired by the Group due to default in payments by the charterers. Accordingly, the respective charter agreements were also cancelled. The total carrying amount for the two vessels upon transfer was RMB191,561,000.

No new finance lease was acquired by the Group for the financial year ended 31 December 2017.

- (b) In 2016, impairment charge of RMB669,930,000 was recognised and included within “administrative expenses” in profit or loss.

The recoverable amounts of the vessels as at 31 December 2016 were determined based on fair value less costs of disposal. The fair value less costs of disposal is determined by an independent third party valuer who made reference to comparable transaction prices of similar vessels. These are regarded as Level 2 fair values.

No impairment charge was recognised on vessels for the financial year ended 31 December 2017.

- (c) Impairment charge on buildings and machinery as at 31 December 2016 of RMB294,489,000 and RMB40,000,000 respectively were included within “administrative expenses” in profit or loss.

The recoverable amounts of the buildings and machinery as at 31 December 2016 were determined based on fair value less costs of disposal. The Group has determined the fair value less costs of disposal by making reference to comparable transaction prices of similar buildings and machinery. Where comparable transaction prices were not available for certain buildings and machinery, they have been impaired to their residual values. The carrying amount of these buildings and machinery after impairment charges is RMB48,255,000.

No impairment charge was recognised on buildings and machinery for the financial year ended 31 December 2017.

- (d) Bank borrowings are secured on certain vessels of the Group with carrying amounts of RMB568,525,000 (2016: RMB721,448,000).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

27. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Furniture, fittings and equipment RMB'000	Total RMB'000
<u>Company</u>		
2017		
Cost		
As at 1 January and 31 December	412	412
Accumulated depreciation		
As at 1 January	(375)	(375)
Depreciation charge	(15)	(15)
As at 31 December	(390)	(390)
Net book value		
As at 31 December 2017	22	22
2016		
Cost		
As at 1 January and 31 December	412	412
Accumulated depreciation		
As at 1 January	(360)	(360)
Depreciation charge	(15)	(15)
As at 31 December	(375)	(375)
Net book value		
As at 31 December 2016	37	37

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

28. INTANGIBLE ASSETS

	The Group	
	2017	2016
	RMB'000	RMB'000
<i>Acquired computer software licenses</i>		
Cost		
Beginning of financial year	9,183	3,074
Additions	2,892	6,184
Disposal	–	(75)
End of financial year	12,075	9,183
Accumulated amortisation		
Beginning of financial year	(1,277)	(814)
Amortisation charge (Note 7)	(934)	(538)
Disposal	–	75
End of financial year	(2,211)	(1,277)
Net book value as at 31 December	9,864	7,906

The amortisation expenses are classified as administrative expenses in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

29. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Current				
Trade payables				
– Suppliers	3,090,507	2,054,461	–	–
– Notes payables [Note (a)]	45,800	450,000	–	–
Other payables				
– Subsidiaries [Note (b)]	–	–	4,186,151	3,859,192
– Non-related parties [Note (c)]	2,345,344	2,310,394	1,496	4,726
Deferred compensation income [Note (d)]	157,482	157,482	–	–
Advances from customers	89,494	973	–	–
Other operating accruals	130,414	632,447	5,240	6,030
	5,859,041	5,605,757	4,192,887	3,869,948

- (a) Notes payables are bills of exchange with average maturity dates of less than 6 months.
- (b) The non-trade amounts due to subsidiaries are unsecured, interest-free and repayable on demand.
- (c) Included in other payables to non-related parties is an amount of RMB165,055,000 (2016: RMB496,780,000) which relates to the loans granted by the previous owners of two (2016: five) Hong Kong vessel owning companies to these subsidiaries prior to the acquisition by the Group. Upon acquisition by the Group, the Group leased the vessels owned by these five companies to the previous owners under finance lease and these loans were used as security guarantees for the finance lease agreements. During the financial years ended 31 December 2016, those lease agreements were cancelled due to default in payments by the charterers.
- In the current financial year, the Group recognise other income amounting to RMB321,550,000 as a result of forfeiture of the security guarantees for three of these Hong Kong vessel owning subsidiaries.
- (d) Deferred compensation income relates to the government grant received for the relocation of shipbuilding premises at Jiangsu Yangzijiang Shipbuilding Co., Ltd. ("JYS"). A portion of the government grant is deferred as the performance conditions attached to this portion of the grant has yet been met.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

30. BORROWINGS

	The Group		The Company	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Current				
Bank borrowings (secured) [Note (a)]	100,243	507,185	–	–
Bank borrowings (unsecured)	2,431,730	2,072,250	1,141,730	1,387,400
	2,531,973	2,579,435	1,141,730	1,387,400
Non-current				
Bank borrowings (secured) [Note (a)]	560,002	898,243	–	–
Bank borrowings (unsecured)	1,798,771	3,727,950	–	1,387,400
Non-related parties	–	18,829	–	–
	2,358,773	4,645,022	–	1,387,400
	4,890,746	7,224,457	1,141,730	2,774,800

(a) These bank borrowings are secured by restricted cash (Note 13) and legal mortgages over certain vessels of the Group (Note 27).

The exposure of the Group and the Company to interest rate changes and the contractual repricing dates at the balance sheet date are as follows:

	The Group		The Company	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Floating rate:				
– Six months or less	3,573,062	6,411,128	1,141,730	2,774,800
Fixed rate:				
– One to three years	1,317,684	813,329	–	–
	4,890,746	7,224,457	1,141,730	2,774,800

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

30. BORROWINGS (CONTINUED)

Fair value of non-current borrowings at fixed rate

	The Group		The Company	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Borrowings				
– USD	16,631	3,287,697	–	1,367,308
– RMB	–	1,289,134	–	–

The fair value is determined from the cash flow analysis discounted at market borrowing rate of an equivalent instrument which the directors expect to be available to the Group at the balance sheet date. The discount rates are as follows:

	The Group		The Company	
	2017	2016	2017	2016
Borrowings				
– USD	3.27%	3.20%	–	3.08%
– RMB	–	1.85%	–	–

The fair values are within Level 2 of the fair value hierarchy.

31. PROVISIONS

	The Group	
	2017	2016
	RMB'000	RMB'000
Warranty	371,993	488,633

The Group provides warranties on completed and delivered vessels and undertakes to repair or replace items that fail to perform satisfactorily. The provision for warranty is based on estimates from known and expected warranty work and legal and constructive obligation for further work to be performed after construction.

Movement in provision for warranty is as follows:

	The Group	
	2017	2016
	RMB'000	RMB'000
As at 1 January	488,633	577,862
Write back of provision (Note 7)	(199,645)	(185,868)
Provision made (Note 7)	85,952	99,551
Provision utilised	(2,947)	(2,912)
As at 31 December	371,993	488,633

The estimated warranty expense is 1% of the shipbuilding contract price.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

32. DEFERRED INCOME TAX

	The Group		The Company	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred income tax assets				
– to be recovered within one year	(188,282)	(168,771)	–	–
– to be recovered after one year	(472,009)	(319,399)	–	–
	<u>(660,291)</u>	<u>(488,170)</u>	<u>–</u>	<u>–</u>
Deferred income tax liabilities				
– to be settled after one year	<u>921,549</u>	<u>1,037,999</u>	<u>–</u>	<u>224,784</u>

Movements in deferred income tax accounts during the year are as follows:

	The Group		The Company	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January	549,829	663,819	224,784	343,418
(Credited)/charged to profit or loss [Note 10(a)]	(54,015)	8,224	–	–
Transfer to current income tax liabilities	(224,784)	(118,634)	(224,784)	(118,634)
Credited to other comprehensive income	(9,772)	(3,580)	–	–
As at 31 December	<u>261,258</u>	<u>549,829</u>	<u>–</u>	<u>224,784</u>

Deferred income tax assets are recognised to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of RMB1,400,752,000 (2016: RMB1,571,209,000) at the balance sheet date which can be carried forward and used to offset against future taxable income subject to meeting certain statutory requirements by those companies in their respective countries of incorporation. The tax losses of RMB247,645,000, RMBnil, RMB321,221,000, RMB339,712,000 and RMB17,220,000 will expire in 2018, 2019, 2020, 2021 and 2022 respectively. Tax losses of RMB474,954,000 (2016: RMB474,954,000) arising from Singapore and Hong Kong incorporated entities have no expiry date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

32. DEFERRED INCOME TAX (CONTINUED)

The movement in deferred income tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) is as follows:

Group

Deferred income tax assets

	Impairment losses RMB'000	Fair value losses – net RMB'000	Warranty provision RMB'000	Foreseeable losses RMB'000	Total RMB'000
2017					
As at 1 January	(420,724)	(3,580)	(63,866)	–	(488,170)
Charged/(credited) to profit or loss	4,553	–	15,851	(182,753)	(162,349)
Credited to other comprehensive income	–	(9,772)	–	–	(9,772)
Transfer	(12,398)	12,398	–	–	–
As at 31 December	<u>(428,569)</u>	<u>(954)</u>	<u>(48,015)</u>	<u>(182,753)</u>	<u>(660,291)</u>
2016					
As at 1 January	(265,679)	–	(68,095)	–	(333,774)
(Credited)/charged to profit or loss	(155,045)	–	4,229	–	(150,816)
Credited to other comprehensive income	–	(3,580)	–	–	(3,580)
As at 31 December	<u>(420,724)</u>	<u>(3,580)</u>	<u>(63,866)</u>	<u>–</u>	<u>(488,170)</u>

Deferred income tax liabilities

	Undistributed profits of subsidiaries RMB'000	Others RMB'000	Total RMB'000
2017			
As at 1 January	1,024,772	13,227	1,037,999
Charged to profit or loss	106,264	2,070	108,334
Transferred to current income tax liabilities	(224,784)	–	(224,784)
As at 31 December	<u>906,252</u>	<u>15,297</u>	<u>921,549</u>
2016			
As at 1 January	982,822	14,771	997,593
Charged/(credited) to profit or loss	160,584	(1,544)	159,040
Transferred to current income tax liabilities	(118,634)	–	(118,634)
As at 31 December	<u>1,024,772</u>	<u>13,227</u>	<u>1,037,999</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

32. DEFERRED INCOME TAX (CONTINUED)

Company

Deferred income tax liabilities

	Undistributed profits of subsidiaries RMB'000
2017	
As at 1 January	224,784
Transferred to current income tax liabilities	(224,784)
As at 31 December	—
2016	
As at 1 January	343,418
Transferred to current income tax liabilities	(118,634)
As at 31 December	224,784

33. SHARE CAPITAL

	Number of shares		Amount	
	Issued share capital '000	Treasury shares '000	Share capital RMB'000	Treasury shares RMB'000
<u>Group</u>				
2017				
As at 1 January	3,837,077	(5,239)	6,354,096	(20,979)
Issuance of shares (Note a)	137,000	—	1,012,017	—
Share issue expenses	—	—	(4,123)	—
As at 31 December	3,974,077	(5,239)	7,361,990	(20,979)
2016				
As at 1 January	3,837,077	(5,239)	6,263,016	(20,979)
Transfer from warrant reserve	—	—	91,080	—
As at 31 December	3,837,077	(5,239)	6,354,096	(20,979)
<u>Company</u>				
2017				
As at 1 January	3,837,077	(5,239)	6,318,879	(20,979)
Issuance of shares (Note a)	137,000	—	1,012,017	—
Share issue expenses	—	—	(4,123)	—
As at 31 December	3,974,077	(5,239)	7,326,773	(20,979)
2016				
As at 1 January	3,837,077	(5,239)	6,227,799	(20,979)
Transfer from warrant reserve	—	—	91,080	—
As at 31 December	3,837,077	(5,239)	6,318,879	(20,979)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

33. SHARE CAPITAL (CONTINUED)

- (a) On 31 August 2017, the Company issued 137,000,000 ordinary shares in the capital of the Company at a placement price of S\$1.53 (RMB7.38) per share by way of a private placement to institutional investors and other investors.

All issued ordinary shares are fully paid. There is no par value for these ordinary shares.

34. OTHER RESERVES

	The Group		The Company	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Composition:				
Statutory reserves [Note (a)]	3,566,028	3,329,625	–	–
Capital reserve [Note (b)]	(2,928,270)	(2,928,330)	(40,192)	(40,192)
Currency translation reserve [Note (c)]	(63,673)	(56,073)	–	–
Fair value reserve [Note (d)]	(5,405)	(20,284)	–	–
	568,680	324,938	(40,192)	(40,192)

(a) Statutory reserves

In accordance with the relevant rules and regulations, the Group's subsidiaries in the PRC are required to appropriate certain percentage of their profits to various reserve funds.

All subsidiaries which are considered as Wholly Owned Foreign Enterprise may discontinue the contribution to the reserve fund when the aggregate sum of the reserve fund is more than 50% of the registered capital in accordance with the "Law of the PRC on Enterprise Operated Exclusively with Foreign Capital".

In 2017, the Group's subsidiaries have appropriated RMB236,403,000 (2016: RMB261,542,000) from their profits to statutory reserves.

(b) Capital reserve

Capital reserve represents capital investments and distributions relating to equity transactions with non-controlling shareholders.

(c) Currency translation reserve

Currency translation reserve represents the currency translation differences resulting from the translation of the Group entities' financial statements that have a functional currency different from the Group's presentation currency.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

34. OTHER RESERVES (CONTINUED)

(d) Fair value reserve

	The Group	
	2017	2016
	RMB'000	RMB'000
Fair value reserve		
Beginning of financial year	(20,284)	(28,704)
Available-for-sale financial assets		
– Fair value losses (Note 15)	(58,654)	(23,864)
– Tax on fair value changes	9,772	3,580
	(48,882)	(20,284)
Share of joint venture's fair value losses on available-for-sale financial assets, net of tax	–	–
Reclassification to profit or loss	76,159	28,704
Tax on reclassification	(12,398)	–
	63,761	28,704
End of financial year	(5,405)	(20,284)

Fair value reserve represents fair value changes resulting from the Group's available-for-sale financial assets that are recorded in other comprehensive income. The fair value gains will be reclassified to profit and loss upon disposal of the available-for sale financial assets or when there is a significant or prolonged decline in the fair value.

35. DIVIDENDS

	The Group	
	2017	2016
	RMB'000	RMB'000
<i>Ordinary dividends paid</i>		
Final exempt dividend paid in respect of the previous financial year of SGD4.0 cents (2016: SGD4.5 cents) per share	753,983	818,469

A final exempt (one-tier) dividend of SGD4.5 cents per share amounting to approximately SGD178,598,000 (equivalent of RMB853,145,000) has been recommended for the shareholders' approval at the Annual General Meeting on 27 April 2018. These financial statements do not reflect this dividend, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the financial year ending 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

36. COMMITMENTS

(a) Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognised in the financial statements are as follows:

	The Group	
	2017 RMB'000	2016 RMB'000
Property, plant and equipment	7,308	32,703

(b) Operating lease commitments – where the Group is a lessee

The Group leases office from a non-related party under a non-cancellable operating lease agreement.

The future minimum lease payables under non-cancellable operating leases contracted for at the balance sheet date but not recognised as liabilities, are as follows:

	The Group	
	2017 RMB'000	2016 RMB'000
Not later than one year	1,886	320

37. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise any adverse effects from the unpredictability of financial markets on the Group's financial performance. The Group uses financial instruments such as currency options and foreign currency borrowings to manage certain financial risk exposures.

The management is responsible for setting the objectives and underlying principles of financial risk management for the Group, including establishing operating guidelines governing the activities of the Group, such as risk identification and measurement, risk management, oversight responsibilities, authority levels and exposure limits.

(a) Market risk

(i) Currency risk

The Group has shipbuilding contracts with customers around the world and is exposed to currency risk mainly arising from USD. The Group is also exposed to USD borrowings. The Group aims to mitigate the currency risk by entering into currency options, in accordance with the Group's financial risk management policies.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Currency risk (Continued)

The Group's currency exposure based on the information provided to key management is as follows:

	RMB RMB'000	USD RMB'000	EUR RMB'000	SGD RMB'000	Total RMB'000
Group					
<i>At 31 December 2017</i>					
Financial assets					
Trade and other receivables	1,332,064	2,719,399	–	77	4,051,540
Due from customers on construction contracts	–	5,960,320	–	–	5,960,320
Financial assets, available-for-sale	1,427,293	–	–	–	1,427,293
Financial assets, fair value through profit or loss	–	748,523	–	–	748,523
Financial assets, held-to-maturity	11,978,869	–	–	–	11,978,869
Restricted cash	–	29,405	–	–	29,405
Cash and cash equivalents	428,699	4,944,933	64,406	757,393	6,195,431
	<u>15,166,925</u>	<u>14,402,580</u>	<u>64,406</u>	<u>757,470</u>	<u>30,391,381</u>
Financial liabilities					
Borrowings	(1,791,879)	(2,610,557)	–	(488,310)	(4,890,746)
Trade and other payables	(2,530,036)	(3,076,869)	–	(5,160)	(5,612,065)
	<u>(4,321,915)</u>	<u>(5,687,426)</u>	<u>–</u>	<u>(493,470)</u>	<u>(10,502,811)</u>
Net financial assets	10,845,010	8,715,154	64,406	264,000	<u>19,888,570</u>
Less: Net financial assets denominated in the respective entities' functional currency	(10,845,010)	(87,100)	–	–	
Add: Highly probable forecasted transactions in foreign currencies	–	9,549,512	–	–	
Currency exposure	<u>–</u>	<u>18,177,566</u>	<u>64,406</u>	<u>264,000</u>	

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Currency risk (Continued)

The Group's currency exposure based on the information provided to key management is as follows (Continued):

	RMB RMB'000	USD RMB'000	EUR RMB'000	SGD RMB'000	Others RMB'000	Total RMB'000
Group						
<i>At 31 December 2016</i>						
Financial assets						
Trade and other receivables	3,169,879	1,347,236	–	76	–	4,517,191
Due from customers on construction contracts	35,520	3,893,958	–	–	–	3,929,478
Financial assets, available-for-sale	848,843	–	–	–	–	848,843
Financial assets, fair value through profit or loss	–	605,429	–	–	–	605,429
Financial assets, held-to-maturity	10,906,634	–	–	–	–	10,906,634
Restricted cash	441,063	778,632	–	–	–	1,219,695
Cash and cash equivalents	911,304	6,007,911	151,792	7,317	7,472	7,085,796
	<u>16,313,243</u>	<u>12,633,166</u>	<u>151,792</u>	<u>7,393</u>	<u>7,472</u>	<u>29,113,066</u>
Financial liabilities						
Borrowings	(2,032,500)	(5,191,957)	–	–	–	(7,224,457)
Trade and other payables	(3,081,819)	(2,069,328)	(203)	(295,952)	–	(5,447,302)
	<u>(5,114,319)</u>	<u>(7,261,285)</u>	<u>(203)</u>	<u>(295,952)</u>	<u>–</u>	<u>(12,671,759)</u>
Net financial assets/(liabilities)	11,198,924	5,371,881	151,589	(288,559)	7,472	<u>16,441,307</u>
Less: Net financial assets denominated in the respective entities' functional currency	(11,198,924)	(726,547)	–	–	–	
Add: Highly probable forecasted transactions in foreign currencies	–	9,095,797	–	–	–	
Currency exposure	<u>–</u>	<u>13,741,131</u>	<u>151,589</u>	<u>(288,559)</u>	<u>7,472</u>	

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Currency risk (Continued)

The Company's currency exposure based on the information provided to key management is as follows:

	RMB RMB'000	USD RMB'000	SGD RMB'000	Total RMB'000
Company				
<u>At 31 December 2017</u>				
Financial assets				
Trade and other receivables	12,396,759	48	24,589	12,421,396
Cash and cash equivalents	–	75,115	756,906	832,021
	<u>12,396,759</u>	<u>75,163</u>	<u>781,495</u>	<u>13,253,417</u>
Financial liabilities				
Borrowings	–	(653,420)	(488,310)	(1,141,730)
Other payables	(1,719,272)	(2,468,722)	(4,893)	(4,192,887)
	<u>(1,719,272)</u>	<u>(3,122,142)</u>	<u>(493,203)</u>	<u>(5,334,617)</u>
Net financial assets/(liabilities)	10,677,487	(3,046,979)	288,292	<u>7,918,800</u>
Less: Net financial assets denominated in the company's functional currency	<u>(10,677,487)</u>	<u>–</u>	<u>–</u>	
Currency exposure	<u>–</u>	<u>(3,046,949)</u>	<u>288,292</u>	
<u>At 31 December 2016</u>				
Financial assets				
Trade and other receivables	8,071,943	987,358	24,874	9,084,175
Cash and cash equivalents	–	1,415,858	6,157	1,422,015
	<u>8,071,943</u>	<u>2,403,216</u>	<u>31,031</u>	<u>10,506,190</u>
Financial liabilities				
Borrowings	–	(2,774,800)	–	(2,774,800)
Other payables	(2,686,389)	(905,815)	(277,744)	(3,869,948)
	<u>(2,686,389)</u>	<u>(3,680,615)</u>	<u>(277,744)</u>	<u>(6,644,748)</u>
Net financial assets/(liabilities)	5,385,554	(1,277,399)	(246,713)	<u>3,861,442</u>
Less: Net financial assets denominated in the company's functional currency	<u>(5,385,554)</u>	<u>–</u>	<u>–</u>	
Currency exposure	<u>–</u>	<u>(1,277,399)</u>	<u>(246,713)</u>	

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Currency risk (Continued)

If the USD, SGD and EUR change against the RMB by 7% (2016: 7%), 4% (2016: 7%) and 10% (2016: 5%) respectively with all other variables including tax rate being held constant, the effects arising from the net financial assets/(liabilities) position will be as follows:

	The Group Increase/(decrease) Profit after tax		The Company Increase/(decrease) Profit after tax	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
USD against RMB:				
– strengthened	1,132,462	644,459	(177,030)	(59,910)
– weakened	(1,132,462)	(644,459)	177,030	59,910
EUR against RMB:				
– strengthened	5,732	5,078	–	–
– weakened	(5,732)	(5,078)	–	–
SGD against RMB:				
– strengthened	9,398	(13,533)	9,571	(11,571)
– weakened	(9,398)	13,533	(9,571)	11,571

(ii) Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

The Group's interest rate risks arise primarily from its cash and cash equivalents, restricted cash, held-to-maturity financial assets, loans to non-related parties – microfinance, loans to non-related parties and borrowings with financial institutions. The Group's policy is to minimise exposure to variable interest rates of interest bearing assets.

As at 31 December 2017 and 2016, the Group's investments in held-to-maturity financial assets, loans to non-related parties – microfinance, and loans to non-related parties were not exposed to cash flow interest rate risk as they were all fixed rated instruments.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Cash flow and fair value interest rate risk (Continued)

The Group's exposure to cash flow interest rate risks arises mainly from borrowings at floating rate denominated in RMB, SGD and USD which effective hedges have not been entered into. If the RMB, SGD and USD interest rates had increased/decreased by 1% (2016: 1%) with all other variables including tax rate being held constant, the profit after tax would have been lower/higher by RMB3,082,000, RMB4,880,000 and RMB25,877,000 respectively (2016: RMB6,141,000, RMBnil and RMB34,440,000 respectively) as a result of higher/lower interest expense on these borrowings.

(iii) Price risk

The Group is exposed to financial product price risk mainly due to investments held by the Group which are classified as financial assets, available-for-sale or at fair value through profit or loss. To manage its price risk arising from these investments, the Group ensures that the investments are within authorised mandate based on its approved financial risk management and operating guidelines.

If prices for equity security listed in PRC had increased/decreased by 10% (2016: 10%) with all other variables including tax rate being held constant, the net of tax effects on other comprehensive income would have increased/decreased by RMB24,641,000 (2016: RMB17,778,000).

(b) Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Group.

Except as disclosed below, the maximum exposure to credit risk for those financial assets which the Group and the Company do not hold collaterals is the carrying amount of that class of financial assets presented on the balance sheet.

(i) Cash and cash equivalents, restricted cash and derivative financial instruments

For cash and cash equivalents, restricted cash and derivative financial instruments, the Group and the Company adopt the policy of dealing only with major banks of high credit standing throughout the world. There is no recent history of defaults in relation to cash and cash equivalents, restricted cash and derivative financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Trade receivables related to shipbuilding activities

Trade receivables related to shipbuilding activities are classified as either trade receivables or due from customers on construction contracts. For due from customers on construction contracts, the Group has contractual safeguards in place to minimise credit risk. In the event of a default in scheduled payment, the Group has the legal right to revoke the shipbuilding contracts.

The credit risk for the shipbuilding related trade receivables as at 31 December 2017 and 2016 based on the information provided to key management is as follows:

	The Group	
	2017	2016
	RMB'000	RMB'000
<u>By geographical areas</u>		
PRC	–	35,520
Singapore	2,387,074	178,913
Malaysia	–	642,855
Marshall Islands	1,662,200	1,263,968
Other Asian countries	828,582	425,486
Other European countries	898,203	1,382,736
Canada	184,261	–
	5,960,320	3,929,478

The movement in the allowance for impairment on the due from customers on construction contracts is as follows:

	The Group	
	2017	2016
	RMB'000	RMB'000
As at 1 January	429,790	368,762
Allowance made (Note 7)	–	61,028
Transferred to inventory work-in-progress	(429,790)	–
As at 31 December	–	429,790

Other than set out above, there is no trade receivables related to shipbuilding activities or due from customers on construction contracts that is past due but not impaired.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Trade receivables related to shipbuilding activities (Continued)

During the current financial year, the Group terminated a construction contract due to default by the customer. The uncompleted construction work-in-progress was repossessed by the Group. As a result, the amount due from customer balance amounting to RMB689,863,000, and the related allowance for impairment RMB429,700,000 were transferred to inventory work-in-progress.

Concentration of credit risk with respect to the shipbuilding related trade receivables is limited as the Group adopts the policy of dealing with a group of customers of appropriate credit history and obtaining guaranteed letters of credit and advances from registered banks of the customers' home countries. The remaining trade receivables related to shipbuilding activities and due from customers on construction contracts are neither past due nor impaired as at 31 December 2017 and 2016.

(iii) Trade receivables related to trading activities

The trade receivables related to trading activities are neither past due nor impaired as at 31 December 2017 and 2016. The trade receivables related to trading activities comprise 3 debtors (2016: 3 debtors) that represented 59% (2016: 58%) of trade receivables related to trading activities.

(iv) Loans to non-related parties – microfinance

Loans to non-related parties – microfinance are related to the micro-credit provided to enterprises and individuals.

Collaterals provided by the borrowers are held by the Group as guarantee for the repayment of principal and interest.

The carrying amounts of loans to non-related parties – microfinance before impairment presented by the type of collaterals held are as follows:

	The Group	
	2017 RMB'000	2016 RMB'000
Collateralised by:		
– Listed shares in PRC	156,039	26,337
– Unlisted shares in PRC	25,686	30,480
– Properties and land use rights	198,955	141,223
– Guaranteed by non-related individuals	330	10,156
– Guaranteed by non-related corporations	174,645	346,404
	555,655	554,600

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (Continued)

(b) Credit risk (Continued)

(iv) Loans to non-related parties – microfinance (Continued)

All the loans to non-related parties – microfinance are secured by either single or a group of collaterals or by guarantees. For each loan, the Group's strategy is to obtain a principal collateral of higher liquidity, and additional collaterals on top of the principal collateral, where necessary.

Management categorises their loan portfolio based on the credit risk of the borrowers into five different categories, with Category 1 representing the lowest credit risk and Category 5 representing the highest credit risk.

The credit risk for loans to non-related parties – microfinance as at 31 December 2017 and 2016 based on the information provided to key management is as follows:

	The Group	
	2017	2016
	RMB'000	RMB'000
<u>By risk profile category</u>		
Category 1	338,434	5,000
Category 2	43,000	312,672
Category 3	65,260	84,000
Category 4	7,282	131,316
Category 5	101,679	21,612
	555,655	554,600
Less: Allowance for impairment	(122,495)	(114,523)
	<u>433,160</u>	<u>440,077</u>

The movement in the allowance for impairment is as follows:

	The Group	
	2017	2016
	RMB'000	RMB'000
As at 1 January	114,523	86,866
Allowance made (Note 7)	42,922	64,018
Allowance reversed (Note 7)	(34,950)	(29,555)
Allowance utilised	–	(6,806)
As at 31 December	<u>122,495</u>	<u>114,523</u>

Other than the allowance made for the impairment as set out above, there is no further impairment noted. None of the loans to non-related parties – microfinance is past due but not impaired as at 31 December 2017 and 2016.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (Continued)

(b) Credit risk (Continued)

(v) Other receivables and other financial assets

Other receivables and other financial assets that are neither past due nor impaired are substantially counterparties with a good collection track record with the Group.

The Company's other receivables due from the subsidiaries are neither past due nor impaired.

The carrying amount of other receivables from non-related parties individually determined to be impaired and the movement in the related allowance for impairment are as follows:

	The Group	
	2017	2016
	RMB'000	RMB'000
Gross amount	–	131,000
Less: Allowance for impairment	–	(32,750)
	–	98,250
As at 1 January	32,750	–
(Reversal)/allowance made (Note 7)	(32,750)	32,750
As at 31 December	–	32,750

In 2016, there were two charter agreements cancelled as the charterers were unable to pay the charter hire on time during the financial year. As a result, the vessels were repossessed by the Group, upon which the related net finance lease receivable amounts of RMB191,561,000, including an allowance of impairment of RMB323,815,000 was derecognised. The net amount of finance lease receivable was recognised as the cost of vessels at the date of contract cancellation (Note 27).

No additional allowance for impairment on finance lease receivables is made in financial year ended 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (Continued)

(b) Credit risk (Continued)

(v) Other receivables and other financial assets (Continued)

The movement in the allowance for impairment on the finance lease receivables is as follows:

	The Group	
	2017	2016
	RMB'000	RMB'000
As at 1 January	–	323,815
Allowance transferred	–	(323,815)
As at 31 December	–	–

None of the remaining other receivables and other financial assets is past due but not impaired as at 31 December 2017 and 2016.

(vi) Held-to-maturity financial assets

The Group's held-to-maturity financial assets pertain to fixed interest investments through intermediary financial institutions for specific borrowings arranged by these intermediaries.

Collaterals provided by the ultimate borrowers are held by the intermediaries as guarantee for the repayment of principal and interests.

The Group adopts the policy of dealing only with high credit quality counterparties in the PRC.

The carrying amounts of held-to-maturity financial assets before impairment presented by the type of collaterals received in connection with these assets are as follows:

	The Group	
	2017	2016
	RMB'000	RMB'000
Collateralised by:		
– Listed shares in PRC*	2,568,750	1,746,720
– Unlisted shares in PRC	2,195,000	935,000
– Properties and land use rights	1,943,560	2,363,960
– Guaranteed by government corporations and non-related corporations	6,494,370	6,853,500
	13,201,680	11,899,180

* Included in the listed shares in PRC is an amount of RMB629,000,000(2016: RMB231,720,000) of shares which will only be available for trading after the expiry of their restriction period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (Continued)

(b) Credit risk (Continued)

(vi) Held-to-maturity financial assets (Continued)

For each held-to-maturity financial asset, the Group's strategy is to obtain principal collateral of higher liquidity and additional collaterals on top of the principal collateral where necessary. When there is an impairment indicator on these investments, the fair value of collaterals is considered when providing impairment allowance.

The carrying amount of held-to-maturity financial assets before impairment by the borrowers' industry type is as follows:

	The Group	
	2017	2016
	RMB'000	RMB'000
Real estate	1,003,700	1,047,360
Manufacturing	3,587,500	3,381,100
Trading	719,380	400,000
Services	4,374,120	3,061,220
Others	3,516,980	4,009,500
	13,201,680	11,899,180

The impairment on the held-to-maturity financial assets is assessed using an internal credit grading system which makes reference to industry practice. Each held-to-maturity financial asset is given a credit grade based on the credit risk analysis approved by management and impairment is provided accordingly.

The carrying amount of held-to-maturity financial assets individually determined to be impaired and the movement in the related allowance for impairment are as follows:

	The Group	
	2017	2016
	RMB'000	RMB'000
Gross amount	9,628,930	8,649,680
Less: Allowance for impairment	(1,222,811)	(992,546)
	8,406,119	7,657,134
As at 1 January	992,546	961,080
Allowance made (Note 7)	773,261	1,029,045
Allowance reversed (Note 7)	(542,996)	(914,709)
Allowance utilised	—	(82,870)
As at 31 December	1,222,811	992,546

Other than the allowance made for the impairment as above, there is no further impairment noted. None of the other held-to-maturity financial assets is past due but not impaired as at 31 December 2017 and 2016.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (Continued)

(b) Credit risk (Continued)

(vii) Financial guarantees

As at 31 December 2017 and 2016, no corporate guarantees are issued to banks for borrowings of customers. The Company issues corporate guarantees to banks for borrowings of its subsidiaries. The carrying amount of these borrowings guaranteed by the Group and the Company is as follows:

	The Company	
	2017 RMB'000	2016 RMB'000
For borrowings incurred by subsidiaries	<u>5,101,583</u>	<u>6,014,114</u>

Without taking into consideration of the collaterals held directly or indirectly by the Group, the maximum exposure to credit risk of the above financial guarantees is the notional amount of the borrowings as above.

(c) Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents and marketable securities to enable them to meet their normal operating commitments.

The table below analyses the maturity profile of the Group's and Company's non-derivative financial liabilities into relevant maturity groupings on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
Group				
As at 31 December 2017				
Bank borrowings	(2,724,962)	(1,965,090)	(473,998)	–
Trade and other payables	(5,612,065)	–	–	–
	<u>(8,337,027)</u>	<u>(1,965,090)</u>	<u>(473,998)</u>	<u>–</u>
As at 31 December 2016				
Bank borrowings	(2,770,581)	(3,821,502)	(319,405)	(702,469)
Trade and other payables	(5,447,302)	–	–	–
	<u>(8,217,883)</u>	<u>(3,821,502)</u>	<u>(319,405)</u>	<u>(702,469)</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (Continued)

(c) Liquidity risk (Continued)

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
Company				
As at 31 December 2017				
Bank borrowings	(1,155,171)	–	–	–
Trade and other payables	(4,192,887)	–	–	–
	<u>5,348,058</u>	<u>–</u>	<u>–</u>	<u>–</u>
Financial guarantees	<u>5,101,583</u>	<u>–</u>	<u>–</u>	<u>–</u>
As at 31 December 2016				
Bank borrowings	(1,474,553)	(1,408,747)	–	–
Trade and other payables	(3,869,948)	–	–	–
	<u>(5,344,501)</u>	<u>(1,408,747)</u>	<u>–</u>	<u>–</u>
Financial guarantees	<u>(6,014,114)</u>	<u>–</u>	<u>–</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (Continued)

(d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, return capital to shareholders, issue new shares, buy back issued shares, obtain new borrowings or sell assets to reduce borrowings. The Group monitors capital on the basis of the total liabilities to total assets ratio.

The Group's strategy is to maintain a stable total liabilities to total assets ratio. The ratios at 31 December 2017 and 31 December 2016 were as follows:

	The Group	
	2017 RMB'000	2016 RMB'000
Total liabilities	16,855,956	18,035,074
Total assets	43,372,653	41,234,183
Liability-to-asset ratio	38.86%	43.74%

The Group and the Company do not have any external imposed capital requirements for the financial years ended 31 December 2017 and 2016.

(e) Fair value measurements

The following table presents assets and liabilities measured at fair value and classified by level of the following fair value measurement hierarchy:

- (i) Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- (ii) Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- (iii) Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (Continued)

(e) Fair value measurements (Continued)

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
2017				
<u>Group</u>				
Assets				
Non-hedging derivatives	-	-	-	-
Financial assets, at fair value through profit or loss	-	748,523	-	748,523
Financial assets, available-for-sale	289,889	-	-	289,889
Liabilities				
Non-hedging derivatives	-	-	-	-
<u>Company</u>				
Assets				
Non-hedging derivatives	-	-	-	-
Liabilities				
Non-hedging derivatives	-	-	-	-
2016				
<u>Group</u>				
Assets				
Non-hedging derivatives	-	59,373	-	59,373
Financial assets, at fair value through profit or loss	-	605,429	-	605,429
Financial assets, available-for-sale	237,043	-	-	237,043
Liabilities				
Non-hedging derivatives	-	(282,582)	-	(282,582)
<u>Company</u>				
Assets				
Non-hedging derivatives	-	59,373	-	59,373
Liabilities				
Non-hedging derivatives	-	(282,582)	-	(282,582)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (Continued)

(e) Fair value measurements (Continued)

There were no transfers between Levels 1 and 2 during the year.

The fair value of financial instruments traded in active markets (such as available-for-sale financial assets) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

The fair value of financial assets, at fair value through profit or loss, is determined by using the Black Scholes model, and by using quoted prices of a similar financial instrument. The significant inputs into the model are the initial stock price, risk-free rate, stock volatility, strike price and maturity of the conversation option. These instruments are included in Level 2.

The fair value of forward foreign exchange currency contracts is determined using quoted forward currency rates at the balance sheet date. These instruments are included in Level 2.

The carrying amount less impairment provision of current trade and other receivables and payables are assumed to approximate their fair values. The carrying amounts of current borrowings approximate their fair values.

(f) Financial instruments by category

The carrying amount of the different categories of financial instruments is as disclosed on the face of the balance sheet and in Note 14, Note 15 and Note 16 to the financial statements, except for the following:

	The Group		The Company	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Loans and receivables	16,236,696	16,752,160	13,253,417	10,506,190
Financial liabilities at amortised cost	10,502,811	12,671,759	5,334,617	6,644,748

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

38. RELATED PARTY TRANSACTIONS

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

(a) Related party transactions

The Group had the following transactions with the following related parties.

	The Group	
	2017	2016
	RMB'000	RMB'000
Purchase of materials from a related party	60,995	43,010
Sale of a previously defaulted held-to-maturity financial asset to a related party at a price determined through a court auction [Note 17(b)]	–	208,790
Sale of a subsidiary	1,000	–

Other related parties comprise mainly companies which are controlled or significantly influenced by the Group's key management personnel and their close family members. Outstanding balances with related parties are disclosed in Note 17.

(b) Key management personnel compensation

Key management personnel compensation is analysed as follows:

	The Group	
	2017	2016
	RMB'000	RMB'000
Directors		
Basic salaries	36	28
Directors' fees	657	655
Contributions to defined contribution plans	–	17
Discretionary bonuses	204	205
Senior management		
Basic salaries	1,693	1,648
Contributions to defined contribution plans	172	408
Discretionary bonuses	988	786
	3,750	3,747

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

39. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the Executive Chairman and head of respective business departments (collectively known as “Management Team”) that are used to make strategic decisions.

The Management Team considers the business mainly from a business segment perspective. Geographically, management manages and monitors the business only from the PRC.

The principal activities of shipbuilding segment are that of shipbuilding, offshore marine equipment construction and ship design. The principal activities of investment segment consist of micro-financing and investments in held-to-maturity financial assets. The principal activities of trading segment consist of trading of goods.

Other segments include ship demolition and vessel owning companies. These are not identified as reportable operating segments, as they are not separately reported to the Management Team. The results of these operations are included in “Others”.

The segment information provided to the Management Team for the reportable segments for the years ended 31 December 2017 and 2016 are as follows:

	Shipbuilding RMB'000	Investments RMB'000	Trading RMB'000	Others RMB'000	Total RMB'000
Group					
For the financial year ended					
31 December 2017					
Total segment sales	12,300,557	1,110,898	7,181,601	392,750	20,985,806
Inter-segment sales	–	–	(1,780,210)	–	(1,780,210)
Sales to external parties	12,300,557	1,110,898	5,401,391	392,750	19,205,596
Segment result	2,168,021	921,626	45,785	778,314	3,913,746
Finance expenses	(52,429)	–	(21,510)	(25,954)	(99,893)
Fair value gain on financial assets, at fair value through profit or loss	–	143,094	–	–	143,094
Impairment loss on loans to non-related parties – microfinance	–	(7,971)	–	–	(7,971)
Reversal of impairment loss on other receivables from non-related parties	–	32,750	–	–	32,750
Impairment loss of held-to-maturity financial assets	–	(230,265)	–	–	(230,265)
Foreseeable loss on cancelled vessels	(1,202,840)	–	–	–	(1,202,840)
Depreciation	(392,599)	–	–	(68,833)	(461,432)
Impairment loss on disposal of available-for-sale financial assets	–	(91,159)	–	–	(91,159)
Gain on disposal of subsidiaries and associated companies and a joint venture	–	–	–	256,487	256,487
Share of profit of associated companies and a joint venture	39,898	–	–	171	40,069
Gain on disposal of property, plant and equipment	–	–	–	74,639	74,639
Business tax on interest income from held-to-maturity financial assets and loans to non-related parties – microfinance	–	(7,688)	–	–	(7,688)
Interest income – finance lease	–	–	–	73,955	73,955
Income from forfeiture of security guarantee	–	–	–	321,550	321,550
Income from forfeiture of advances received	80,556	–	–	–	80,556
Segment assets	22,990,031	14,632,134	1,458,521	3,631,676	42,712,362
Investment in associated companies	–	1,260,640	–	134,062	1,394,702
Additions to property, plant and equipment	47,955	–	1	377	48,333
Segment liabilities	(11,065,225)	(4,915)	(1,559,741)	(2,101,151)	(14,731,032)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

39. SEGMENT INFORMATION (CONTINUED)

	Shipbuilding RMB'000	Investments RMB'000	Trading RMB'000	Others RMB'000	Total RMB'000
Group					
For the financial year ended					
31 December 2016					
Total segment sales	10,514,972	1,067,305	4,578,089	270,401	16,430,767
Inter-segment sales	—	—	(1,341,329)	—	(1,341,329)
Sales to external parties	<u>10,514,972</u>	<u>1,067,305</u>	<u>3,236,760</u>	<u>270,401</u>	<u>15,089,438</u>
Segment result	<u>2,875,824</u>	<u>526,006</u>	<u>407</u>	<u>(836,581)</u>	<u>2,565,656</u>
Finance expenses	(82,062)	—	(45,746)	(40,564)	(168,372)
Fair value loss on financial assets, at fair value through profit or loss	—	(298,677)	—	—	(298,677)
Impairment loss on loans to non-related parties – microfinance	—	(34,463)	—	—	(34,463)
Impairment loss of held-to-maturity financial assets	—	(114,336)	—	—	(114,336)
Impairment loss on property, plant and equipment	(180,498)	—	—	(832,321)	(1,012,819)
Impairment loss of due from customers on construction contracts	(61,028)	—	—	—	(61,028)
Depreciation	(442,210)	(14)	(9)	(68,205)	(510,438)
Loss on disposal of available-for-sale financial assets	—	(28,704)	—	—	(28,704)
Share of losses of associated companies and a joint venture	(53,831)	—	—	(5,897)	(59,728)
Loss on disposal of property, plant and equipment	—	—	—	(10,335)	(10,335)
Business tax on interest income from held-to-maturity financial assets and loans to non-related parties – microfinance	—	(7,808)	—	—	(7,808)
Interest income – finance lease	—	—	—	65,612	65,612
Income from forfeiture of advances received	659,673	—	—	—	659,673
Segment assets	<u>21,711,173</u>	<u>13,061,017</u>	<u>1,437,296</u>	<u>4,536,527</u>	<u>40,746,013</u>
Investment in associated companies	748,560	—	—	134,062	882,622
Investment in a joint venture	—	—	—	4,796	4,796
Additions to property, plant and equipment	312,796	—	4	216,907	529,707
Segment liabilities	<u>(9,165,233)</u>	<u>(300,228)</u>	<u>(1,797,912)</u>	<u>(1,828,882)</u>	<u>(13,092,255)</u>

Sales between segments are carried out at market terms.

The Management Team assesses the performance of the operating segments based on a measure of segment results. Certain administrative expenses, foreign currency exchange differences are not allocated to segments, as all these types of activities are shared by all segments. Interest income on cash and cash equivalents, and finance expenses of certain borrowings are not allocated to segments, as this type of activity is driven by the treasury department of the Group, which manages the cash position of the Group.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

39. SEGMENT INFORMATION (CONTINUED)

(a) Reconciliation

(i) Segment profits

A reconciliation of segment results to profit before tax is as follows:

	2017 RMB'000	2016 RMB'000
Segment results for reportable segments	3,135,432	3,402,237
Segment results for other segments	778,314	(836,581)
Unallocated:		
Other income	194,192	178,396
Other gains – net	(286,075)	684,108
Administrative expenses	(321,192)	(380,898)
Finance expenses	(13,309)	(274,496)
Profit before tax	3,487,362	2,772,766

(ii) Segment assets

The amounts provided to the Management Team with respect to total assets are measured in a manner consistent with that of the financial statements. All assets are allocated to reportable segments other than deferred income tax assets and certain other receivables.

	2017 RMB'000	2016 RMB'000
Segment assets for reportable segments	39,080,686	36,209,486
Other segment assets	3,631,676	4,536,527
Unallocated:		
Deferred income tax assets	660,291	488,170
Total assets	43,372,653	41,234,183

(iii) Segment liabilities

The amounts provided to the Management Team with respect to total liabilities are measured in a manner consistent with that of the financial statements. All liabilities are allocated to the reportable segments other than income tax liabilities, certain borrowings and deferred income tax liabilities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

39. SEGMENT INFORMATION (CONTINUED)

(a) Reconciliation (Continued)

(iii) Segment liabilities (Continued)

Segment liabilities are reconciled to total liabilities as follows:

	2017 RMB'000	2016 RMB'000
Segment liabilities for reportable segments	12,629,881	11,263,373
Other segment liabilities	2,101,151	1,828,882
Unallocated:		
Current income tax liabilities	1,203,376	1,130,020
Deferred income tax liabilities	921,549	1,037,999
Borrowings	–	2,774,800
Total liabilities	16,855,957	18,035,074

(b) Revenue from major products

Revenue of shipbuilding segment is derived from the construction of container ships, multiple purpose cargo ships and other types of vessel as well as sales of some shipbuilding-related goods. Revenue of investment segment comprises interest income from loans to non-related parties – microfinance and held-to-maturity financial assets. Revenue of trading segment is derived from the trading of goods such as fuel oil, copper and steel. Revenue from other segment is mainly derived from ship demolition, ship management services and sales of development properties. Breakdown of the revenue by major product types is as follows:

	2017 RMB'000	2016 RMB'000
Construction of container ships	7,889,008	4,065,053
Construction of multiple purpose cargo ships	4,053,728	5,097,196
Construction of LNG carriers	235,951	569,317
Construction of jack-up rig	17,647	277,489
Construction of other vessels	104,223	216,800
Sales of goods	5,401,391	3,602,662
Interest income from loans to non-related parties		
– microfinance	32,075	63,491
Interest income from held-to-maturity financial assets	1,078,823	1,003,814
Rendering of ship design services	4,300	8,391
Charter income	270,134	182,646
Others	118,316	2,579
	19,205,596	15,089,438

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

39. SEGMENT INFORMATION (CONTINUED)

(c) Geographical information

The Group's revenue based on the customers' locations are as follows:

	2017 RMB'000	2016 RMB'000
PRC and Taiwan	3,327,219	4,799,288
Germany	1,362,512	853,359
Other European countries	2,860,310	2,475,837
Other Asian countries	11,242,124	3,393,351
Canada	413,431	166,925
The Bahamas	–	329,728
Marshall Islands	–	3,070,950
	19,205,596	15,089,438

Revenues of approximately RMB5,813,575,000 (2016: RMB3,526,704,000) are derived from three (2016: three) major customers. These revenues are attributable to the shipbuilding segment. Revenue of approximately RMB1,220,423,000 (2016: RMB354,937,000) is derived from one (2016: one) customer from the trading business included in the trading segment.

The Group's non-current assets amounting to RMB12,667,000 (2016: RMB13,714,796,000) are mainly located in the PRC.

40. NEW OR REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS

Full convergence with International Financial Reporting Standards (IFRS) and adoption of new standards

Singapore-incorporated companies listed on the Singapore Exchange are required to apply a new financial reporting framework identical to the IFRS, Singapore Financial Reporting Standards (International) (SFRS(I)s), for annual periods beginning on or after 1 January 2018.

The Group has adopted SFRS(I)s on 1 January 2018 and as a result, the Group's financial statements for the financial year ending 31 December 2018 will be prepared in accordance with SFRS(I)s.

In adopting SFRS(I)s, the Group is required to apply all of the specific transition requirements in SFRS(I) 1 *First-time Adoption of Singapore Financial Reporting Standards (International)*. The Group expects that the adoption of SFRS(I)s will have no material impact on the financial statements in the year of initial application.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

40. NEW OR REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS (CONTINUED)

In addition to the adoption of SFRS(I)s, the following SFRS(I)s, and amendments and interpretations of SFRS(I)s that are relevant to the Group and the Company are effective on or after the same date.

- SFRS(I) 15 *Revenue from Contracts with Customers*
- SFRS(I) 9 *Financial Instruments*
- SFRS(I) 16 *Leases*
- Amendments to SFRS(I) 9 *Prepayment Features with Negative Compensation*
- Amendments to SFRS(I) 1-28 *Long-term Interests in Associates and Joint Ventures*
- SFRS(I) INT 22 *Foreign Currency Transactions and Advance Consideration*
- SFRS(I) INT 23 *Uncertainty over Income Tax Treatments*

The management anticipates that the adoption of the above standards and interpretations in future periods will not have a material impact on the financial statements of the Group and of the Company in the period of their initial adoption except for the following:

SFRS(I) 15 Revenue from Contracts with Customers

SFRS(I) 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers.

The core principle of SFRS(I) 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under SFRS(I) 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in SFRS(I) 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by SFRS(I) 15.

SFRS(I) 15 will take effect from financial years beginning on or after 1 January 2018. In accordance with the requirements of SFRS(I) 1, the Group will adopt SFRS(I) 15 retrospectively. The Group is currently finalising the transition adjustments.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

40. NEW OR REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS (CONTINUED)

SFRS(I) 9 *Financial Instruments*

SFRS(I) 9 introduces new requirements for classification and measurement of financial instruments, impairment of financial assets, and hedge accounting. SFRS(I) 9 also introduces expanded disclosure requirements and changes in presentation. The adoption of SFRS(I) 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

SFRS(I) 9 will take effect from financial years beginning on or after 1 January 2018. The Group plans to elect to apply the short-term exemption under SFRS(I) 1, which exempt the Group from applying SFRS(I) 9 to comparative information. The Group is currently finalising the transition adjustments.

SFRS(I) 16 *Leases*

SFRS(I) 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not change significantly.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under SFRS(I) 16.

The standard also introduces expanded disclosure requirements and changes in presentation.

SFRS(I) 16 will take effect from financial years beginning on or after 1 January 2019.

The standard will affect primarily the accounting for the Group's operating leases. The future minimum rental expense payable under significant non-cancellable leases is disclosed in Note 36. The Group has yet to determine to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

41. AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of Yangzijiang Shipbuilding (Holdings) Ltd. passed on 21 March 2018.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

42. LISTING OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATED COMPANIES IN THE GROUP

Name of subsidiaries	Principal activities	Country of business/ incorporation	Proportion of ordinary shares directly held by the Company		Proportion of ordinary shares directly held by the Group		Proportion of ordinary shares held by non-controlling interest	
			2017 %	2016 %	2017 %	2016 %	2017 %	2016 %
Jiangsu New Yangzi Shipbuilding Co., Ltd. ("JNYS") ⁽¹⁾	Shipbuilding, ship repairing, production and processing of large scale steel structures	PRC	49	49	100	100	–	–
Jiangsu Yangzi Xinfu Shipbuilding Co., Ltd. ("JXSCO") ⁽¹⁾	Shipbuilding, ship repairing, production and processing of large scale steel structures	PRC	12.5	12.5	80	80	–	20
Jiangsu Yangzijiang Shipbuilding Co., Ltd. ("JYS") ⁽²⁾	Shipbuilding, ship repairing, production and processing of large scale steel structures	PRC	100	100	100	100	–	–
Jiangsu Tianyuan Ships Import and Export Co., Ltd. ("JTSIECO") ⁽²⁾	Facilitating the sale and export of ships for the shipbuilder and trading of ship related equipment	PRC	–	–	100	100	–	–
Jiangsu Tianchen Marine Import and Export Co., Ltd. ("JTMIECO") ⁽²⁾	Facilitating the sale and export of ships for the ship builder and trading of ship related equipment	PRC	–	–	100	100	–	–
Jiangsu Yangchuan Equipment and Materials Co., Ltd. ("JYEMCO") ⁽²⁾	Supply of marine equipment and materials	PRC	–	–	100	100	–	–
Jingjiang Runyuan Rural Micro-finance Co., Ltd. ("JRRM") ⁽²⁾	Provide microcredit to enterprise and individual	PRC	–	–	100	100	–	–
Yangzijiang International Trading Pte. Ltd. ("YITPL") ⁽³⁾	Trading of shipbuilding related materials/supplies	Singapore	100	100	100	100	–	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

42. LISTING OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATED COMPANIES IN THE GROUP (CONTINUED)

Name of associated companies	Principal activities	Place of business/ country of incorporation	Effective equity holding	
			2017 %	2016 %
Everbright Venture Capital Jiangyin Co., Ltd. ("EVCJCO") ⁽²⁾	Engaging in venture capital investment and providing seed capital	PRC	21.36	21.36
Jiangsu New Material Industrial Venture Capital Enterprise ("JNMIIV") ⁽²⁾	Engaging in venture capital investment and providing seed capital	PRC	38	38
Shanghai Chengding Yangzi Investment Partnership Enterprise ("Limited Partnership") ("SCYI") ⁽²⁾	Engaging in venture capital investment and providing seed capital	PRC	29.15	29.15
Shanghai Chengding New Yangzi Investment Partnership Enterprise ("Limited Partnership") ("SCNYI") ⁽²⁾	Providing project investment and asset management services	PRC	29.85	29.85
Zhuhai Interconnect Leading High-Tech Industrial Investment Center ("Limited Partnership") ⁽²⁾	Engaging in venture capital investment and providing seed capital	PRC	30	30
Wuxi Jinrui Zhonghe Investment Enterprise ("Limited Partnership") ⁽²⁾	Engaging in venture capital investment and providing seed capital	PRC	33.33	33.33
Jiangsu Sushang Joint Industry Investment Partnership ("Limited Partnership") ⁽²⁾	Engaging in venture capital investment and providing seed capital	PRC	25.00	–

(1) JNYS and JXSCO are audited by Jiangyin Tian Cheng CPAs Co. Limited for local statutory purpose.

(2) These subsidiaries and associated companies are audited by other accounting firms for local statutory purpose.

(3) The Company and YITPL are audited by PricewaterhouseCoopers LLP, Singapore for local statutory purpose.

(4) In accordance to Rule 716 of the Singapore Exchange Securities Trading Limited – Listing Rules, the Audit Committee and Board of Directors of the Company confirmed that they are satisfied that the appointment of different auditors for its subsidiaries would not compromise the standard and effectiveness of the audit of the Company.

STATISTICS OF SHAREHOLDINGS

AS AT 15 MARCH 2018

Issued and fully paid-up shares capital: S\$1,451,903,280.38 (RMB7,326,773,000)

Number of shares (excluding treasury share and subsidiary holdings): 3,968,838,000

Class of shares: Ordinary Shares

Voting per share: One vote per share

Treasury Shares: 5,239,000

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 – 99	14	0.08	150	0.00
100 – 1,000	1,604	8.85	1,547,673	0.04
1,001 – 10,000	11,254	62.06	66,086,877	1.67
10,001 – 1,000,000	5,238	28.88	203,664,198	5.13
1,000,001 AND ABOVE	24	0.13	3,697,539,102	93.16
TOTAL	18,134	100.00	3,968,838,000	100.00

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	HSBC (SINGAPORE) NOMINEES PTE LTD	1,437,647,721	36.22
2	CITIBANK NOMINEES SINGAPORE PTE LTD	1,126,120,823	28.37
3	DBS NOMINEES (PRIVATE) LIMITED	435,204,786	10.97
4	RAFFLES NOMINEES (PTE) LIMITED	243,149,358	6.13
5	DBSN SERVICES PTE. LTD.	226,611,186	5.71
6	UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED	77,926,737	1.96
7	DB NOMINEES (SINGAPORE) PTE LTD	31,278,554	0.79
8	MORGAN STANLEY ASIA (SINGAPORE) SECURITIES PTE LTD	30,837,416	0.78
9	BPSS NOMINEES SINGAPORE (PTE.) LTD.	24,876,909	0.63
10	MAYBANK KIM ENG SECURITIES PTE. LTD.	7,575,439	0.19
11	MERRILL LYNCH (SINGAPORE) PTE LTD	7,439,045	0.19
12	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	6,308,332	0.16
13	PHILLIP SECURITIES PTE LTD	6,121,941	0.15
14	UOB KAY HIAN PRIVATE LIMITED	5,467,900	0.14
15	SOCIETE GENERALE, SINGAPORE BRANCH	5,358,072	0.14
16	OCBC SECURITIES PRIVATE LIMITED	5,346,700	0.13
17	OCBC NOMINEES SINGAPORE PRIVATE LIMITED	4,504,774	0.11
18	CGS-CIMB SECURITIES (SINGAPORE) PTE. LTD.	4,348,728	0.11
19	HENG SIEW ENG	2,694,000	0.07
20	CHUA LEONG HAI @CHUA LEANG HAI	2,607,000	0.07
TOTAL		3,691,425,421	93.02

STATISTICS OF SHAREHOLDINGS

AS AT 15 MARCH 2018

	Direct Interest		Deemed Interest		Total %
	Number of Shares	%	Number of Shares	%	
Ren Yuanlin	3,200,000	0.0806	1,002,845,825 ⁽¹⁾	25.2680	25.3486
Yangzi International Holdings Limited	1,002,845,825	25.2680	–	–	25.2680
Julius Baer Trust Company (Singapore) Limited as trustee of YZJ Settlement	–	–	1,002,845,825	25.2680	25.2680
Lido Point Investments Ltd.	394,134,000	9.9307	–	–	9.9307
Wang Dong	–	–	394,134,000 ⁽²⁾	9.9307	9.9307
HongKong Hengyuan Investment Limited	286,073,390	7.2080	–	–	7.2080
Chang Liang	–	–	286,073,390 ⁽³⁾	7.2080	7.2080

Notes:

- (1) Ren Yuanlin (as Settlor of the YZJ Settlement) is deemed to be interested in the Shares through his interest in Yangzi International Holdings Limited, which is wholly-owned by Julius Baer Trust Company (Singapore) Limited as trustee of the YZJ Settlement, by virtue of Section 7 of the Companies Act.
- (2) Wang Dong is deemed to be interested in the Shares through his interest in Lido Point Investments Ltd, by virtue of Section 7 of the Companies Act.
- (3) Chang Liang is deemed to be interested in the Shares through his interest in HongKong Hengyuan Investment Limited, by virtue of Section 7 of the Companies Act.

SHAREHOLDING HELD IN PUBLIC HANDS

Approximately 52.82% of the shareholding of the Company is held in the hands of the public as at 15 March 2018 and Rule 723 of the Listing Manual is complied with.

NOTICE OF TWELFTH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Twelfth Annual General Meeting of the Company will be held at 168 Robinson Road, #09-01, Capital Tower, STI Auditorium, Singapore 068912 on Friday, 27 April 2018 at 3.00 p.m. to transact the following business:-

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Financial Statements for the financial year ended 31 December 2017 and the Directors' Statements and the Independent Auditors' Report thereon. **(Resolution 1)**
2. To declare a tax exempt (one-tier) final dividend of S\$0.045 per ordinary share in respect of the financial year ended 31 December 2017. **(Resolution 2)**
3. To approve the proposed Directors' fees of S\$136,500 for the financial year ended 31 December 2017. (2016: S\$136,500) **(Resolution 3)**
4. To re-elect the following Directors who are retiring by rotation pursuant to Article 94 of the Company's Constitution:
 - (a) Mr Chen Timothy Teck Leng @ Chen Teck Leng [*See Explanatory Note (a)*] **(Resolution 4)**
 - (b) Mr Xu Wen Jiong [*See Explanatory Note (b)*] **(Resolution 5)**
5. To re-appoint Messrs PricewaterhouseCoopers LLP as Auditors and to authorise the Directors to fix their remuneration. **(Resolution 6)**

SPECIAL BUSINESS

To consider and, if thought fit, to pass the following Ordinary resolutions, with or without modifications:

6. AUTHORITY TO ALLOT AND ISSUE SHARES

THAT pursuant to Section 161 of the Companies Act, Chapter 50 and the listing rules of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), authority be and is hereby given to the Directors of the Company to:

- (a) (i) issue ordinary shares in the capital of the Company ("**Shares**") whether by way of rights, bonus or otherwise; and/or
 - (ii) make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require Shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into Shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may, in their absolute discretion, deem fit; and
- (b) issue Shares in pursuance of any Instruments made or granted by the Directors while such authority was in force (notwithstanding that such issue of Shares pursuant to the Instruments may occur after the expiration of the authority contained in this resolution),

NOTICE OF TWELFTH ANNUAL GENERAL MEETING

provided that:

- (1) the aggregate number of the Shares to be issued pursuant to such authority (including the Shares to be issued in pursuance of Instruments made or granted pursuant to such authority), does not exceed 50% of the total number of issued Shares (as calculated in accordance with paragraph (2) below), and provided further that where shareholders of the Company ("**Shareholders**") are not given the opportunity to participate in the same on a pro-rata basis ("**non pro-rata basis**"), then the Shares to be issued under such circumstances (including the Shares to be issued in pursuance of Instruments made or granted pursuant to such authority) shall not exceed 20% of the total number of issued Shares (as calculated in accordance with paragraph (2) below);
- (2) (subject to such manner of calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of the Shares that may be issued under paragraph (1) above, the total number of issued Shares shall be based on the issued Shares of the Company (excluding treasury shares and subsidiary holdings) at the time such authority was conferred, after adjusting for:
 - (a) new Shares arising from the conversion or exercise of any convertible securities;
 - (b) new Shares arising from the exercising of share options or the vesting of share awards which are outstanding or subsisting at the time such authority was conferred; and
 - (c) any subsequent consolidation or subdivision of the Shares;

and, in relation to an Instrument, the number of Shares shall be taken to be that number as would have been issued had the rights therein been fully exercised or effected on the date of the making or granting of the Instrument;

- (3) in exercising the authority conferred by this Resolution, the Company shall comply with the requirements imposed by the SGX-ST from time to time and the provisions of the Listing Manual of the SGX-ST for the time being in force (in each case, unless such compliance has been waived by the SGX-ST), all applicable legal requirements under the Companies Act and otherwise, and the Constitution of the Company for the time being; and
- (4) (unless revoked or varied by the Company in a general meeting) the authority so conferred shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (c)]

(Resolution 7)

NOTICE OF TWELFTH ANNUAL GENERAL MEETING

7. RENEWAL OF SHARE PURCHASE MANDATE

THAT:

- (a) the exercise by the Directors of the Company of all the powers of the Company to purchase or otherwise acquire issued Ordinary Shares not exceeding in aggregate the Maximum Limit (as hereafter defined), at such price or prices as may be determined by the Directors of the Company from time to time up to the Maximum Price (as hereafter defined), whether by way of:

- (i) market purchase(s) on the SGX-ST; and/or
- (ii) off-market purchase(s) (if effected otherwise than on the SGX-ST) in accordance with any equal access scheme(s) as may be determined or formulated by the Directors of the Company as they consider fit, which scheme(s) shall satisfy all the conditions prescribed by the Companies Act;

and otherwise in accordance with all other laws and regulations and rules of the SGX-ST as may for the time being be applicable, be and is hereby authorised and approved generally and unconditionally (the **"Share Purchase Mandate"**),

- (b) unless varied or revoked by the Company in general meeting, the authority conferred on the Directors of the Company pursuant to the Share Purchase Mandate may be exercised by the Directors of the Company at any time and from time to time during the period commencing from the date of the passing of this Resolution and expiring on the earlier of:

- (i) the date on which the next Annual General Meeting of the Company is held; or
- (ii) the date by which the next Annual General Meeting of the Company is required by law to be held; or
- (iii) the date on which the purchases or acquisitions of the Shares pursuant to Share Purchase Mandate are carried out to the full extent mandated.

- (c) in this Resolution:

"Maximum Limit" means that number of issued Ordinary Shares representing 10% of the total number of the issued Ordinary Shares as at the date of the passing of this Resolution (excluding any Ordinary Shares which are held as treasury shares as at that date);

"Maximum Price", in relation to an Ordinary Share to be purchased or acquired, means the purchase price (excluding brokerage, commission, applicable goods and services tax and other related expenses) which shall not exceed:

- (i) in the case of a Market Purchase, 105% of the Average Closing Price (as defined hereinafter); and
- (ii) in the case of an Off-Market Purchase, 120% of Average Closing Price (as defined hereinafter), pursuant to an equal access scheme;

NOTICE OF TWELFTH ANNUAL GENERAL MEETING

“Average Closing Price” means the average of the closing market prices of a Share for the five consecutive Market Days on which the Shares are transacted on the SGX-ST immediately preceding the date of Market Purchase by the Company or, as the case may be, the date of the making of the offer pursuant to the Off-Market Purchase, and deemed to be adjusted in accordance with the Listing Rules for any corporate action which occurs after the relevant five Market Days;

“date of the making of the offer” means the date on which the Company announces its intention to make an offer for an Off-Market Purchase, stating therein the purchase price (which shall not be more than the Maximum Price for an Off-Market Purchase calculated on the foregoing basis) for each Share and the relevant terms of the equal access scheme for effecting the Off-Market Purchase;

- (d) the Directors of the Company and/or any of them be and are hereby authorised to complete and do all such acts and things (including executing such documents as may be required) as they and/or he may consider expedient or necessary to give effect to the transactions contemplated and/or authorised by this Resolution. *[See Explanatory Note (d)]* **(Resolution 8)**

8. To transact any other business which may be properly transacted at an Annual General Meeting.

By Order of the Board

Ong Bee Choo
Company Secretary
29 March 2018
Singapore

NOTICE OF TWELFTH ANNUAL GENERAL MEETING

Explanatory Notes:

- (a) Mr Chen Timothy Teck Leng @ Chen Teck Leng will remain as the Independent Director, the Chairman of the Audit Committee, Member of the Nominating Committee and Remuneration Committee, upon re-election as a Director of the Company and will be considered independent for the purposes of Rule 704(8) of the Listing Manual. Key information on Mr Chen Timothy Teck Leng @ Chen Teck Leng is found on page 14 of the Annual Report. There are no relationships (including immediate family relationships) between Mr Chen Timothy Teck Leng @ Chen Teck Leng and the other Directors, or the Company, or its 10% shareholders.
- (b) Key information on Mr Xu Wen Jiong, who is seeking re-election as a Director of the Company, is found on page 15 of the Annual Report. Mr Xu Wen Jiong is considered a Non-Independent Non-Executive Director. There are no relationships (including immediate family relationships) between Mr Xu Wen Jiong and the other Directors, or the Company, or its 10% shareholders.
- (c) The proposed ordinary resolution 7, if passed, will empower the Directors of the Company from the date of the above meeting to issue shares in the Company up to an amount not exceeding in total 50% of the total number of issued shares in the capital of the Company with a sub-limit of 20% other than on a pro-rata basis to shareholders for the time being for such purposes as they consider would be in the interest of the Company. The authority will, unless previously revoked or varied at a general meeting, expire at the next Annual General Meeting of the Company.
- (d) The proposed ordinary resolution 8, if passed, will empower the Directors of the Company from the date of the above meeting until the date of the next Annual General Meeting to purchase or acquire up to 10% of the issued ordinary share capital of the Company as at the date of the passing of this Resolution. Details of the proposed Share Purchase Mandate are set out in the Appendix to the Notice of the above meeting.
 - (i) As at the date of this Notice, the Company has not purchased any share by way of market acquisition for cancellation.
 - (ii) The amount of financing required for the Company to further purchase or acquire its shares, and the impact on the Company's financial position, cannot be ascertained as at the date of this Notice as this will depend on the number of the shares purchased or acquired and the price at which such shares were purchased or acquired.
 - (iii) The financial effects of the purchase or acquisition of shares by the Company pursuant to the proposed Share Purchase Mandate on the Group's audited financial statements for the financial year ended 31 December 2017 are set out in Appendix to the Notice of the above meeting and are for illustration only.

NOTICE OF TWELFTH ANNUAL GENERAL MEETING

Notes:

- (1) A member of the Company (other than a “Relevant Intermediary”) entitled to attend and vote at the Annual General Meeting of the Company is entitled to appoint not more than two proxies to attend and vote in his/her stead. A proxy need not be a shareholder of the Company.
- (2) A Relevant Intermediary may appoint more than two proxies provided that each proxy must be appointed to exercise the rights attached to different shares held by him (which number and class of shares shall be specified).
- (3) The instrument appointing a proxy must be duly deposited at the registered office of the Company at 80 Robinson Road, #02-00, Singapore 068898 not later than forty-eight (48) hours before the time appointed for the holding of the Twelfth Annual General Meeting.

PERSONAL DATA PRIVACY

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Twelfth Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member’s personal data by the Company (or its agents or service providers) for the purpose of the processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for the Twelfth Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Twelfth Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the “**Purposes**”), (ii) warrants that where the member discloses the personal data of the member’s proxy(ies) and/or representative(s) to the Company (or its agents or service providers), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member’s breach of warranty.

APPENDIX

THE PROPOSED RENEWAL OF SHARE PURCHASE MANDATE

1. INTRODUCTION

- 1.1 Yangzijiang Shipbuilding (Holdings) Ltd. (the “**Company**”) proposes to seek the approval of Shareholders of the Company (“**Shareholders**”) at the Annual General Meeting of the Company to be held at 168 Robinson Road, #09-01 Capital Tower, STI Auditorium, Singapore 068912 on Friday, 27 April 2018 at 3.00 p.m. (“**12th AGM**”) for the proposed renewal of share purchase mandate to authorise the directors from time to time to purchase shares in the capital of the Company (whether by market purchases and/or off-market purchases on an equal access system) up to 10% of the issued ordinary share capital of the Company as at the date on which this Resolution is passed, at the price of up to but not exceeding the Maximum Price (as defined below), subject to the Constitution of the Company and the listing rules of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) as set out in the SGX-ST Listing Manual (“**Listing Rules**”) (the “**Share Purchase Mandate**”).
- 1.2 The Shareholders of the Company had at the Extraordinary General Meeting (“**EGM**”) held on 25 April 2008, approved the Share Purchase Mandate (“**2008 Mandate**”) for the Directors to exercise all the powers of the Company to purchase or acquire up to 10% of the issued ordinary share capital of the Company on the terms of that mandate. The Share Purchase Mandate was renewed at the last Annual General Meeting (“**AGM**”) held on 28 April 2017 and such mandate being to take effect until the conclusion of the Company’s forthcoming AGM to be held in April 2018.
- 1.3 The Share Purchase Mandate will expire on the date of the forthcoming 12th AGM. If the proposed resolution for the renewal of Share Purchase Mandate is approved at the AGM, the mandate shall, unless revoked or varied by the Company in a general meeting, continue in force until the next AGM of the Company is held or is required by law to be held, whichever is earlier.
- 1.4 The purpose of this Appendix is to provide information relating to and explain the rationale for the proposed renewal of Share Purchase Mandate.

2. RATIONALE FOR THE SHARE PURCHASE MANDATE

- 2.1 The proposed renewal of the Share Purchase Mandate authorising the Company to purchase or acquire its ordinary shares in the issued and paid-up share capital of the Company (“**Shares**”) will continue to give the Directors the flexibility to undertake share purchases or acquisitions up to the 10% limit described in paragraph 3.1 below at any time, during the period when the Share Purchase Mandate is in force.
- 2.2 The rationale for the Company to undertake the purchase or acquisition of its issued Shares, as previously stated in its circular to Shareholders dated 9 April 2008, are as follows:
 - (a) In managing the business of the Group, the Management will strive to increase Shareholders’ value by improving, *inter alia*, the Return on Equity (“**ROE**”) of the Company. In addition to growth and expansion of the business, share purchases may be considered as one of the ways through which the ROE of the Company may be enhanced.
 - (b) In line with international practice, the Share Purchase Mandate will provide the Company with greater flexibility in managing its capital and maximising returns to its Shareholders. To the extent that the Company has capital and surplus funds, which are in excess of its financial needs, taking into account its growth and expansion plans, the Share Purchase Mandate will facilitate the return of excess cash and surplus funds to Shareholders in an expedient, effective and cost-efficient manner.

APPENDIX

- (c) Share purchase programmes help to buffer short-term share price volatility.
- (d) The Share Purchase Mandate will provide the Company the flexibility to undertake share repurchases at any time, subject to market conditions, during the period when the Share Purchase Mandate is in force.

While the Share Purchase Mandate would authorise a purchase or acquisition of Shares up to the said 10% limit during the duration referred to in paragraph 3.2 below, Shareholders should note that purchases or acquisitions of Shares pursuant to the Share Purchase Mandate may not be carried out to the full 10% limit as authorised and the purchases or acquisitions of Shares pursuant to the Share Purchase Mandate would be made only as and when the Directors consider it to be in the best interests of the Company and in circumstances which they believe will not result in any material adverse effect to the financial position of the Company or the Group, or result in the Company being delisted from the SGX-ST. The Directors will use their best efforts to ensure that after a purchase or acquisition of Shares pursuant to the Share Purchase Mandate, the number of Shares remaining in the hands of the public will not fall to such a level as to cause market illiquidity or adversely affect the orderly trading and listing status of the Shares on the SGX-ST.

3. AUTHORITY AND LIMITS ON THE SHARE PURCHASE MANDATE

The authority and limitations placed on share purchases or acquisitions of Shares by the Company under the proposed Share Purchase Mandate, are similar in terms to those previously approved by Shareholders, and are summarised below:

3.1 Maximum Number of Shares

Only Shares which are issued and fully paid-up may be repurchased by the Company. The total number of Shares which may be purchased or acquired by the Company pursuant to the Share Purchase Mandate is limited to that number of Shares representing not more than ten percent (10%) of the total number of issued Shares of the Company (excluding treasury shares and subsidiary holdings) ascertained as at the date of the passing of the ordinary resolution at the 12th AGM, unless the share capital of the Company has been reduced in accordance with the applicable provisions of the Companies Act at any time during the period commencing from the date on which the last AGM was held and expiring on the date the next AGM is held or required by law to be held, whichever is the earlier, after the date of the resolution relating to the Share Purchase Mandate is passed (the “**Relevant Period**”), in which event the total number of issued Shares shall be taken to be the total number of issued Shares as altered. Any Shares which are held as treasury shares and subsidiary holdings will be disregarded for purposes of computing the 10% limit. As at 15 March 2018 (“**Latest Practicable Date**”), the Company is holding 5,239,000 Shares in treasury and does not have subsidiary holdings.

For illustrative purposes only, on the basis of 3,968,838,000 Shares in issue as at the Latest Practicable Date (excluding treasury shares and subsidiary holdings), and assuming on or prior to the 12th AGM:

- (a) no further Shares are issued;
- (b) 5,239,000 Shares are held by the Company as treasury shares;

APPENDIX

- (c) no shares are held as subsidiary holdings; and
- (d) no further Shares are repurchased by the Company and no Shares repurchased by the Company are held as treasury shares,

not more than 396,883,800 Shares [representing 10% of the total number of Shares (excluding the Shares held in treasury and subsidiary holding) as at that date] may be purchased by the Company pursuant to the proposed Share Purchase Mandate during the Relevant Period.

3.2 Duration of Authority

Purchases or acquisitions of Shares pursuant to the proposed Share Purchase Mandate may be made, at any time and from time to time, on and from the date of the 12th AGM, at which the renewal of Share Purchase Mandate is approved, up to:

- (a) the date on which the next AGM of the Company is held or required by law to be held; or
- (b) the date on which the purchases or acquisitions of Shares pursuant to the proposed Share Purchase Mandate are carried out to the full extent mandated; or
- (c) the date on which the authority conferred by the Share Purchase Mandate is revoked or varied by the Shareholders in a general meeting,

whichever is the earliest.

The authority conferred on the Directors by the Share Purchase Mandate to purchase Shares may be renewed at the next AGM (after the 12th AGM) or an EGM to be convened immediately after the conclusion or adjournment of the next AGM. When seeking the approval of the Shareholders for the renewal of the Share Purchase Mandate, the Company is required to disclose details pertaining to purchases or acquisitions of Shares pursuant to the proposed Share Purchase Mandate made during the previous 12 months, including the total number of Shares purchased, the purchase price per Share or the highest and lowest prices paid for such purchases of Shares, where relevant, and the total consideration paid for such purchases.

3.3 Manner of Purchases or Acquisitions of Shares

Purchases or acquisitions of Shares may be made by way of:

- (a) market purchase(s) ("**Market Purchase**"), transacted on the SGX-ST through the SGX-ST's trading system, through one or more duly licensed stock brokers appointed by the Company for the purpose; and/or
- (b) off-market purchase(s) ("**Off-Market Purchase**") effected pursuant to an equal access scheme in accordance with Section 76C of the Companies Act, Chapter 50 of Singapore ("**Companies Act**").

APPENDIX

The Directors may impose such terms and conditions which are not inconsistent with the Share Purchase Mandate, the Listing Rules and the Companies Act, as they consider fit in the interests of the Company in connection with or in relation to any equal access scheme or schemes. An Off-Market Purchase must, however, satisfy all the following conditions:

- (a) offers for the purchase or acquisition of Shares shall be made to every person who holds Shares to purchase or acquire the same percentage of their Shares;
- (b) all of the abovementioned persons shall be given a reasonable opportunity to accept the offers made; and
- (c) the terms of all the offers shall be the same, except that there shall be disregarded (1) differences in consideration attributable to the fact that offers may relate to Shares with different accrued dividend entitlements; (2) differences in consideration attributable to the fact that offers relate to Shares with different amounts remaining unpaid (if applicable); and (3) differences in the offers introduced solely to ensure that each person is left with a whole number of Shares.

Pursuant to the Listing Rules, if the Company wishes to make an Off-Market Purchase in accordance with an equal access scheme, it will issue an offer document to all Shareholders containing at least the following information:

- (a) the terms and conditions of the offer;
- (b) the period and procedures for acceptances;
- (c) the reasons for the proposed purchase or acquisition of Shares;
- (d) the consequences, if any, of the purchases or acquisitions of Shares by the Company that will arise under the Take-over Code or other applicable take-over rules;
- (e) whether the purchases or acquisitions of Shares, if made, would have any effect on the listing of the Shares on the SGX-ST;
- (f) details of any purchases or acquisitions of Shares made by the Company in the previous 12 months (whether Market Purchases or Off-Market Purchases), giving the total number of Shares purchased, the purchase price per Share or the highest and lowest prices paid for the purchases of Shares, where relevant, and the total consideration paid for the purchases; and
- (g) whether the shares purchased by the Company will be cancelled or kept as treasury shares.

3.4 Maximum Purchase Price

The purchase price (excluding brokerage, stamp duties, commission, applicable goods and services tax and other related expenses) to be paid for a Share will be determined by the Directors or a committee of Directors that may be constituted for the purposes of effecting purchases or acquisitions of Shares by the Company under the Share Purchase Mandate. However, the purchase price to be paid for the Shares pursuant to the purchases or acquisitions of the Shares must not exceed:

- (a) in the case of a Market Purchase, 105% of the Average Closing Price; and

APPENDIX

(b) in the case of an Off-Market Purchase pursuant to an equal access scheme, 120% of the Average Closing Price,

(the “**Maximum Price**”) in either case, excluding related expenses of the purchase or acquisition.

For the above purposes:

“**Average Closing Price**” means the average of the closing market prices of a Share for the five consecutive Market Days on which the Shares are transacted on the SGX-ST immediately preceding the date of the Market Purchase by the Company or, as the case may be, the date of the making of the offer pursuant to the Off-Market Purchase, and deemed to be adjusted in accordance with the Listing Rules for any corporate action which occurs after the relevant five (5) Market Days.

“**date of the making of the offer**” means the date on which the Company announces its intention to make an offer for an Off-Market Purchase, stating therein the purchase price (which shall not be more than the Maximum Price for an Off-Market Purchase calculated on the foregoing basis) for each Share and the relevant terms of the equal access scheme for effecting the Off-Market Purchase.

3.5 Status of Purchased Shares

Shares purchased or acquired by the Company are deemed cancelled immediately on purchase or acquisition (and all rights and privileges attached to the Share will expire on such cancellation) unless such Share is held by the Company as a treasury share. Accordingly, the total number of issued Shares will be diminished by the number of Shares purchased or acquired by the Company and which are not held as treasury shares. At the time of each purchase of Shares by the Company, the Directors will decide whether the Shares purchased will be cancelled or kept as treasury shares, or partly cancelled and partly kept as treasury shares, depending on the needs of the Company at that time.

3.6. Treasury Shares

Under the Companies Act, Shares purchased or acquired by the Company may be held or dealt with as treasury shares. Some of the provisions on treasury shares under the Companies Act are summarised below:

3.6.1 Maximum Holdings

The number of Shares held as treasury shares cannot at any time exceed 10% of the total number of issued Shares.

3.6.2 Voting and Other Rights

The Company cannot exercise any right in respect of treasury shares. In particular, the Company cannot exercise any right to attend or vote at meetings and for the purposes of the Companies Act, the Company shall be treated as having no right to vote and the treasury shares shall be treated as having no voting rights.

APPENDIX

In addition, no dividend may be paid, and no other distribution of the Company's assets may be made, to the Company in respect of treasury shares. However, the allotment of shares as fully paid bonus shares in respect of treasury shares is allowed. Also, a subdivision or consolidation of any treasury share into treasury shares of a smaller amount is allowed so long as the total value of the treasury shares after the subdivision or consolidation is the same as before.

3.6.3 Disposal and Cancellation

Where Shares are held as treasury shares, the Company may at any time:

- (a) sell the treasury shares for cash;
- (b) transfer the treasury shares for the purposes of or pursuant to an employees' share scheme;
- (c) transfer the treasury shares as consideration for the acquisition of shares in or assets of another company or assets of a person;
- (d) cancel the treasury shares; or
- (e) sell, transfer or otherwise use the treasury shares for such other purposes as may be prescribed by the Minister for Finance.

Under the Listing Manual, immediate announcement must be made of any sale, transfer, cancellation and/or use of treasury shares (in each case, the "**usage**"). Such announcement must include details such as the date of the usage, the purpose of the usage, the number of treasury shares comprised in the usage, the number of treasury shares before and after the usage, and the percentage of the number of treasury shares comprised in the usage against the total number of issued shares (of the same class as the treasury shares) which are listed on the SGX-ST before and after the usage, and the value of the treasury shares if they are used for a sale, transfer, or cancelled.

4. REPORTING REQUIREMENTS

Within 30 days of the passing of a Shareholders' resolution to approve the purchases of Shares by the Company, the Company shall lodge a copy of such resolution with the Accounting and Corporate Regulatory Authority ("**ACRA**").

The Company shall notify ACRA within 30 days of a purchase of Shares by the Company on the SGX-ST or otherwise. Such notification shall include details of the purchases, the total number of Shares purchased by the Company, the number of Shares held as treasury shares, the Company's total number of issued shares as at the date of the Shareholders' resolution approving the purchase of the Shares and after the purchase of Shares, the amount of consideration paid by the Company for the purchases, whether the Shares were purchased out of profits or the capital of the Company and such other particulars as may be required in the prescribed form.

The Company is required under Rule 886 of the Listing Manual that a listed company shall notify the SGX-ST of all purchases or acquisitions of its Shares not later than 9.00 a.m.:

- (a) in the case of a Market Purchase, on the Market Day following the day of purchase of any of its Shares, and

APPENDIX

- (b) in the case of an Off-Market Purchase under an equal access scheme, on the second Market Day after the close of acceptance of the offer for the Off-Market Purchase.

The notification of such purchases or acquisition of Shares to the SGX-ST shall be in such form and shall include such details that the SGX-ST may prescribe. The Company shall make arrangements with its stockbrokers to ensure that they provide the Company in a timely fashion the necessary information which will enable the Company to make the notifications to the SGX-ST.

5. SOURCE OF FUNDS

The Company may only apply funds for the purchase or acquisition of the Shares as provided in the Constitution of the Company and in accordance with the applicable laws in Singapore. The Company may not purchase its Shares for a consideration other than in cash or, in the case of a Market Purchase, for settlement otherwise than in accordance with the trading rules of the SGX-ST.

The Companies Act permits the Company to purchase or acquire its own Shares out of capital, as well as from its distributable profits. Apart from using its internal sources of funds, the Company may obtain or incur borrowings to finance its purchase or acquisition of Shares.

6. FINANCIAL EFFECTS

It is not possible for the Company to realistically calculate or quantify the impact of purchases or acquisitions of Shares that may be made pursuant to the Share Purchase Mandate on the net tangible asset and earning per share as the resultant effect would depend on, inter alia, the aggregate number of Shares purchased or acquired, whether the purchase or acquisition is made out of capital or profits, the purchase prices paid for such Shares and the amount (if any) borrowed by the Company to fund the purchases or acquisitions and whether the Shares purchased or acquired are cancelled or held as treasury shares.

The Company's total number of issued Shares will be diminished by the total number of the Shares purchased by the Company and which are cancelled. The NTA of the Group will be reduced by the aggregate purchase price paid by the Company for the Shares.

Under the Companies Act, purchases or acquisitions of Shares by the Company may be made out of the Company's capital or profits so long as the Company is solvent. Where the consideration paid by the Company for the purchase or acquisition of Shares is made out of profits, such consideration (excluding brokerage, stamp duties, commission, applicable goods and services tax and other related expenses) will correspondingly reduce the amount available for the distribution of cash dividends by the Company. Where the consideration paid by the Company for the purchase or acquisition of Shares is made out of capital, the amount available for the distribution of cash dividends by the Company will not be reduced.

The Directors do not propose to exercise the Share Purchase Mandate to such an extent that it would have a material adverse effect on the working capital requirements of the Group. The purchase or acquisition of the Shares will only be effected after considering relevant factors such as the working capital requirements, availability of financial resources, the expansion and investment plans of the Group and the prevailing market conditions. The proposed Share Purchase Mandate will be exercised with a view of enhancing the EPS and/or the NTA value per Share.

APPENDIX

For illustrative purposes only, the financial effects of the Share Purchase Mandate on the Company and the Group, based on the financial statements of the Group for the financial period ended 31 December 2017 are based on the assumptions set out below:

- (a) based on 3,968,838,000 Shares in issue as at the Latest Practicable Date (excluding treasury shares and subsidiary holdings), and assuming no further Shares are issued, 5,239,000 Shares are held by the Company as treasury shares and no further Shares are held by the Company as treasury shares on or prior to the 12th AGM, not more than 396,883,800 Shares [representing 10% of the total number of issued shares of the Company (excluding Shares held in treasury and subsidiary holding) as at that date] may be purchased by the Company pursuant to the proposed Share Purchase Mandate;
- (b) in the case of Market Purchases by the Company and assuming that the Company purchases or acquires 396,883,800 Shares at the Maximum Price of S\$1.394 for one Share (being the price equivalent to 5% above the Average Closing Price of the Shares for the five consecutive Market Days on which the Shares were traded on the SGX-ST immediately preceding the Latest Practicable Date), the maximum amount of funds required for the purchase or acquisition of 396,883,800 Shares (excluding brokerage, stamp duties, commission, applicable goods and services tax and other related expenses) is approximately RMB2,668,685,725; and
- (c) in the case of Off-Market Purchases by the Company and assuming that the Company purchases or acquires 396,883,800 Shares at the Maximum Price of S\$1.594 for one Share (being the price equivalent to 20% above the Average Closing Price of the Shares on the five consecutive Market Days on which the Shares were traded on the SGX-ST immediately preceding the Latest Practicable Date), the maximum amount of funds required for the purchase or acquisition of 396,883,800 Shares (excluding brokerage, stamp duties, commission, applicable goods and services tax and other related expenses) is approximately RMB3,051,567,464.

For illustrative purposes only and based on the assumptions set out in sub-paragraphs (a), (b) and (c) above and assuming that (i) the purchase or acquisition of Shares is financed solely by internal sources of funds; (ii) the Share Purchase Mandate had been effective on 1 January 2017; and (iii) the Company had purchased or acquired 396,883,800 Shares [representing 10% of its total number of issued shares of the Company (excluding Shares held in treasury and subsidiary holding) at the Latest Practicable Date] on 31 December 2017, the financial effects of the purchase or acquisition of 396,883,800 shares by the Company pursuant to the Share Purchase Mandate:

- (1) by way of purchases made entirely out of capital and held as treasury shares; and
- (2) by way of purchases made entirely out of capital and cancelled,

APPENDIX

on the financial statements of the Company and the Group for the financial year ended 31 December 2017 are set out below:

(1) Purchases made entirely out of capital and held as treasury shares

(A) Market Purchases

	<u>Group</u>		<u>Company</u>	
	<u>Before Share Purchase RMB'000</u>	<u>After Share Purchase RMB'000</u>	<u>Before Share Purchase RMB'000</u>	<u>After Share Purchase RMB'000</u>
As at 31 December 2017				
Issued capital and reserves	25,905,693	25,825,609	13,356,433	13,276,349
Treasury shares	(20,979)	(2,690,430.49)	(20,979)	(2,690,430)
Total shareholders' equity	25,884,714	23,135,179	13,335,454	10,585,919
NTA (excl. Non controlling interests)	25,884,714	23,135,179	13,335,454	10,585,919
Profit after taxation and minority interest	2,931,498	2,851,414	4,736,158	4,656,074
Net debt	Net Cash	1,335,361	309,709	2,979,160
Number of shares ('000)	3,968,838	3,571,954	3,968,838	3,571,954
Financial Ratios				
NTA per share (cents)	652.20	647.69	336.00	296.36
Gross debt gearing (%)	18.89	21.14	8.56	28.14
Net debt gearing (%)	Net Cash	5.77	2.32	28.14
Current ratio (times)	2.17	1.97	2.04	1.39
Earnings before interest, tax, depreciation and amortisation divided by interest expenses (times)	36.07	36.07	356.86	50.86
<i>Basic EPS (cents)</i>				
(before exceptional items)	73.86	79.83	119.33	130.35
(after exceptional items)	73.86	79.83	119.33	130.35
Return on equity (%)	11.33	12.33	35.52	43.98

Note:

Based on 3,968,838,000 Shares in issue as at the Latest Practicable Date, excluding subsidiary holding and 5,239,000 Shares that are held in treasury as at the Latest Practicable Date.

APPENDIX

(B) Off-Market Purchases

	<u>Group</u>		<u>Company</u>	
	<u>Before Share Purchase RMB'000</u>	<u>After Share Purchase RMB'000</u>	<u>Before Share Purchase RMB'000</u>	<u>After Share Purchase RMB'000</u>
As at 31 December 2017				
Issued capital and reserves	25,905,693	25,814,168.95	13,356,433	13,264,908.95
Treasury shares	(20,979)	(3,071,781)	(20,979)	(3,071,781)
Total shareholders' equity	25,884,714	22,742,388	13,335,454	10,193,128
NTA (excl. Non controlling interests)	25,884,714	22,742,388	13,335,454	10,193,128
Profit after taxation and minority interest	2,931,498	2,839,974	4,736,158	4,644,633.95
Net debt	Net Cash	1,716,712	309,709	3,360,511
Number of shares ('000)	3,968,838	3,571,954	3,968,838	3,571,954
Financial Ratios				
NTA per share (cents)	652.20	636.69	336.00	285.37
Gross debt gearing (%)	18.89	21.50	8.56	32.97
Net debt gearing (%)	Net Cash	7.55	2.32	32.97
Current ratio (times)	2.17	1.94	2.04	1.32
Earnings before interest, tax, depreciation and amortisation divided by interest expenses (times)	36.07	36.07	356.86	45.31
<i>Basic EPS (cents)</i>				
(before exceptional items)	73.86	79.51	119.33	130.03
(after exceptional items)	73.86	79.51	119.33	130.03
Return on equity (%)	11.33	12.49	35.52	45.57

Note:

Based on 3,968,838,000 Shares in issue as at the Latest Practicable Date, excluding subsidiary holding and 5,239,000 Shares that are held in treasury as at the Latest Practicable Date.

APPENDIX

(2) Purchases made entirely out of capital and cancelled

(A) Market Purchases

	<u>Group</u>		<u>Company</u>	
	<u>Before Share Purchase RMB'000</u>	<u>After Share Purchase RMB'000</u>	<u>Before Share Purchase RMB'000</u>	<u>After Share Purchase RMB'000</u>
As at 31 December 2017				
Issued capital and reserves/				
Total shareholders' equity	25,884,714	23,135,179	13,335,454	10,585,919
NTA (excl. Non controlling interests)	25,884,714	23,135,179	13,335,454	10,585,919
Profit after taxation and minority interest	2,931,498	2,851,414	4,736,158	4,656,074
Net debt	Net Cash	1,335,361	309,709	2,979,160
Number of shares ('000)	3,968,838	3,571,954	3,968,838	3,571,954
Financial Ratios				
NTA per share (cents)	652.20	647.69	336.00	296.36
Gross debt gearing (%)	18.89	21.14	8.56	28.14
Net debt gearing (%)	Net Cash	5.77	2.32	28.14
Current ratio (times)	2.17	1.97	2.04	1.39
Earnings before interest, tax, depreciation and amortisation divided by interest expenses (times)	36.07	36.07	356.86	50.86
<i>Basic EPS (cents)</i>				
(before exceptional items)	73.86	79.83	119.33	130.35
(after exceptional items)	73.86	79.83	119.33	130.35
Return on equity (%)	11.33	12.33	35.52	43.98

APPENDIX

(B) Off-Market Purchases

	<u>Group</u>		<u>Company</u>	
	<u>Before</u>	<u>After</u>	<u>Before</u>	<u>After</u>
	<u>Share</u>	<u>Share</u>	<u>Share</u>	<u>Share</u>
	<u>Purchase</u>	<u>Purchase</u>	<u>Purchase</u>	<u>Purchase</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
As at 31 December 2017				
Issued capital and reserves/				
Total shareholders' equity	25,884,714	22,742,388	13,335,454	10,193,128
NTA (excl. Non controlling interests)	25,884,714	22,742,388	13,335,454	10,193,128
Profit after taxation and minority interest	2,931,498	2,839,974	4,736,158	4,644,634
Net debt	Net Cash	1,716,712	309,709	3,360,511
Number of shares ('000)	3,968,838	3,571,954	3,968,838	3,571,954
Financial Ratios				
NTA per share (cents)	652.20	636.69	336.00	285.37
Gross debt gearing (%)	18.89	21.50	8.56	32.97
Net debt gearing (%)	Net Cash	7.55	2.32	32.97
Current ratio (times)	2.17	1.94	2.04	1.32
Earnings before interest, tax, depreciation and amortisation divided by interest expenses (times)	36.07	36.07	356.86	45.31
<i>Basic EPS (cents)</i>				
(before exceptional items)	73.86	79.51	119.33	130.03
(after exceptional items)	73.86	79.51	119.33	130.03
Return on equity (%)	11.33	12.49	35.52	45.57

Shareholders should note that the financial effects set out above are purely for illustrative purposes only. Although the proposed Share Purchase Mandate would authorise the Company to purchase or acquire up to 10% of its issued Shares (excluding Shares held in treasury and subsidiary holdings), the Company may not necessarily purchase or acquire or be able to purchase or acquire the entire 10% of its issued Shares (excluding Shares held in treasury and subsidiary holdings). In addition, the Company may cancel all or part of the Shares repurchased or hold all or part of the Shares repurchased in treasury.

Shareholders who are in doubt as to their respective tax positions or any tax implications arising from the Share Purchase Mandate or who may be subject to tax in a jurisdiction other than Singapore should consult their own professional advisers.

APPENDIX

7. TAKE-OVER IMPLICATIONS

Appendix 2 of the Singapore Code on Take-over and Mergers ("**Take-over Code**") contains the Share Purchase Guidance Note applicable as at the Latest Practicable Date. The take-over implications arising from any purchase or acquisition by the Company of its Shares are set out below.

7.1 Obligation to make a Take-over Offer

If, as a result of any purchase or acquisition by the Company of the Shares, the proportionate interest in the voting capital of the Company of a Shareholder and person(s) acting in concert with him increases, such increase will be treated as an acquisition for the purposes of Rule 14 of the Take-over Code. Consequently, a Shareholder or a group of Shareholders acting in concert with a Director could obtain or consolidate effective control of the Company and become obliged to make an offer under Rule 14 of the Take-over Code.

7.2 Persons Acting in Concert

Under the Take-over Code, persons acting in concert comprise individuals or companies who, pursuant to an agreement or understanding (whether formal or informal), co-operate, through the acquisition by any of them of shares in a company to obtain or consolidate effective control of the company.

Unless the contrary is established, the following persons, *inter alia*, will be presumed to be acting in concert, namely:

- (a) a company with its parent company, subsidiaries, its fellow subsidiaries, any associated companies of the foregoing companies, any company whose associated companies include any of the foregoing companies, and any person who has provided financial assistance (other than a bank in the ordinary course of business) to any of the foregoing companies for the purchase of voting rights;
- (b) a company with any of its directors, together with their close relatives, related trusts and any companies controlled by any of the directors, their close relatives and related trusts;
- (c) a company with any of its pension funds and employee share schemes;
- (d) a person with any investment company, unit trust or other fund in respect of the investment account which such person manages on a discretionary basis;
- (e) a financial or other professional adviser, with its client in respect of the shareholdings of the adviser and the persons controlling, controlled by or under the same control as the adviser and all the funds which the adviser manages on a discretionary basis, where the shareholdings of the adviser and any of those funds in the client total 10% or more of the client's equity share capital;
- (f) directors of a company, together with their close relatives, related trusts and companies controlled by any of them, which is subject to an offer or where they have reason to believe a *bona fide* offer for their company may be imminent;
- (g) partners; and

APPENDIX

- (h) an individual, his close relatives, his related trusts, any person who is accustomed to act according to his instructions, companies controlled by any of the foregoing persons and any person who has provided financial assistance (other than a bank in the ordinary course of business) to any of the foregoing persons and/or entities for the purchase of voting rights.

For this purpose, ownership or control of at least 20% but not more than 50% of the voting rights of a company will be regarded as the test of associated company status.

The circumstances under which Shareholders, including Directors and persons acting in concert with them respectively, will incur an obligation to make a take-over offer under Rule 14 of the Take-over Code after a purchase or acquisition of Shares by the Company are set out in Appendix 2 of the Take-over Code.

7.3 Effect of Rule 14 and Appendix 2

In general terms, the effect of Rule 14 and Appendix 2 of the Take-over Code is that, unless exempted, Directors and persons acting in concert with them will incur an obligation to make a take-over offer under Rule 14 if, as a result of the Company purchasing or acquiring Shares:

- (a) the voting rights of such Directors and their concert parties would increase to 30% or more; or
- (b) in the event that such Directors and their concert parties hold between 30% and 50% of the Company's voting rights, if the voting rights of such Directors and their concert parties would increase by more than 1% in any period of six months.

In calculating the percentages of voting rights of such Directors and their concert parties, treasury shares and subsidiary holding shall be excluded.

Under Appendix 2 of the Take-over Code, a Shareholder who is not acting in concert with the Directors will not be required to make a take-over offer under Rule 14 if, as a result of the Company purchasing or acquiring its Shares:

- (a) the voting rights of such Shareholder would increase to 30% or more; or
- (b) if such Shareholder holds between 30% and 50% of the Company's voting rights, the voting rights of such Shareholder would increase by more than 1% in any period of six months.

Such Shareholder need not abstain from voting in respect of the resolution authorising the renewal of the Share Purchase Mandate.

Save as disclosed above, the Directors are not aware of any facts or factors which suggest or imply that any particular person(s) and/or Shareholder(s) are, or may be regarded as, parties acting in concert such that their respective interests in voting shares in the capital of the Company should or ought to be consolidated, and consequences under the Take-over Code would ensue as a result of a purchase of Shares by the Company pursuant to the Share Purchase Mandate.

Shareholders who are in doubt as to their obligations, if any, to make a mandatory take-over offer under the Take-over Code as a result of any purchase or acquisition of Shares by the Company should consult the Securities Industry Council and/or their professional advisers at the earliest opportunity.

APPENDIX

8. LISTING RULES

While the Listing Rules do not expressly prohibit purchase of shares by a listed company during any particular time or times, the listed company would be considered an “insider” in relation to any proposed purchase or acquisition of its issued shares. In this regard, the Company will not purchase any Shares pursuant to the Share Purchase Mandate after a price-sensitive development has occurred or has been the subject of consideration and/or a decision of the Board of Directors until such time as the price-sensitive information has been publicly announced. In particular, the Company will not purchase or acquire any Shares through Market Purchases during the period of:

- (a) one month immediately preceding the announcement of the Company’s annual financial results; and
- (b) two weeks immediately preceding the announcement of the Company’s financial results for each of the first three quarters of its financial year.

The Company is required under Rule 723 of the Listing Manual to ensure that at least 10% of its Shares (excluding Shares held in treasury and subsidiary holdings) are in the hands of the public. The “public”, as defined under the Listing Manual, are persons other than the directors, chief executive officer, Substantial Shareholders or controlling shareholders of the Company and its subsidiaries, as well as the associates of such persons.

Based on the Register of Directors’ Shareholdings and the Register of Substantial Shareholders maintained by the Company as at the Latest Practicable Date, approximately 2,096,348,785 Shares, representing approximately 52.82% of the issued Shares (excluding Shares held in treasury and subsidiary holding), are in the hands of the public. Assuming that the Company purchases its Shares through Market Purchases up to the full 10% limit pursuant to the Share Purchase Mandate, the number of Shares in the hands of the public would be reduced to approximately 1,699,464,985 Shares, representing approximately 42.82% of the total number of issued Shares of the Company (excluding Shares held in treasury and subsidiary holding). Accordingly, the Company is of the view that there is a sufficient number of issued Shares (excluding Shares held in treasury and subsidiary holding) held in the hands of the public which would permit the Company to undertake purchases or acquisitions of its issued Shares up to the full 10% limit pursuant to the proposed Share Purchase Mandate without affecting the listing status of the Shares on the SGX-ST, and that the number of Shares remaining in the hands of the public will not fall to such a level as to cause market illiquidity.

In undertaking any purchases or acquisitions of Shares through Market Purchases, the Directors will use their best efforts to ensure that, notwithstanding such purchases, a sufficient float in the hands of the public will be maintained so that the purchases or acquisitions of Shares will not adversely affect the listing status of the Shares on the SGX-ST, cause market illiquidity or adversely affect the orderly trading of the Shares.

9. SHARES PURCHASED DURING THE PREVIOUS 12 MONTHS

The Company had not purchased nor acquired any Shares during the twelve (12) months period immediately preceding the Latest Practicable Date.

APPENDIX

10. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

10.1 Directors' Interests

The interests of the Directors in the Shares as recorded in the Register of Directors' Shareholdings as at the Latest Practicable Date are set out below:

Director	Number of Shares	
	Direct Interest	Deemed Interest
Ren Yuanlin	3,200,000	1,002,845,825 ¹
Teo Yi-Dar	150,000	–
Chen Timothy Teck Leng @ Chen Teck Leng	–	–
Xu Wen Jiong	–	–

10.2 Substantial Shareholders' Interests

The interests of the Substantial Shareholders of the Company in the Shares as recorded in the Register of Substantial Shareholders as at the Latest Practicable Date are set out below:

Substantial Shareholder	Number of Shares		Total Percentage Interest (%) ²
	Direct Interest	Deemed Interest	
Ren Yuanlin	3,200,000	1,002,845,825	25.35
Yangzi International Holdings Limited	1,002,845,825	–	25.27
Julius Baer Trust Company (Singapore) Limited as trustee of YZJ Settlement	–	1,002,845,825	25.27
Lido Point Investments Ltd	394,134,000	–	9.93
Wang Dong	–	394,134,000 ³	9.93
HongKong Hengyuan Investment Limited	286,073,390	–	7.21
Chang Liang	–	286,073,390 ⁴	7.21

1 Ren Yuanlin (as Settlor of the YZJ Settlement) is deemed to be interested in the Shares through his interest in Yangzi International Holdings Limited, which is wholly-owned by Julius Baer Trust Company (Singapore) Limited as trustee of the YZJ Settlement, by virtue of Section 7 of the Companies Act.

2 Based on 3,968,838,000 Shares in issue as at the Latest Practicable Date, excluding subsidiary holding and 5,239,000 Shares that are held in treasury as at the Latest Practicable Date.

3 Wang Dong is deemed to be interested in the Shares through his interest in Lido, by virtue of Section 7 of the Companies Act.

4 Chang Liang is deemed to be interested in the Shares through his interest in HongKong Hengyuan Investment Limited, by virtue of Section 7 of the Companies Act.

APPENDIX

11. DIRECTORS' RECOMMENDATIONS

The Proposed Renewal of Share Purchase Mandate

The Directors are of the opinion that the proposed renewal of Share Purchase Mandate is in the best interest of the Company. Accordingly, the Directors recommend that Shareholders vote in favour of the Ordinary Resolution 8 relating to the proposed renewal of Share Purchase Mandate as set out in the Notice of the 12th AGM.

12. ANNUAL GENERAL MEETING

The 12th AGM, notice of which is set out on pages 149 to 154 of the Notice of 12th AGM attached to the 2017 Annual Report of the Company, will be held at 168 Robinson Road, #09-01 Capital Tower, STI Auditorium, Singapore 068912 on Friday, 27 April 2018 at 3.00 p.m. for the purpose of, inter alia, considering and, if thought fit, passing the ordinary resolution on the renewal of Share Purchase Mandate as set out in the Notice of the 12th AGM.

13. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Appendix and confirm after making all reasonable enquiries, that to the best of their knowledge and belief, this Appendix constitutes full and true disclosure of all material facts about the proposed renewal of Share Purchase Mandate, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this Appendix misleading. Where information in the Appendix has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in the Appendix in its proper form and context.

14. SGX-ST'S DISCLAIMER

The SGX-ST assumes no responsibility for the accuracy of any of the statements made, reports contained or opinion expressed in this Appendix.

15. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents may be inspected at the registered office of the Company at 80 Robinson Road, #02-00, Singapore 068898 during normal business hours from the date hereof up to and including the date of the 12th AGM:

- (a) the Constitution of the Company; and
- (b) the audited consolidated financial statements of the Company for FY2017.

Yours faithfully,

For and on behalf of the Board of Directors of

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD.

Ren Yuanlin

Executive Chairman

Proxy Form

Yangzijiang Shipbuilding (Holdings) Ltd.

(Incorporated in the Republic of Singapore)
(Company Registration No.: 200517636Z)

IMPORTANT

1. Relevant intermediaries (as defined in Section 181 of the Companies Act, Cap.50 of Singapore) may appoint more than two proxies to attend, speak and vote at the Annual General Meeting.
2. For CPF/SRS investors who have used their CPF/SRS monies to buy shares in the capital of Yangzijiang Shipbuilding (Holdings) Ltd., this Proxy Form is not valid for use and shall be ineffective for all intents and purposes if used or purported to be used by them. CPF/SRS investors should contact their respective agent Banks/SRS Operators if they have any queries regarding their appointment as proxies.
3. By submitting an instrument appointing a proxy (ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Twelfth Annual General Meeting dated 29 March 2018.

I/We _____ (name) _____ (NRIC/Passport No.)

of _____ (address)

being a member/members of Yangzijiang Shipbuilding (Holdings) Ltd. (the "Company"), hereby appoint:

Name	Address	NRIC/ Passport No.	Proportion of shareholdings to be represented by proxy (%)

and/or failing him (delete as appropriate)

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as *my/our *proxy/proxies to attend, speak and vote for *me/us on *my/our behalf at the 12th AGM of the Company to be held at 168 Robinson Road, #09-01 Capital Tower, STI Auditorium, Singapore 068912 on Friday, 27 April 2018 at 3.00 p.m. and at any adjournment thereof.

*I/We direct *my/our *proxy/proxies to vote for or against the Resolutions to be proposed at the 12th AGM as indicated hereunder. If no specific direction as to voting is given, the *proxy/proxies will vote or abstain from voting at *his/their discretion, as *he/they will on any other matter arising at the 12th AGM and at any adjournment thereof. If no person is named in the above boxes, the Chairman of the 12th AGM shall be *my/our proxy to vote, for or against the Resolutions to be proposed at the 12th AGM as indicated hereunder, for *me/us and on *my/our behalf at the 12th AGM and at any adjournment thereof.

No.	Resolutions	**For	**Against
ORDINARY BUSINESS			
1.	Adoption of the Directors' Statement, Audited Financial Statements and the Independent Auditors' Report thereon.		
2.	Declaration of final dividend.		
3.	Approval for payment of Directors' fees for the financial year ended 31 December 2017.		
4.	Re-election of Mr Timothy Chen as Director.		
5.	Re-election of Mr Xu Wen Jiong as Director.		
6.	Re-appointment of Messrs PricewaterhouseCoopers LLP as auditors and to authorise the Directors to fix their remuneration.		
SPECIAL BUSINESS			
7.	To authorise Directors to allot and issue shares.		
8.	To renew the Share Purchase Mandate.		

* Delete accordingly

**Voting will be conducted by pol. Indicate your vote "For" or "Against" with a (✓) within the box provided. Alternatively, please indicate the number of votes "For" or "Against" next to each resolution.

Dated this _____ day of _____, 2018

Total Number of Shares Held

Signature(s) of Member(s)/Common Seal

Important: Please read notes overleaf

Notes:-

1. (a) A member who is not a relevant intermediary is entitled to appoint not more than two proxies to attend, speak and vote at the AGM. Where such member's form of proxy appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy, failing which the appointments will be deemed to have been made in the alternative.
- (b) A member who is a relevant intermediary is entitled to appoint more than two proxies to attend, speak and vote at the AGM, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member's form of proxy appoints more than two proxies, the number and class of shares in relation to which each proxy has been appointed shall be specified in the form of proxy.

"Relevant intermediary" has the meaning ascribed to it in Section 181 of the Companies Act, Chapter 50 of Singapore.

2. A proxy need not be a member of the Company.
3. The instrument appointing a proxy or proxies must be signed by the appointor or his duly authorised attorney or if the appointor is a corporation, it must be executed either under its common seal or signed by its attorney or officer duly authorised.
4. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the AGM, in accordance with its Constitution and Section 179 of the Companies Act, Chapter 50 of Singapore.
5. The instrument appointing a proxy or proxies (together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof) must be deposited at the registered office of the Company at 80 Robinson Road, #02-00, Singapore 068898 at least forty-eight (48) hours before the time appointed for the AGM.
6. Completion and return of an instrument appointing a proxy or proxies shall not preclude a member from attending, speaking and voting at the AGM. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the AGM in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the relevant instrument appointing a proxy or proxies, to the AGM.
7. A member should insert the total number of shares held. If the member has shares entered against his name in the Depository Register (maintained by The Central Depository (Pte) Limited), he should insert that number of shares. If the member has shares registered in his name in the Register of Members (maintained by or on behalf of the Company), he should insert that number of shares. If the member has shares entered against his name in the Depository Register as well as shares registered in his name in the Register of Members, he should insert the aggregate number of shares. If no number is inserted, this form of proxy will be deemed to relate to all the shares held by the member.
8. The Company shall be entitled to reject an instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible, or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies (including any related attachment). In addition, in the case of a member whose shares are entered in the
9. Depository Register, the Company shall be entitled to reject any instrument appointing a proxy or proxies which has been lodged if such member, being the appointor, is not shown to have shares entered against his name in the Depository Register at least 72 hours before the time appointed for the AGM, as certified by The Central Depository (Pte) Limited to the Company.

DO NOT STAPLE. GLUE ALL SIDES FIRMLY

**AFFIX
POSTAGE
STAMP**

The Company Secretary
Yangzijiang Shipbuilding (Holdings) Ltd.
 80 Robinson Road
 #02-00
 Singapore 068898

CORPORATE INFORMATION

DIRECTORS

REN YUANLIN

Executive Chairman

TEO YI-DAR

Lead Independent Director

XU WEN JIONG

Non-Independent Non-Executive Director

CHEN TIMOTHY TECK LENG @ CHEN TECK LENG

Independent Director

JOINT COMPANY SECRETARIES

ONG BEE CHOO

PAN MI KEAY

COMPANY REGISTRATION NUMBER

200517636Z

REGISTERED OFFICE

80 Robinson Road #02-00

Singapore 068898

BUSINESS ADDRESSES

1# Lianyi Road, Jiangyin-Jingjiang Industry Zone,
Jingjiang City, Jiangsu, People's Republic of China 214532

SHARE REGISTRAR AND SHARE TRANSFER OFFICE BOARDROOM CORPORATE & ADVISORY SERVICES PTE. LTD.

50 Raffles Place

#32-01 Singapore Land Tower

Singapore 048623

AUDITORS

PRICEWATERHOUSECOOPERS LLP

CERTIFIED PUBLIC ACCOUNTANTS

7 Straits View, Marina One

East Tower, Level 12

Singapore 018936

Partner-in-charge: **ALEX TOH WEE KEONG**

(Appointed since Financial Year ended 31 December 2017)



Yangzijiang Shipbuilding (Holdings) Ltd.
揚子江船業(控股)有限公司

16 RAFFLES QUAY
#41-02 HONG LEONG BUILDING
SINGAPORE 048581

