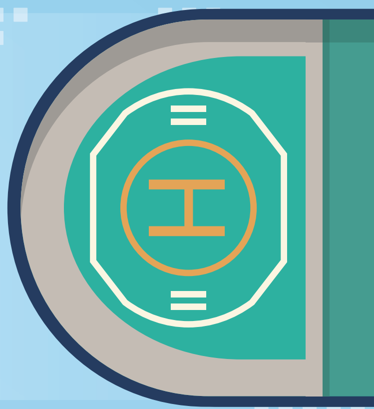
中航国际船舶控股有限公司
AVIC International Maritime Holdings Limited

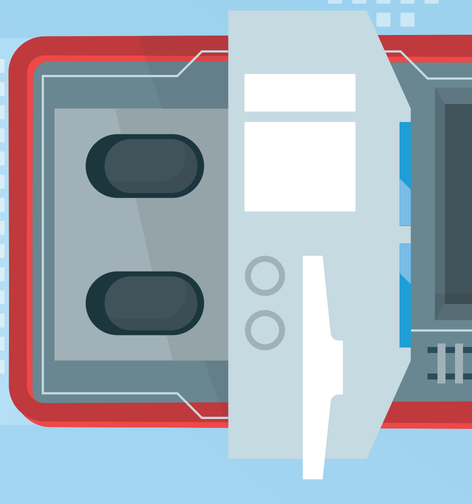
MAKE IT ADVANCED

ANNUAL REPORT 2018



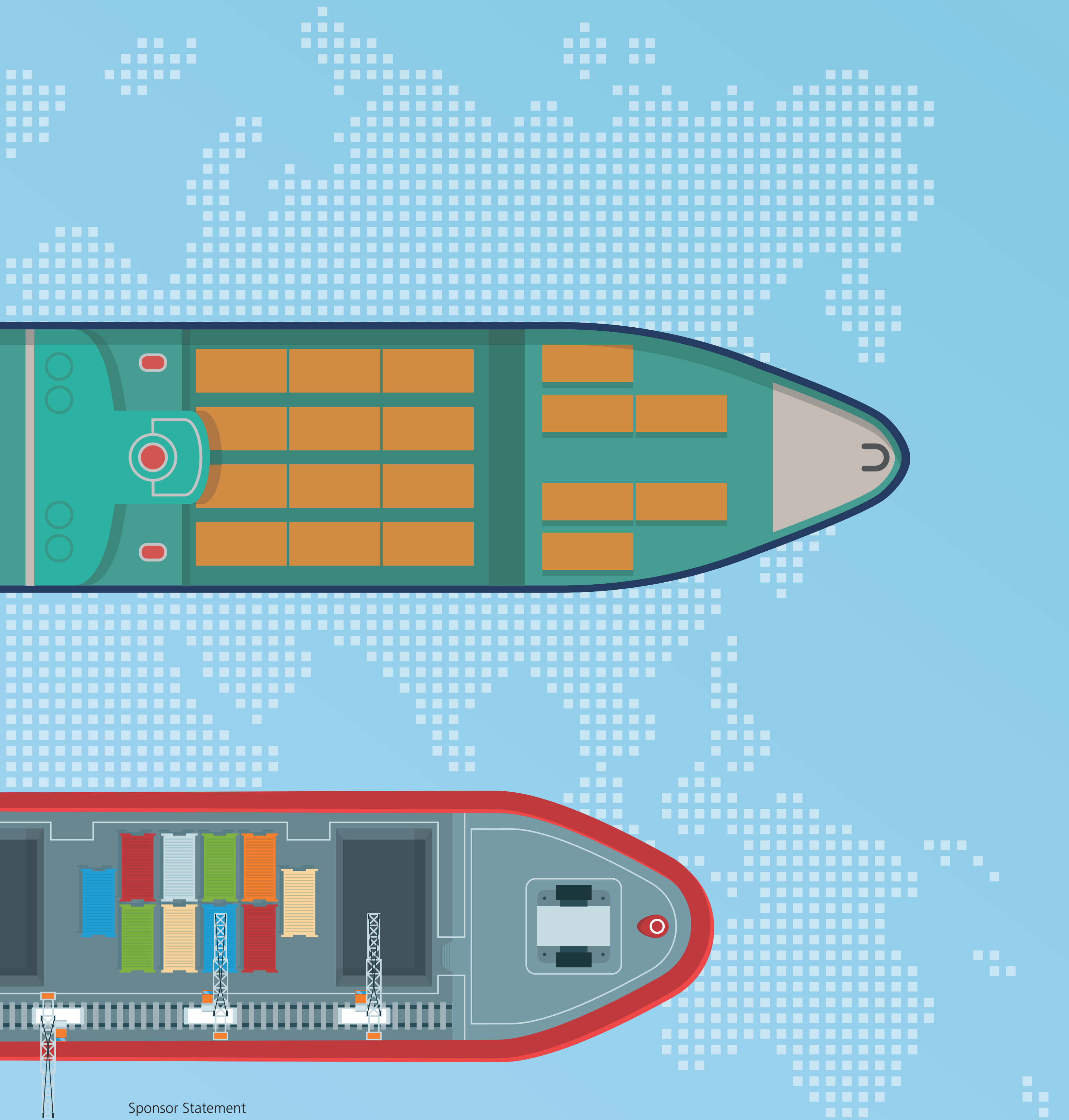
OUR VISION

TO BE A LEADING PROVIDER OF INTEGRATED MARITIME SERVICES



OUR MISSION

GO BEYOND COMMERCE FOR A BETTER WORLD



Sponsor Statement

This annual report has been prepared by the Company and its contents have been reviewed by the Company's Continuing Sponsor, Stamford Corporate Services Pte. Ltd. ("**Sponsor**"), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") Listing Manual Section B: Rules of Catalist. The Sponsor has not independently verified the contents of this annual report. This annual report has not been examined or approved by the SGX-ST. The Sponsor and the SGX-ST assume no responsibility for the contents of this annual report including the correctness of any of the statements or opinions made or reports contained in this annual report. The contact person for the Sponsor is Mr Ng Joo Khin and his contact particulars are jookhin.ng@morganlewis.com and telephone: +65 6389 3000.

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AVIC International Maritime Holdings Limited ("AVIC Maritime") (中航国际船舶控股有限公司), together with its subsidiaries (the "Group"), is a member of the Aviation Industry Corporation of China, Ltd. ("AVIC") (中国航空工业集团有限公司) group of companies (the "AVIC Group").

CORPORATE **PROFILE**

As an active player in the marine and offshore industry, AVIC International Maritime Holdings Limited ("AVIC Maritime") strives to provide innovative and integrated solutions optimized to meet customers' needs along the entire marine business value chain. Our extensive range of services includes shipbuilding project management and consultancy ("M&C Services"), design and engineering, shipbuilding (outsourced), ship trading related businesses, as well as engineering, procurement and construction services.

AVIC Maritime's track record in shipbuilding M&C Services dates back to 1994 and has over the years, established strong relationships with many reputable ship-owners worldwide. Forging ahead with our strategy to expand along the ship design, shipbuilding and ship trading related businesses value chain, the Group acquired a Finnish design and engineering firm, Deltamarin Ltd ("Deltamarin"), in January 2013, to enhance our ship design capability. Established since 1990, Deltamarin is a forerunner in naval architecture and engineering, and an experienced developer of profitable, sustainable and cost-efficient vessels.

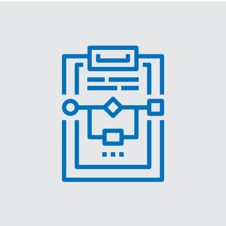
Ranked 161nd among Fortune Global Top 500 corporations in 2018*, the Aviation Industry Corporation of China Group ("AVIC Group") is one of the largest industrial groups authorized and managed by the People's Republic of China ("PRC") Central Government, with key business units such as defense, transport aircraft, aviation engine, helicopters, avionics, general aviation aircraft, aviation research and development, flight test, trade and logistics, and asset management. AVIC Maritime's association with the AVIC Group gives us the competitive edge of getting strong support from major financial institutions in the PRC.

Led by an experienced and driven management team with in-depth industry knowledge, coupled with our ability to leverage on AVIC Group's excellent business relationships, strong fundamentals and global business network, AVIC Maritime is well-positioned to be a leading provider of integrated maritime services.

* Resource:
http://fortune.com/global500/aviation-industry-corp-of-china/

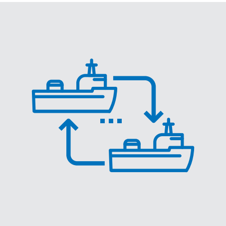
OUR BUSINESS **AND STRATEGY**

SHIPBUILDING PROJECT M&C



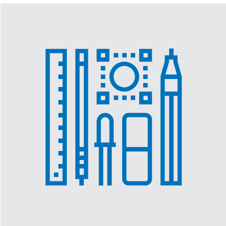
- Our services include ship design, construction (outsourced), procurement, shipbuilding management and marine financing arrangement
- We provide design and engineering services through Deltamarin and other leading design institutes in China
- We provide marketing and consultancy services to shipyards such as promoting their corporate profile in overseas markets, seeking out ship owners and securing shipbuilding contracts

SHIPBUILDING



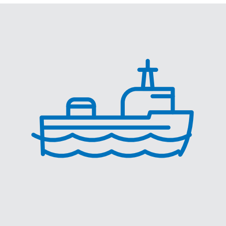
- Our Group's indirect major shareholder, AVIC International Holding Corporation, through its subsidiaries, owns substantial stakes in two shipyards in the Shandong and Jiangsu province in China
- The two shipyards are capable of producing a wide variety of vessels and marine-related products, and specialised in providing high-end and environment-friendly Ropax, small and medium-sized chemical tanker and gas carrier
- Our Group also works with other established and reputable shipyards around the world on shipbuilding projects

DESIGN & ENGINEERING



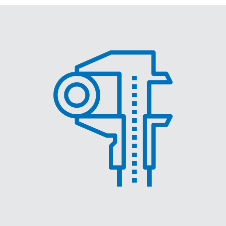
- With strong expertise in ship design and a track record of more than 20 years, Deltamarin provides one-stop services throughout the entire life cycle of a marine and offshore structure
- Its wide range of services includes concept development, offshore engineering, construction engineering for shipbuilding and operation support
- Deltamarin excels in cost-efficient eco-designs

SHIP TRADING



- We offer an integrated procurement service, which extends from market analysis to sourcing for competitively-priced, quality products from around the world
- Leveraging on our Group's strong network and in-depth product knowledge, we provide efficient and specialised technical support

ENGINEERING, PROCUREMENT AND CONSTRUCTION



- Focus on government projects on ship and relevant engineering in developing countries
- Leveraging on the strong partnerships with excellent domestic and overseas shipyards and suppliers, we work with shipyards to organize, negotiate and subcontract projects
- We provide services in financing, monitoring, coordination, customer service, on-site support, purchasing of giant facilities, problem solving and relevant trade operation in the project process, as well as after-sales service

OUR VISION

To be a leading provider of integrated maritime services in China and the world.

OUR LONG-TERM STRATEGY

Our long-term strategy is to enhance our professional capabilities along with the "Global Marketing, Research & Development ("R&D"), Supplies Purchasing" value chain, with a view to becoming a leading provider of integrated maritime services, to further upgrade the commercial value and ultimately enhance our shareholders' value.

CHAIRMAN'S **MESSAGE**

DEAR SHAREHOLDERS,

It has been another eventful year in 2018, as the maritime market was impacted by a few external factors other than the demand and supply fundamentals. The uncertainties associated with the trade tension and ongoing discussions between China and the U.S., as well as the forthcoming IMO rules on vessel emissions, weighed on market sentiment. As a result, despite a promising start in the market in early 2018, the recovery slowed down in the later part of the year. We at AVIC International Maritime Holdings Limited ("**AVIC Maritime**" or the "**Group**") have, however, leveraged on our strong capabilities in ship design and a wide range of shipbuilding related services, attained another year of growth.

FINANCIAL OVERVIEW

Revenue from ship-design service, contributing 65% of the Group's total revenue, increased by 39% year-on-year ("**yoy**") to RMB381.0 million. Revenue from the shipbuilding project financing business, contributing 21% of the Group's total revenue, increased by 118% yoy to RMB124.8 million. Due to lower revenue from shipbuilding construction service, total revenue of RMB587.7 million on Group level was 9% lower in FY2018 than in FY2017. However, gross profit increased by 29% yoy to RMB344.9 million in FY2018, and gross profit margin increased to 59% in FY2018 compared to 41% in FY2017, attributable mainly to the strong performance of the ship-design and shipbuilding project financing businesses.

The Group reported net profit of RMB38.8 million in FY2018, 46% higher compared to FY2017. Net profit attributable to shareholders increased by 2% yoy to RMB27.3 million in FY2018.

WORLD-CLASS SHIP-DESIGN CAPABILITIES

Our design unit, Deltamarin Ltd ("**Deltamarin**") is widely recognized as one of the best ship design companies in the world. Its relentless pursuit of innovative, eco-friendly and cost-efficient design of vessels has won it numerous accolades over the past three decades. Thanks to its wide-range of expertise in various types of vessels, including cruises, ferries and Ro-Pax vessels, Ro-Ro vessels (including Ro-Ro vessels and pure care truck carriers (PCTC)), containerships, dry bulkers, tankers and other vessels, its business is well insulated against the market downturn for a single category of vessels.

Over the past few years, Deltamarin has solidified its leading position in the design of high-tech, energy efficient and dual-fuel vessels that are capable of navigating in challenging weather conditions. In 2018, Deltamarin continued to build up its strong order book. New contracts secured include providing consultancy and engineering services to Guangzhou Shipyard International Co, Ltd in China for the DFDS (Det Forenede Dampskibs-Selskab) Ro-Pax ferries, and providing basic and detail design as well as site assistance services for a Global Class mega cruise ship to MV Werften of Germany. In January 2019, Blue Star Line has contracted Deltamarin for the design of Titanic II, as part of its grand plan to create an authentic Titanic experience for modern people with modern safety procedures. In March 2019, Deltamarin has signed a contract with Rauma Marine Constructions Oy for the basic and detail design services for all hull and machinery areas of a car passenger ferry for Kvarken Link AB. Together with several other major vessel design orders in its order book, Deltamarin will see high capacity utilization until 2022.

As our shipbuilding construction business was going through some down-cycle, Deltamarin has become an increasingly prominent part in the Group's integrated shipbuilding supply chain. Its excellent design capability has not only made direct contribution to our financial performance, but also created important synergies for the development of the Group's other businesses.

PENETRATING NICHE SHIPBUILDING MARKET

We worked closely with our associated shipyards, AVIC Dingheng and AVIC Weihai, principally on shipbuilding design, maritime management and consultancy services, including shipbuilding project financing and management services. Anticipating the challenges in the shipbuilding market in 2018, we placed great focus on order win, on-time delivery, quality and cost control, as well as production safety, and achieved another record year in terms of ship delivery.

AVIC Dingheng and AVIC Weihai have established a strong foothold in the niche markets for small and medium-sized chemical tankers and gas carriers and Ro-Pax vessels, respectively. Leveraging on the strong ship-design capabilities of Deltamarin, the yards have also incorporated the latest ship design to meet the new and increasingly stringent environmental protection regulations.

Specifically, 2018 has been a remarkable year for the construction of Ro-Pax vessels. In October 2018, AVIC Weihai delivered an 880-passenger, 2,160 lanemeter Ro-Pax, New Grand Peace to customer. It's among the highest-specification Ro-Pax vessel to be operated on the China-South Korea route. AVIC Weihai has also made important progress in the building of several high-end, 3,100 lanemeter Ro-Pax vessel for Stena Line of Sweden, as a milestone project in the yard's strategic upgrading plan to become one of the best Ro-Pax shipyards in the world.

In 2018, we navigated the market conditions and drove forward the business with increased efforts both internally and externally. Internally, we continued to improve our management system, including processes such as strategic planning, supply chain, design and coordination, production safety and quality management. These processes created the conditions for the smooth execution of our projects, and helped us streamline the processes to achieve better cost control. In order to incorporate the latest shipbuilding technology and improve efficiency, we increased the use of the 3D design system in more projects, while building up the expertise in the authentic 3D smart manufacturing and the research in "Internet + collaborative manufacturing".

Externally, we continued to explore the overseas market, especially in Europe, the Belt-and-Road countries and other developing countries, providing integrated maritime services throughout the shipbuilding value chain.

OUTLOOK AND STRATEGY

The maritime industry is still in the early stage of recovery, and the process of the recovery is affected by various factors, including economic growth, business fundamentals and geopolitical factors. The ongoing consolidation of China's shipbuilding industry will help companies with strong competitive advantages strengthen its market position. However, competition on the shipbuilding market is intense, and currently it's still a ship owners' market.

Challenges should remind us to remain focused and driven, so that we will play out our business potential, backed by our parent company, The Aviation Industry Corporation of China, Ltd.'s strong support for us with their financial resources, brand value, the network, as well as technology, talents and the management structure.

In 2019, we will continue to enhance our business value and create additional income through shipbuilding supply chain services and sharing our technological and management expertise. Through providing comprehensive support to Deltamarin and creating synergies, we aim to grow Deltamarin's business and financial performance to the next level. In terms of internal management, we will continue to upgrade our product offering, ensure safe production, strengthen financial management with innovative financing methods, so as to improve capital efficiency and reduce financing costs.

In 2019, we will, as always, commit ourselves to developing our core capabilities in shipbuilding management services and ship-design, constantly exploring new technologies and new ideas to cope with new challenges. With a global horizon, we seek to be a market leader and a transformed state-owned enterprise. We are making solid steps to become a leading provider of integrated marine services, as we improve our financial performance and return to our shareholders.

IN APPRECIATION

On behalf of the Board, I would like to express my sincere appreciation to the management team and employees for their dedication and commitment to the Group. To our business partners and customers, thank you for your unwavering support and I look forward to a closer collaboration and partnership with you in the years to come. To our valued shareholders, we are thankful for your unrelenting support and confidence in us, and we strive to optimize the financial performance and sustain the growth in return.

DR DIAO WEICHENG

Executive Chairman

主席致辞

通过强化"国际营销、研发设计和物资采购"等环节的专业能力，打造具有国际竞争力的船舶行业供应链服务商，提升商业价值和股东价值。

各位尊敬的股东，

2018年，世界政治经济格局和环境继续变化，航运市场的供需基本面也受到了一些外部因素的影响。中美之间的贸易紧张局势和相关谈判、以及国际海事组织即将开始实施的船舶排放标准都影响了市场。因此，尽管2018年初市场呈现复苏态势，但下半年复苏步伐放缓。在这种市场环境下，我们中航国际船舶控股有限公司（「**中航船舶**」或「**集团**」）在集团雄厚的船舶设计实力以及船舶和离岸工程一体化解决方案的支持下，实现了又一年的增长。

财务回顾

2018年，船舶设计服务收入贡献了集团总收入的65%，同比增长39%至人民币3.8亿元。造船项目融资业务收入贡献了集团总收入的21%，同比增长118%至人民币1.2亿元。由于船舶建造服务业务收入减少，集团2018财年总收入为人民币5.9亿元，比2017财年下降9%。然而，由于船舶设计和造船项目融资业务表现出色，集团2018财年的毛利同比增长29%至人民币3.4亿元，毛利率从2017年的41%增加至2018年的59%。

集团2018财年录得净利润人民币3,881万元，较2017财年增加46%。归属于股东的净利润同比增长2%至人民币2,728万元。

世界一流的船舶设计能力

集团设计业务单元德他马林有限公司（「Deltamarin」或「德他马林」）领先的船舶设计能力获世界公认。德他马林对其设计研究不断创新，其设计的环保船舶为船东带来了可观的成本效益，在过去三十年中赢得了无数赞誉。德他马林船舶设计种类广泛，包括游轮、渡轮、滚装船（包括客滚船和纯机动车滚装船）、集装箱船、干散货船和油轮等，能够很好地抵御单一类别船只市场低迷对集团业务的影响。

在过去几年中，德他马林持续巩固其在高科技、节能和双燃料船设计方面的领先地位，能够满足客户对船舶在恶劣气候条件下航行的需求。2018年，德他马林订单继续增长，其获得的新合同包括为中国广州广船国际有限公司提供的DFDS（Det Forenede Dampskibs-Selskab）渡轮的咨询和工程设计服务合同，以及为德国MV Werften提供寰宇级大型邮轮的基本和详细设计以及现场协助服务合同。 2019

年1月，Blue Star Line与德他马林签订了泰坦尼克号II的设计合同。Blue Star Line旨在通过泰坦尼克号II为现代消费者重建在现代技术设计支持下的泰坦尼克号真实体验。2019年3月，德他马林与Rauma Marine Constructions Oy签订船舶设计合同，为Kvarken Link AB的客滚船所有船体和机械区域提供基本和详细的设计服务。德他马林的这些新订单和其它在手订单将保持其船舶设计产能的高效利用至2022年。

在集团的船舶建造相关业务经历下行周期之际，德他马林在中航船舶船舶和离岸工程一体化解决方案价值链中的地位日益凸显。其卓越的设计能力不仅对集团的财务表现做出了直接贡献，也为集团其他业务的发展创造了重要的协同效应。

深入发展特种船舶造船能力

中航船舶与其相关造船厂中航鼎衡和中航威海一直在船舶设计、船舶项目管理和咨询服务、船舶项目融资和管理服务等方面密切合作。2018年伊始，我们预见到造船市场可能出现的困难，将工作重点放在保交船、抢订单、降成本、促提升、保安全，并在船舶交付方面再创佳绩。

中航鼎衡和中航威海分别在中小型液货船，以及客滚船等领域获得了市场的认可和青睐。德他马林卓越的船舶设计能力也帮助中航鼎衡和中航威海改进和完善了船舶设计，以满足日益严格的环保新规的要求。

就具体船型而言，中航威海2018年在建造客滚船方面取得了突出成绩。2018年10月，中航威海向客户交付了载客880人、2,160米车道的滚装船「新永安号」，「新永安号」成为在中韩航线上运营的规格最高的客滚船之一。中航威海同时在为瑞典Stena Line建造数艘3,100米车道的高端客滚船。Stena项目是中航威海致力于打造世界最好的客滚船船厂战略升级计划的里程碑项目。

2018年，我们审时度势，通过内部管理和外部开拓努力推动业务发展。在内部管理方面，我们继续改进管理系统，包括改进战略规划、供应链、设计和协调、安全生产和质量管理等流程，为造船项目的顺利执行创造了条件，并简化流程以实现更好的成本控制。为推广最新造船技术和提高效率，我们在更多项目中推行了3D设计系统的使用，继续积累了「真3D」智能制造和「互联网+协同制造」 方面的经验。

同时，我们继续致力于开拓海外市场，尤其是欧洲、一带一路沿线国家和其他发展中国家，为更多国家和地区的客户提供船舶和离岸工程一体化解决方案。

市场展望与发展战略

目前，造船业仍处于复苏的早期阶段，复苏的过程受到经济增长、供需基本面和地缘政治等各类因素的影响。中国造船业的持续整合将有助于拥有竞争优势的船厂继续巩固其市场地位。然而，造船市场的竞争仍然激烈，市场仍然主要受船东主导。

市场充满挑战，我们将时刻保持专注和进取，背靠母公司中航工业的强大支持，发挥资金、品牌、渠道、技术、人才、机制等优势，最大程度地发挥中航船舶的业务潜力。

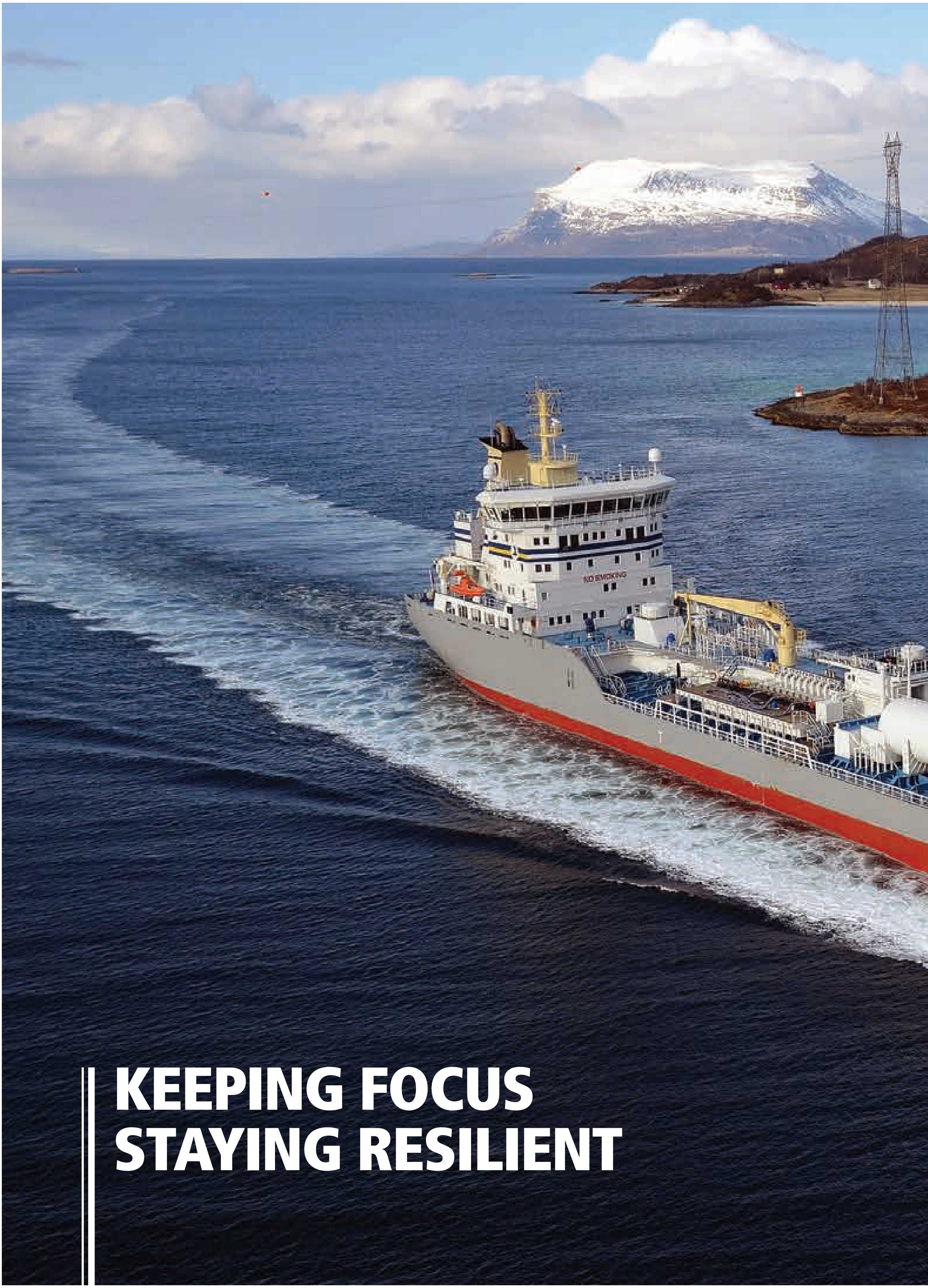
2019年，我们将继续通过技术输出和管理输出，提供外部供应链服务，提升公司商业价值，获取增值收益。我们要全力支持德他马林的发展，进一步做好协同工作，推动德他马林经济效益再上新台阶。在内部管理方面，加快产品转型升级，保障安全生产，强化资金管理与创新融资方式，以提高资金使用效率和降低融资成本。

2019年，我们将一如既往，致力于发展我们在造船管理服务和船舶设计方面的核心能力，不断探索新事物，新技术，新思想，迎接未来的新挑战。我们将秉承「超越商业，行业领先，打造新国企」的发展理念，向成为领先的船舶和离岸工程一体化解决方案综合服务提供商的目标不断迈进，力求获得良好的经营业绩，以回报股东。

致谢

我代表董事会，向管理团队和所有员工的在过去一年里的辛勤努力和奉献表示感谢。同时，感谢我们的合作伙伴和客户的坚定支持，期待未来能与您建立更紧密的合作关系。最后，感谢各位股东对我们的信任，我们将努力实现集团的持续增长，提升财务业绩，回报您的一贯支持。

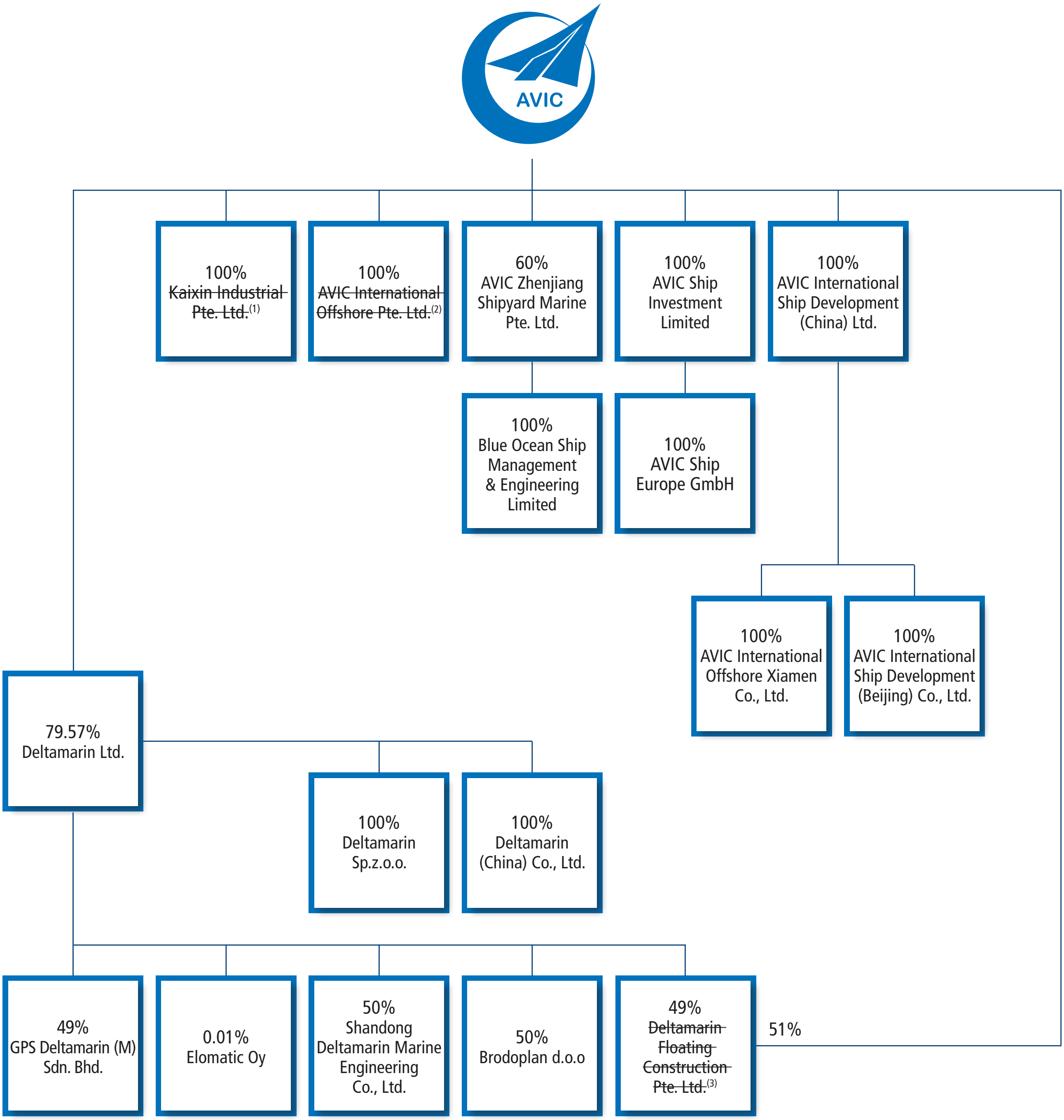
董事长　刁伟程博士



KEEPING FOCUS STAYING RESILIENT


LNG FUEL
TERN SEA

GROUP **STRUCTURE**



(1) The liquidation of Kaixin Industrial Pte. Ltd. has been completed on 13 February 2018. For further details, please refer to the Company's announcement dated 13 February 2018 released via SGXNet.

(2) The liquidation of AVIC International Offshore Pte. Ltd. has been completed on 25 August 2018. For further details, please refer to the Company's announcement dated 27 August 2018 released via SGXNet.

(3) The liquidation of Deltamarin Floating Construction Pte. Ltd. has been completed on 23 October 2018. Please refer to the Company's announcement dated 23 October 2018 released via SGXNet.

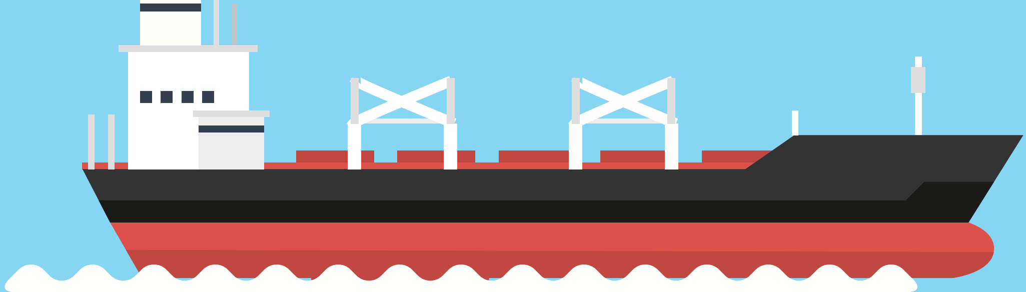
Notes:

~~XX~~ Liquidation has been completed in FY2018.

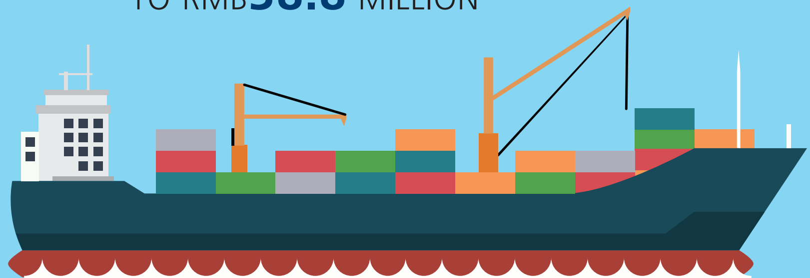
KEY HIGHLIGHTS **IN FY2018**

29% INCREASE IN GROSS PROFIT TO RMB**344.9** MILLION

GROSS PROFIT MARGIN INCREASED TO **59%** IN FY2018 COMPARED TO **41%** IN FY2017

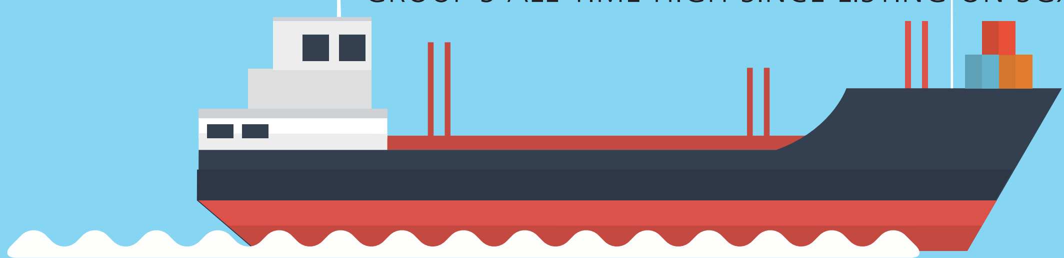


46% INCREASE IN NET PROFIT TO RMB**38.8** MILLION



HIGHEST GROSS PROFIT AND NET PROFIT SINCE FY2012

9.7% INCREASE IN TOTAL EQUITY TO RMB**252.7** MILLION, GROUP'S ALL-TIME HIGH SINCE LISTING ON SGX



OPERATIONAL & FINANCIAL **REVIEW**

FINANCIAL SUMMARY

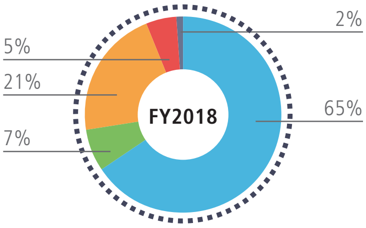
For the year (RMB'million)	FY2018	FY2017
Revenue	**587.7**	645.7
Profit before income tax	**59.9**	42.2
Profit for the period	**38.8**	26.5
At year end (RMB'million)		
Current assets	**2,878.7**	2,657.1
Non-current assets	**228.0**	238.6
Total assets	**3,106.7**	2,895.7
Current liabilities	**2,249.6**	2,254.2
Non-current liabilities	**604.5**	411.1
Total liabilities	**2,854.1**	2,665.3
Total equity	**252.7**	230.4
Cash at bank	**256.6**	160.6
Per Share Information (RMB cents)		
Basic Earnings Per Share[1]	**9.55**	9.39
Net Asset Value Per Share[1]	**62.20**	57.76
Key Ratios		
Current Ratio[2] (times)	**1.3**	1.2
Return on Shareholders' Equity[3] (%)	**15.4**	11.5
Return on Assets[4] (%)	**1.2**	0.9

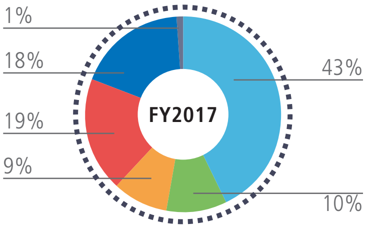
Notes:

1 Based on 285,576,000 weighted average number of ordinary shares
2 Defined as current assets/current liabilities
3 Defined as profit for the period/total equity
4 Defined as profit for the period/total assets

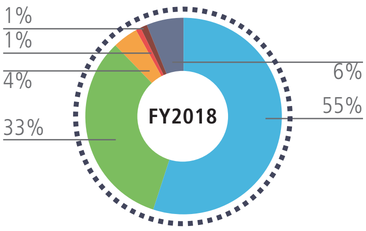
Revenue by type of services (RMB' million)	FY2018	FY2017
Ship-design service	**381.0**	274.8
Shipbuilding project management	**43.8**	64.3
Shipbuilding project financing	**124.8**	57.2
Shipbuilding construction service	**27.5**	120.3
Sale of vessels	**–**	119.1
Finance lease income	**5.5**	7.3
Other income	**5.1**	2.7
Total	**587.7**	645.7

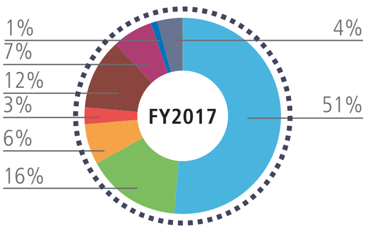
REVENUE BY TYPE OF SERVICES





REVENUE BREAKDOWN BY GEOGRAPHICAL SEGMENT





CONSOLIDATED STATEMENT OF PROFIT/(LOSS)

Group			
	FY2018	FY2017	Change
	(RMB'000)	(RMB'000)	(%)
Revenue	**587,660**	645,688	-9%
Cost of sales	**(242,792)**	(378,888)	-36%
Gross profit	**344,868**	266,800	29%
Other income	**14,943**	14,947	0%
Other gains/(losses) – net			
– Write back of impairment loss/ (impairment loss) on financial assets	**3,435**	(7,119)	N/M
– Others	**(3,691)**	15,530	N/M
Expenses			
– Distribution and marketing	**(38,248)**	(40,760)	-6%
– Administrative	**(159,024)**	(136,470)	17%
– Finance	**(100,669)**	(56,029)	80%
– Other	**(2,288)**	(16,337)	-86%
Share of results of associated company	**546**	1,638	-67%
Profit before income tax	**59,872**	42,200	42%
Income tax expense	**(21,061)**	(15,685)	34%
Profit for the year	**38,811**	26,515	46%

REVENUE

Group's revenue decreased by 9% to RMB587.7million in FY2018 compared to FY2017. This was mainly due to the decrease in revenues from shipbuilding construction service, shipbuilding project management service and sale of vessels, partially offset by increase in ship-design and shipbuilding project financing service income.

Revenue from the ship-design service, contributing 65% of the Group's total revenue (FY2017: 43%), increased by 39% year-on-year ("yoy") to RMB381.0 million. Revenue from the shipbuilding project financing business, contributing 21% of the Group's total revenue (FY2017: 9%), increased by 118% yoy to RMB124.8 million. Revenue from the shipbuilding construction service decreased by 77% yoy to RMB27.5 million.

COST OF SALES

Cost of sales decreased by 36% yoy to RMB136.1 million in FY2018, in line with the progress of completion of the shipbuilding contract and absence of vessel sales.

GROSS PROFIT AND GROSS PROFIT MARGIN

Gross profit increased by 29% yoy to RMB344.9 million, attributable mainly to the strong performance of the ship-design and shipbuilding project financing businesses. Gross profit margin increased to 59% in FY2018 compared to 41% in FY2017.

OTHER INCOME

Other income mainly consisted of interest income and government grants. Group registered other income of RMB14.9 million for FY2018, same level as for FY2017. In FY2018, the Group received government grants of RMB10.9 million as authorities encouraged technical innovation in shipbuilding. Interest income increased by 23% to RMB2.4 million as bank deposit rates increased in 2018.

OPERATIONAL & FINANCIAL **REVIEW**

NET PROFIT

The Group reported net profit of RMB38.8 million in FY2018, 46% higher compared to FY2017. Net profit attributable to shareholders increased by 2% yoy to RMB27.3 million. Earnings per share for FY2018 was RMB9.55 cents, compared to RMB9.39 cents in FY2017.

DISTRIBUTION AND MARKETING EXPENSES

Distribution and marketing expenses mainly consisted of the sales and marketing department's office rental, employee benefits expenses and travelling expenses. In FY2018, distribution and marketing expenses decreased 6% yoy to RMB2.5 million, mainly due to reclassification of R&D expenses to administrative expenses.

ADMINISTRATIVE EXPENSES

Administrative expenses comprised office rental and office expenses, depreciation expenses, amortisation expenses, professional fees incurred to maintain the Group's listing status, employee benefits and travelling expenses. In FY2018, administrative expenses increased by 17% to RMB159.0 million mainly due to reclassification of R&D staff expenses and increased investments in R&D. R&D headcount and related expenses had increased to support ship-design services.

FINANCE EXPENSES

Finance expenses increased by 80% yoy to RMB100.7 million in FY2018 due to increased borrowings used for project financing of vessel constructions as well as increase in loan interest rates.

OTHER EXPENSES

For FY2018, other expenses decreased from RMB16.3 million to RMB2.3 million due to impairment loss on vessels held on inventory.

INCOME TAX EXPENSE

The operating subsidiaries in China and Finland are subject to income tax rates of 25% and 20% respectively. For FY2018, income tax expenses increased from RMB15.7 million to RMB21.1 million, mainly due to the varied profit and loss performance of the Group's different business units.

FINANCIAL POSITION

As at 31 December 2018, the Group had total assets of RMB3.1 billion, total liabilities of RMB2.9 billion and total equity of RMB 252.7 million. Total equity increased by 9.7% compared to a year earlier. Key items on the balance sheet are explained as follows:

CASH AT BANK

As at 31 December 2018, the Group had cash at bank of RMB256.6 million, compared to RMB160.6 million as at 31 December 2017. This was mainly due to the increased receipt of payments from shipowners in accordance with the milestones achieved.

BALANCE SHEETS

	Group	
	31 December 2018	31 December 2017
	(RMB'000)	(RMB'000)
Current assets		
Cash at bank	**256,598**	160,579
Trade and other receivables	**2,442,059**	2,342,204
Finance lease receivables	**23,610**	14,411
Inventories	**156,477**	139,885
Non-current assets		
Finance lease receivables	**19,788**	34,136
Investment in associated companies	**5,943**	5,371
Property, plant and equipment	**8,968**	8,381
Intangible assets	**191,325**	188,966
Available-for-sale investments	**–**	12
Deferred tax assets	**2,014**	1,721
Total assets	**3,106,782**	2,895,666
Current liabilities		
Trade and other payables	**296,365**	315,951
Borrowings	**1,905,491**	1,918,705
Finance lease liabilities	**1,161**	953
Derivative financial instruments	**24,753**	–
Current income tax liabilities	**21,825**	18,538
Non-current liabilities		
Borrowings	**588,302**	395,033
Finance lease liabilities	**1,076**	553
Deferred tax liabilities	**15,108**	15,556
Total liabilities	**2,854,081**	2,665,289
Capital and reserves attributable to equity holders of the company		
Share capital	**101,237**	101,237
Other reserves	**19,563**	22,045
Retained profits	**56,822**	41,666
Non controling interests	**75,079**	65,429
Total equity	**252,701**	230,377

TRADE AND OTHER RECEIVABLES

Trade and other receivables increased by RMB99.9 million to RMB2,442.1 million as at 31 December 2018, mainly due to higher receivables arising from shipbuilding project financing provided to related party shipyards.

INVENTORIES

Group had inventories of RMB156.5 million as at 31 December 2018, an increase of RMB16.6 million compared to a year ago. This was due to the progress of completion of tug boats under construction, partially offset by the inventories impairment charge of RMB2.3 million made in FY2018.

BORROWINGS

Current portion of borrowings, which were repayable within 12 months as at 31 December 2018, was RMB1,905.5 million compared to RMB1,918.7 million as at 31 December 2017. The current portion of borrowings are used to finance working capital requirements. Long-term borrowings increased by RMB193.3 million to RMB588.3 million as at 31 December 2018 due to increased needs for project financing of vessel constructions.

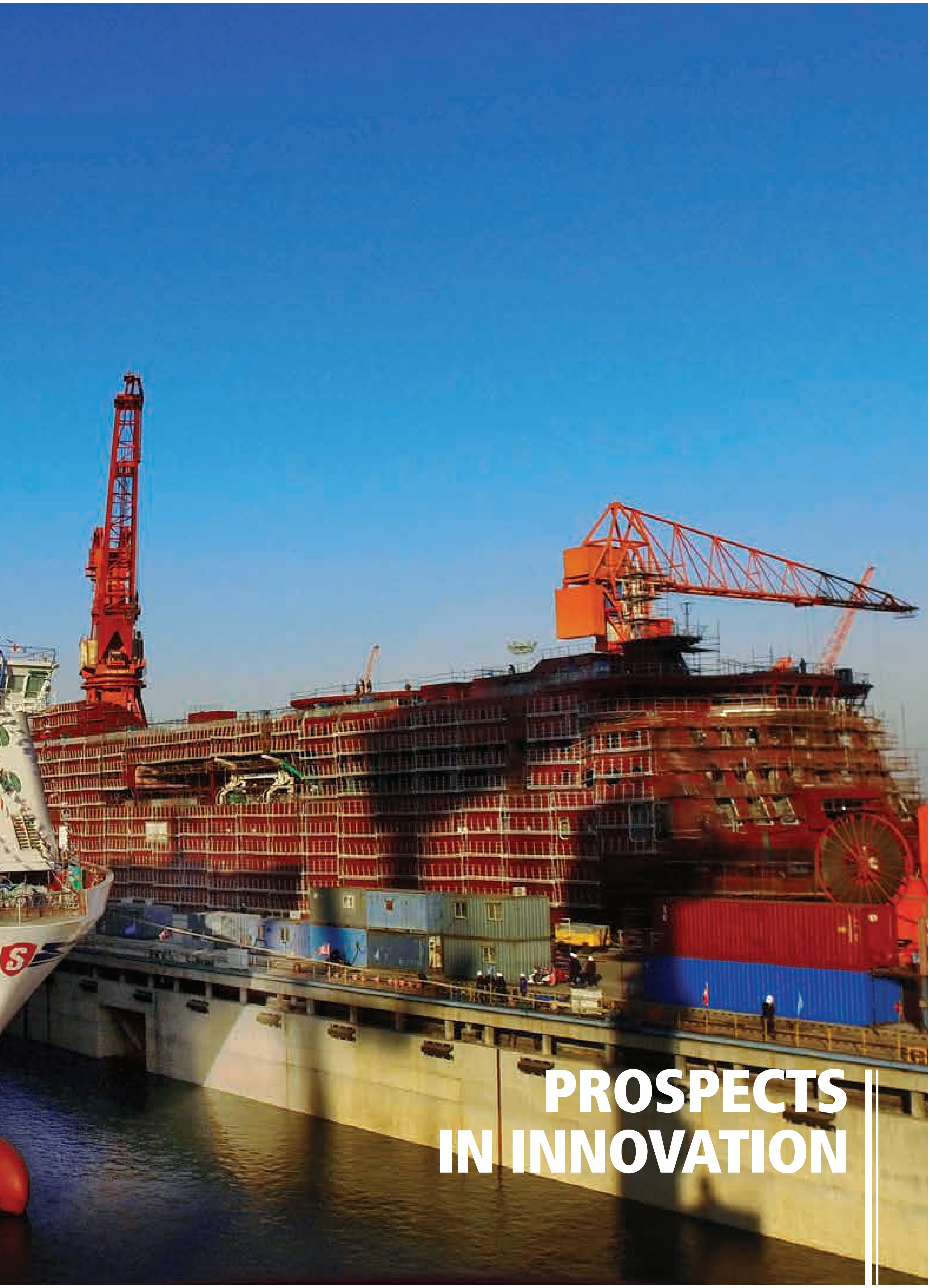
TRADE AND OTHER PAYABLES

Trade and other payables, primarily the amount payable for business, advance receipts from ship owners, accruals and interest payables, decreased from RM313.2 million as at 31 December 2017 to RMB296.4 million as at 31 December 2018. The decrease was mainly attributed to the release of advance receipts from ship owners and the decrease in the amount due to related parties, both arising from the shipbuilding management services business.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Group	
	FY2018 (RMB'000)	FY2017 (RMB'000)
Net cash generated from/ (used in) operating activities	**63,553**	(1,526,187)
Net used in investing activities	**(9,722)**	(2,602)
Net cash provided by financing activities	**66,081**	1,163,157
Net (decrease)/increase in cash and cash equivalents	**119,912**	(365,632)
Cash and cash equivalents ar end of the financial period	**243,331**	135,024


Stena Line
STENA ESTRID



PROSPECTS IN INNOVATION

BOARD OF **DIRECTORS**

DR DIAO WEICHENG (刁伟程)

DR DIAO WEICHENG (刁伟程) is our **EXECUTIVE CHAIRMAN**. He was first appointed to our Board on 11 November 2010 and was re-designated from Non-Executive Chairman to Executive Chairman on 2 April 2012. From 20 June 2012 to 17 January 2014, he was appointed as Interim Chief Executive Officer ("**CEO**") of the Company before a new CEO was appointed. Dr Diao was most recently re-elected to our Board as Executive Chairman on 26 April 2018. Dr Diao is a member of the Nominating Committee.

Since 1 March 2012, Dr Diao has been the Executive Vice President of AVIC International Holding Corporation ("**AVIC INT'L**"), where he assumes lead responsibility in the ship and logistics related business within AVIC INT'L. Dr Diao is presently a director of several entities within the AVIC Group.

Dr Diao was a director of Shennan Circuit Co., Ltd and Chairman of FIYTA Holdings Ltd. and Rainbow Department Store Co., Ltd, both of which are listed on the Shenzhen Stock Exchange, until March 2017. Dr Diao was the President of AVIC International Beijing Co., Ltd. ("**AVIC INT'L Beijing**") from March 2008 to January of 2014, and was responsible for the overall management of AVIC INT'L Beijing's business. Prior to joining AVIC INT'L Beijing, he was the Vice President of AVIC INT'L from August 2004 to February 2008 and was in charge of strategic planning, ship-trading and shipbuilding business.

From 2002 to 2004, Dr Diao was the Vice President-cum-Director of Shenzhen Pengji Group Limited ("**Shenzhen Pengji**"), a company involved in property development, management and other industrial investment activities. In Shenzhen Pengji, he was in charge of the overall management of the company's industrial investment and certain property business. From 1995 to 2002, he was the Vice President of Shenzhen Investment Limited, a company listed on the Hong Kong Stock Exchange and was involved in property development and investment, and in charge of the overall investment management of the company's business. From 1990 to 1995, Dr Diao was the director of the administration department of AVIC International Shenzhen Co., Ltd.. Prior to joining the AVIC Group, Dr Diao was a lecturer in business management and economics related courses in Beijing Administrative College from 1987 to 1990.

Dr Diao is a certified Senior Engineer accredited by the Shenzhen city government. He graduated from Sun Yat-sen University with a Bachelor of Science in 1985, and obtained a Master of Business Administration and PhD in Management Science and Engineering from Tongji University in 1996 and 2002 respectively. From 2005 to 2006, Dr Diao was engaged in postdoctoral research on strategic studies in politics at Peking University.

MR SUN YAN (孙燕)

MR SUN YAN (孙燕) is our **CEO AND EXECUTIVE DIRECTOR**. He was first appointed to our Board as a Non-Executive Director on 28 May 2013 and was most recently re-elected to our Board on 26 April 2017. He was re-designated as an Executive Director and appointed as the CEO of the Company on 17 January 2014. Since November 2012, Mr Sun has been appointed as the General Manager of AVIC International Ship Development (China). Ltd., a subsidiary of our Company.

Presently, Mr Sun sits on the board of companies such as AVIC International Shanghai Co., Ltd ("**AVIC INT'L Shanghai**"), AVIC International Ship Development (China). Ltd., Hong Kong AVIC International Shanghai Company Limited, AVIC Dingheng Shipbuilding Co., Ltd., AVIC Weihai Shipyard Co., Ltd. and Deltamarin Ltd.

Mr Sun was appointed as the President of AVIC INT'L Shanghai in November 2011 and was the Executive Vice President of the same company from April 2010 to November 2011. Prior to such role, he was the Vice President of AVIC International Beijing Co., Ltd ("**AVIC INT'L Beijing**") from January 2000 to April 2010. From 1997 to 2000, Mr Sun was an assistant to the president of AVIC INT'L Beijing. From 1996 to 1997, he worked as the Manager of the Import Department in AVIC INT'L Beijing. From 1993 to 1996, Mr Sun served as the Manager in the Enterprise Department in AVIC INT'L Beijing.

Mr Sun began his career in China National Aero-Technology Import & Export Corporation ("**CATIC**") as an Assistant Manager in 1985, and subsequently took on the role as Project Manager in CATIC's Western Europe Trade Centre from 1987 to 1990. He was a Manager in the Civilian Goods Department in CATIC from 1990 to 1993.

Mr Sun graduated from Beihang (formerly known as Beijing University of Aeronautics and Astronautics) University with a Bachelor's Degree in 1985. In 2008, he took up shipping-related courses in Galbraith, one of the world's longest established and respected shipbroking houses in the world. He also participated in managerial courses in Zhonghang University in 2009, 2011 and 2012. In 2000, Mr Sun was accredited as a Senior Engineer by the Aviation Industry Corporation of China, Ltd..

MR LI MEIJIN (李美进)

MR LI MEIJIN (李美进) is our **EXECUTIVE DIRECTOR** in charge of the Group's administrative and operational matters. Mr Li was first appointed to our Board on 31 March 2014 and was most recently re-elected to our Board on 26 April 2017.

Presently, Mr Li also sits on the board of AVIC Zhenjiang Shipyard Marine Pte. Ltd. and Deltamarin Ltd.

From 2004 to August 2013, Mr Li was the Deputy General Manager at AVIC International Xiamen Co., Ltd. ("**AVIC INT'L Xiamen**").

From 2001 to 2004, Mr Li first served as Deputy Manager, Manager, and thereafter as an assistant to the general manager of AVIC INT'L Xiamen.

Mr Li began his career in Xiamen South-East Aluminium Co., Ltd. where he has risen through the ranks, beginning as a technician in 1985 and left as a Factory Director in 2001.

Mr Li graduated from Northwestern Polytechnical University with a Bachelor of Engineering in 1985. In 2000, he was accredited as a Senior Engineer by the Aviation Industry Corporation of China, Ltd..

BOARD OF **DIRECTORS**

MR TENG CHEONG KWEE

MR TENG CHEONG KWEE was first appointed as the **LEAD INDEPENDENT DIRECTOR** to our Board on 18 April 2011 and was last re-elected to our Board as an Independent Director on 26 April 2017. Mr Teng chairs our Audit Committee and Nominating Committee and is also a member of the Remuneration Committee.

Mr Teng is also currently serving as an Independent Director of several listed companies, namely, AEI Corporation Ltd., Memtech International Ltd. and First Resources Limited. He is also a Director of the following unlisted companies: T3Z Advisory & Consultancy Pte. Ltd., Pheim Sicav-SIF, Pheim Asean All-Cap Equity Fund, CEL Impetus Corporate Finance Pte. Ltd. and Star Green Holding Pte. Ltd..

Mr Teng was previously the Executive Vice President and Head, Risk Management & Regulatory Division of the Singapore Exchange Ltd. from 1999 to 2000. Prior to that, he was the Executive Vice President at the Stock Exchange of Singapore from 1989 to 1999, and was responsible for listings, inspection and investigations. From 1982 to 1989, Mr Teng was appointed Secretary of the Securities Industry Council. From 1985 to 1989, he concurrently served as Assistant Director, and later Deputy Director, in the Banking and Financial Institutions Department of Monetary Authority of Singapore (MAS).

Mr Teng graduated from the University of Newcastle, New South Wales, Australia in 1977 in Bachelor of Engineering (Industrial) (First Class Honours) and in Bachelor of Commerce. He is a Fellow of the Singapore Institute of Directors.

PROFESSOR WANG PUQU (王浦劬)

PROFESSOR WANG PUQU (王浦劬) was appointed to our Board as an **INDEPENDENT DIRECTOR** on 28 May 2013 and was re-elected to the same position on 28 April 2016. He is a member of the Audit Committee and Remuneration Committee.

Professor Wang lectured at Peking University since 1988 and rose through its ranks to become one of its academic professors in 1995.

His research expertise includes the theory and methods of politics as well as government economics. Some of his published research papers include "The Foundation of Politics", "Research for Government Procurement of Public Services from Social Organisations", and "Through Democratic Governance to Achieve Social and Livelihood".

Professor Wang obtained a PhD in Law from Peking University in 1988. He also holds a Bachelor and a Master of Laws from the same university.

MS ALICE LAI KUEN KAN

MS ALICE LAI KUEN KAN was first appointed to our Board as an **INDEPENDENT DIRECTOR** on 18 April 2011, and was re-elected to the same position on 26 April 2018. Ms Kan also sits as the chair of our Remuneration Committee and is a member of both our Audit Committee and Nominating Committee.

Ms Kan is the controlling shareholder, the Responsible Officer and the Managing Director of Asia Investment Management Limited, a corporate advisory company, which is a corporation licensed by the Securities and Futures Commission of Hong Kong ("**SFC**"). She is also serving as an Independent Director of several listed companies on the Hong Kong Stock Exchange, namely, China Energine International (Holdings) Limited, Cosmopolitan International Holdings Limited, Regal Hotels International Holdings Limited, Shimao Property Holdings Limited and Mason Financial Holdings Limited.

Until 2016, Ms Kan was the controlling shareholder, the Responsible Officer and Managing Director of Asia Investment Research Limited, a research company, which is a corporation licensed by the SFC. From 2005 to 1 April 2015, Ms Kan was a Responsible Officer at Lotus Asset Management Limited, which is principally involved in investment management. From 1997 to 2002, Ms Kan was the Managing Director of Asia Financial Capital Limited, where she was involved in corporate finance related advisory and investment management business in Hong Kong and China. Between 1995 and 1997, she was an Executive Director at Creditanstalt Capital Limited and Assistant General Manager at Creditanstalt-Bankverein's Hong Kong office. Both of these companies were involved in merchant banking and corporate finance activities. From 1992 to 1995, Ms Kan was an Executive Director at ING Capital Markets (Hong Kong) Limited, and was principally involved in merchant banking and corporate finance activities.

She was an Associate Director at Sun Hung Kai International Limited, a company involved in corporate finance activities, from 1986 to 1992. Prior to this, she was the group accountant of a trading and investment holding company, G.S.Yuill & Company Pty. Ltd., from 1984 to 1986, and was in charge of the overall accounting and financial control and management of the company. Between 1981 and 1984, Ms Kan was the financial controller of Sun Hey Investment Company Limited, an investment holding company. She was the financial controller of Hip Yick Company Limited, a company which was involved in the manufacturing of garments, from 1980 to 1981 and the financial controller of the Gulfeast Group, which was principally involved in the shipping business, between 1979 and 1980. From 1977 to 1979, Ms Kan was the financial controller of a trading company, Mauri Brother and Thompsons Pty. Company Limited. Ms Kan was an assistant assessor at the Inland Revenue Department of the Hong Kong Government from 1975 to 1977.

Ms Kan is a fellow member of the Association of Certified Accountants, the Hong Kong Institute of Directors and the Australian Society of Certified Practising Accountants, and an associate member of the Hong Kong Society of Accountants. She is also a licensed responsible officer under the Securities and Futures Ordinance with the SFC.

KEY MANAGEMENT

MR LIAO HONGBING (廖红兵)
CHIEF FINANCIAL OFFICER

MR LIAO HONGBING (廖红兵) is our **CHIEF FINANCIAL OFFICER** and is responsible for overseeing the finance and accounting functions of the Group. He was appointed to the Company on 31 March 2014.

Mr Liao was appointed the Chief Accountant of AVIC International Ship Development (China). Ltd. since December 2013. He has also been appointed as the Vice President and Chief Accountant of AVIC International Shanghai Co., Ltd since April 2012.

Mr Liao has extensive background and experience in finance and accounting related matters. Mr Liao was the Interim General Manager of Beijing Kaitong Hengda Investment Management Co. Ltd from March 2011 to April 2012. From July 2011 to April 2012, Mr Liao was the Manager of the Enterprise Management Department of AVIC International Beijing Co., Ltd ("**AVIC INT'L Beijing**"). He was also concurrently appointed as an assistant to the general manager in AVIC INT'L Beijing from April 2009 to April 2012. Mr Liao was also the Chief Financial Officer of Taizhou CATIC Shipbuilding Heavy Industry Limited from January 2008 to March 2011.

Mr Liao started his career as an accountant at China National Aeroborne Equipment Corp. from July 1989 and later joined AVIC INT'L Beijing in March 1996 as an accountant. He joined TFT Tools Inc. as a Manager of the Finance Department in May 1997, where he was later promoted to be Vice President. He left TFT Tools Inc. in December 2003 when he was appointed as the Deputy Manager of the Finance Department in AVIC INT'L Beijing from December 2003, until his promotion to Manager in January 2006.

Mr Liao is a certified Senior Accountant accredited by the Aviation Industry Corporation of China, Ltd.. He graduated with a Professional Qualification in Accountancy from Zhengzhou Institute of Aeronautical Industry Management in 1989 and obtained an Executive Master in Business Administrative (EMBA) from Beihang University (formerly known as Beijing University of Aeronautics and Astronautics), People's Republic of China, in 2013.

CORPORATE AND **SOCIAL RESPONSIBILITY**

As a state-owned enterprise of the PRC, the Group is committed to its social responsibility. Over the last few years, the Group organized donation events from time to time to fund the AVIC International Holding Corporation Charity Foundation. The foundation was set up to support needy students in remote areas in the PRC, through establishment of schools, provision of learning facilities and financial aid.

In 2018, the Group continued to provide financial support to Xianghua Village in Shanghai. The funding effectively alleviated the financial constraints of the village and assisted the village in improvement of its infrastructure.

We encourage our employees to enroll in volunteer work, and give back to the community by serving local needs. The events we organize and participate in include cleaning the car parking spaces of the local community, free hair-cutting, free medical diagnosis and treatments, non-staple food exhibition and sales, anti-fraud education lectures, free legal and finance consulting and volunteering with the Shimen ErLu Yu De Lin Li Community in Shanghai.

ENVIRONMENTAL AWARENESS

The Group strives to apply its technological innovation in environmental protection in its efforts to create a sustainable society.

CORPORATE **INFORMATION**

BOARD OF DIRECTORS

DR DIAO WEICHENG (Executive Chairman)
SUN YAN (Executive Director and Chief Executive Officer)

LI MEIJIN (Executive Director)

TENG CHEONG KWEE (Lead Independent Director)

ALICE LAI KUEN KAN (Independent Director)

PROFESSOR WANG PUQU (Independent Director)

AUDIT COMMITTEE

TENG CHEONG KWEE (Chairperson)

ALICE LAI KUEN KAN

PROFESSOR WANG PUQU

NOMINATING COMMITTEE

TENG CHEONG KWEE (Chairperson)

DR DIAO WEICHENG

ALICE LAI KUEN KAN

REMUNERATION COMMITTEE

ALICE LAI KUEN KAN (Chairperson)

TENG CHEONG KWEE

PROFESSOR WANG PUQU

JOINT COMPANY SECRETARIES

YAP LIAN SENG, LL.B. (Hons)

DR QIU YANG (Chartered Secretary, ACS, ACIS)[(1)]

Note (1): Dr Qiu Yang was appointed with effect from 5 March 2019.

REGISTERED OFFICE

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Singapore 048544
Tel: (65) 6443 4920
Fax: (65) 6443 4921
Email: ir@avicship.com

PRINCIPAL PLACE OF BUSINESS

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Jingan District
Shanghai 200041
The People's Republic of China

AUDITORS

PricewaterhouseCoopers LLP
7 Straits View, Marina One, East Tower, Level 12,
Singapore 018936
(Partner-in-charge: Soh Kok Leong)
(Appointed since 5 February 2016)

SHARE REGISTRAR AND SHARE TRANSFER OFFICE

Boardroom Corporate & Advisory Services Pte. Ltd.
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623

PRINCIPAL BANKER

Bank of China, Singapore Branch
4 Battery Road
Bank of China Building
Singapore 049908

FINANCIAL **CONTENTS**

REPORT ON **CORPORATE GOVERNANCE**

AVIC International Maritime Holdings Limited (the "**Company**", and together with its subsidiaries, the "**Group**") is committed to maintaining a high standard of corporate governance and continues to strive towards a high standard of corporate governance and transparency. The Company believes that sound corporate governance provides an effective safeguard against fraud and financial manipulation, and helps to protect our stakeholders' interests and contribute to the long-term sustainability of the Company. This also helps the Company create long-term value and returns for our shareholders.

Corporate Governance Report (the "Report")

The Company is guided in its corporate governance practices by the applicable laws, rules and regulations, the Listing Manual Section B: Rules of Catalist issued by the Singapore Exchange Securities Trading Limited ("**SGX-ST**") (the "**Catalist Rules**") and the principles and guidelines of the Code of Corporate Governance 2012 (the "**2012 Code**"). On 6 August 2018, the Monetary Authority of Singapore ("**MAS**") issued a further revised Code of Corporate Governance 2018 ("**2018 Code**") and accompanying practice guidance ("**Practice Guidance**"). The 2018 Code supersedes and replaces the 2012 Code, and applies to annual reports of listed entities relating to financial years commencing from 1 January 2019. For the avoidance of doubt, this Report shall reference the principles laid down in the 2012 Code. The board of directors of the Company ("**Board**") is pleased to report on the Company's corporate governance processes and activities as required by the 2012 Code and the relevant sections of the Catalist Rules.

For the financial year ended 31 December 2018 ("**FY2018**"), the Group has complied in all material respects with the principles laid down by the 2012 Code, and where there is any material deviation, appropriate explanation has been provided within this Report. For easy reference, sections of the 2012 Code under discussion in this Report are specifically identified.

Shareholders are reminded that this Report should be read as a whole as other sections of this Report may also have an impact on the specific disclosures in any one section.

1. THE BOARD'S CONDUCT OF AFFAIRS

Principle 1: **Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the company. The Board works with the Management to achieve this objective and the Management remains accountable to the Board.**

The Board

The Board comprises the following members:

Dr Diao Weicheng	Executive Chairman
Sun Yan	Executive Director and Chief Executive Officer ("**CEO**")
Li Meijin	Executive Director
Teng Cheong Kwee	Lead Independent Director
Alice Lai Kuen Kan	Independent Director
Professor Wang Puqu	Independent Director

Collectively, the Directors possess the core competencies and diversity of experience, which enable the Board to function effectively. The Board oversees the business performance and affairs of the Company and carries out the function by assuming responsibility for effective stewardship and corporate governance of the Company and the Group.

Besides carrying out its statutory responsibilities, the principal functions of the Board are as follows:

(a) overseeing and approving the Group's overall long-term strategic objectives and directions;

(b) overseeing and reviewing the management of the Group's business affairs, performance and resource allocation;

(c) overseeing the processes of evaluating the adequacy of internal controls, risk management, financial reporting and compliance;

(d) identifying the key stakeholder groups and reviewing the effect of their perception on the company's reputation;

(e) considering sustainability issues as part of its strategic formulation; and

(f) assuming responsibility for corporate governance.

Directors' Training and Development

To ensure that the Board is able to carry out its functions effectively, prior to all Directors' respective appointments to the Board, the Directors have been briefed by the Company's legal adviser on their obligations as directors under the relevant Singapore laws and regulations and the Catalist Rules. All newly appointed directors also undergo an orientation programme to familiarise them with the Group's businesses strategies, operations and corporate governance practices. Directors have the opportunity to visit the Group's operational facilities and meet with the Group's management (the "**Management**") to gain a better understanding of the Group's business operations.

A formal letter is sent to newly-appointed directors upon their appointment setting out, among other matters, their roles, obligations, duties and responsibilities as members of the Board.

In the course of serving their terms as members of the Board, the Directors are provided with updates on changes in the relevant laws and regulations. In addition, the Directors are also kept informed of changing commercial risks faced by the Group through briefings at Board meetings, as well as articles and industry reports circulated by the Management to the Board. The Company has set aside a budget for all Directors to regularly attend appropriate courses, conferences and seminars to keep abreast of developments. These include programmes run by the Singapore Institute of Directors and other training institutions. From time to time, the Company also organises training sessions for its Directors and Management. Previous trainings conducted by the Company covered areas such as the roles and responsibilities of directors, continuing listing and disclosure obligations, insider trading and other offences, investor and media relations, corporate governance and financial reporting, risk management and internal control matters and also an introductory course on understanding financial statements.

Directors' Access to Information and Decision-making

Non-Executive Directors and Independent Directors are routinely kept apprised of ongoing business developments and operations by the Executive Directors and the Management at meetings of the Board or via email and other communications.

Our Directors actively discuss, deliberate and appraise matters requiring their attention during regular meetings held in the financial year. If required, time is set aside before or after scheduled Board meetings for discussion amongst the Directors without the presence of the Management. Non-Executive Directors and Independent Directors, either individually or as a group, have full access to the Executive Directors, the Management and the Company Secretary.

REPORT ON **CORPORATE GOVERNANCE**

While the Management is responsible for the day-to-day operation and administration of the Group, the approval of the Board is required for matters such as corporate restructuring, mergers and acquisitions, major investments and divestments, material acquisitions and disposals of assets, major funding proposals, annual financial budgets, major corporate policies on key areas of operations, the release of the Group's quarterly, half and full year results and interested person transactions of a material nature.

Delegation of Authority

To assist in the execution of its responsibilities, our Board has established four Board Committees:

- the Audit Committee ("**AC**");
- the Nominating Committee ("**NC**");
- the Remuneration Committee ("**RC**"); and
- the Executive Committee ("**EC**").

The Board delegates specific areas of responsibilities to such Board Committees. These Board Committees function within clearly defined written terms of reference and operating procedures, which are reviewed on a regular basis to ensure their continued relevance. The Board Committees assist the Board in carrying out its stewardship and fiduciary responsibilities.

To facilitate operational efficiency, the Group has also adopted a set of Approving Limits of Authority which sets out the delegated authorisations and approval limits applicable to each level of the Group and Management for specified transactions and corporate activities, as well as transactions that require Board approval. The Approving Limits of Authority is reviewed regularly by the Board with input from the Group's internal auditors and the Management.

Meetings of the Board and Attendance

The constitution of the Company (the "**Constitution**") provides for meetings of the Board to be held by way of physical meetings, telephone conferencing or video conferencing. The Board and Board Committees may also make decisions through circulating resolutions in writing. Board and Board Committee meetings are held regularly, with Board meetings being held not less than four (4) times a year.

At those meetings, the Board reviewed, *inter alia*, the Group's financial performance, corporate strategy, significant operational matters and business plans. At each Board meeting, the Chairman of the Board will also receive regular updates from the chairman of the respective Board Committees. In addition, the Board regularly receives reports from the Management on the financial and operational performance of the Group, and where applicable, updates on developments in the industry, and details on the Group's compliance with, various corporate governance and other regulatory requirements. Where any member of the Board is unable to attend a meeting in person, he or she can participate by way of telephone-conference or video-conference. From time to time, the Board and the various Board Committees would, when required, approve various matters conducted in the ordinary course of business through written resolutions which are circulated to the Directors.

The attendance of the Directors at the Board and Board Committee meetings held during FY2018 are set out as follows:

		Board Committees		
	Board	**Audit**	**Nominating**	**Remuneration**
Total number of meetings held in FY2018	4	4	1	1
		Number of meetings attended		
Dr Diao Weicheng	3/4	N/A	1/1	1[(1)]/1
Sun Yan	3/4	N/A	N/A	N/A
Li Meijin	4/4	3[(1)]/4	N/A	N/A
Zhong Sijun[(2)]	0/1	N/A	N/A	N/A
Teng Cheong Kwee	4/4	4/4	1/1	1/1
Alice Lai Kuen Kan	4/4	4/4	1/1	1/1
Professor Wang Puqu	3/4	2/4	1[(1)]/1	1/1

N.A.: Not applicable

(1) Attended the meetings as an invitee.

(2) Mr Zhong Sijun resigned from his office as a Non-Executive Director with effect from 9 March 2018.

The Executive Committee

The EC comprises the following Executive Directors:

Dr Diao Weicheng	Chairman
Sun Yan	Member
Li Meijin	Member

The EC is formed for the purposes of supervising the management of the Group's operations, as well as facilitating and streamlining the Group's decision making process. This Committee is delegated with the authority and responsibility for the operational management of the Group, within the Approving Limits of Authority delegated by the Board.

REPORT ON **CORPORATE GOVERNANCE**

The principal responsibilities of the EC are as follows:

(a) making key decisions on the operational management and supervision of the management of the Group's operation;

(b) managing acquisition, disposal and transfer of fixed assets within limits authorised by the Board;

(c) approving operational expenditure within authorised limits;

(d) entering into sale and purchase contracts in relation to shipbuilding and ship-trading within authorised limits;

(e) managing procurement in relation to shipbuilding contract expenditure within authorised limits;

(f) entering into operational contracts within authorised limits;

(g) obtaining borrowings and credit facilities within authorised limits;

(h) writing-off trade and non-trade receivables within authorised limits;

(i) granting credit limits to trade debtors within authorised limits; and

(j) reviewing the performance of the Company and the Group, deliberating on corporate strategies, group business and principal risks, addressing important operational and financial issues and making recommendations to the Board for approval.

The execution of any of the above transactions needs to be approved by the Chairman of the EC and any one other member of the EC.

Any decisions or transactions that exceed the above scope would require separate Board approval. The Approving Limits of Authority contains a schedule of matters specifically reserved for the Board's approval. In addition to matters such as annual budgets, financial plans and business strategies, the Board's approval is required for material transactions such as major acquisitions and disposals, funding and investment proposals.

2. BOARD COMPOSITION AND GUIDANCE

Principle 2: **There should be a strong and independent element on the Board, which is able to exercise objective judgment on corporate affairs independently, in particular, from Management and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.**

The Board comprises six (6) Directors, of whom three (3) of the Directors are independent. The Independent Directors are Mr Teng Cheong Kwee, Ms Alice Lai Kuen Kan and Professor Wang Puqu. Mr Teng Cheong Kwee currently serves as the chairman of the AC and NC, while Ms Alice Lai Kuen Kan serves as the chairperson of the RC.

The criterion of independence is based on the definition set out in the 2012 Code. The Board considers an "Independent Director" as one who has no relationship with the Company, its related companies, its 10% shareholders or its officers who could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent judgment in the conduct of the Group's affairs. The Board believes there is a strong element of independence in the Board, with half of the Board's composition comprising Independent Directors, and that no individual or small group of individuals dominates the Board's decision-making. The Board exercises independent judgment on corporate affairs and provides the Management with a diverse, professional and objective perspective on issues. The independence of each Director is reviewed annually by the NC. Each Independent Director is required to complete a Confirmation of Independence annually to confirm his independence based on the guidelines as set out in the 2012 Code. The NC reviewed the independence of the Independent Directors, and is of the view (with each member abstaining from the review in respect of his own independence), that the Independent Directors are independent, and that they have continued to demonstrate independence in judgement in the discharge of their responsibilities as Directors of Company. The Board concurred with the view of the NC.

Guideline 2.2 of the 2012 Code requires Independent Directors to make up at least half of the Board in the situation where the Chairman of the Board is part of the Management team, and to effect the necessary change in Board composition at the annual general meetings following the end of financial years commencing on or after 1 May 2016. With three (3) Independent Directors on the Board, the Company has accordingly complied with the requirement of Independent Directors making up at least half of the Board. The Company's three (3) Independent Directors continue to help to uphold good corporate governance and their presence facilitates the exercise of independent and objective judgment on the Board.

The Board comprises persons who possess core competencies and experience in accounting and finance, business and management experience, and strategic planning, as well as industry knowledge. The composition of the Board is reviewed on an annual basis by the NC to ensure that the Board has the appropriate mix of skills, experience and expertise, and collectively possesses the necessary core competencies for effective functioning and informed decision-making. In recognition of the importance and value of gender diversity, the Board has one female Director and the NC continually reviews the composition of the Board to encourage diversity. In deciding the composition of the Board Committees, the Board ensures that each Board Committee comprises members that have the relevant skills, experience and backgrounds necessary for the relevant Board Committee to functions effectively. None of our Independent Directors has served on the Board beyond nine years from the date of his or her appointment.

The NC and the Board annually review and assess the structure, size and composition of the Board. Both the NC and the Board are of the view that the Board's current size and composition allow for effective decision making, taking into account the scope and nature of the operations of the Group.

The Independent Directors actively participate in the Board Committees. They communicate regularly to discuss matters such as the Group's financial performance, industry conditions and outlook, corporate governance initiatives, and board processes. When necessary, the Independent Directors conduct informal meeting sessions or engage in discussions via electronic communication without the presence of the Management.

REPORT ON **CORPORATE GOVERNANCE**

3. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Principle 3: There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company's business. No one individual should represent a considerable concentration of power.

The responsibilities of the CEO and the Chairman of the Board are clearly separated and delineated to ensure an appropriate balance and separation of power. Dr Diao Weicheng is the Executive Chairman of the Company, while Mr Sun Yan is the CEO and Executive Director of the Company.

As the Executive Chairman, Dr Diao leads the Board in the performance of its functions and steers the discussions and facilitate the decision-making of the Board on strategic, business and other key issues relating to the business and the operations of the Group. The Chairman encourages active engagement and participation of all Directors in the meetings and discussion and facilitates constructive relationship between the Board and the Management.

Dr Diao maintains close consultation with all Board members, and ensures that each member of the Board and the Management work well together with integrity and competency. By his leadership, he sets the tone of Board discussions to promote open and frank debate and effective decision making. Dr Diao also assumes a leading role in ensuring the Company's drive to achieve and maintain a high standard of corporate governance practices. Dr Diao is responsible for ensuring that Board meetings are held as and when necessary and matters that require the attention of the Board are included in the agendas, and further ensures that adequate information and time are provided to the Board members to facilitate discussion and decision-making. To promote a culture of openness and discussion at the Board, he ensures that adequate time is available at Board meetings for discussion of all agenda items, in particular, strategic issues and facilitates participation by the Independent Directors. He is assisted by the Company Secretary at all Board Meetings. Dr Diao also ensures that there is effective communication between the Company and its shareholders.

As the CEO of the Company, Mr Sun Yan is in charge of the overall operations and management of the Group, as well as implementing the strategic policies, directions or decisions made by the Chairman and/or the Board of the Company. The CEO and the Management are accountable to the Board for the conduct and performance of the operations of the Group.

As the Chairman, Dr Diao, is not an independent director, Mr Teng Cheong Kwee is appointed as the Lead Independent Director to enhance the independence of the Board. As Lead Independent Director, Mr Teng Cheong Kwee serves as the leader of the Independent Directors in raising queries and takes up matters where circumstances required. Periodically, Mr Teng Cheong Kwee will convene meetings of the Independent Directors or arrange for discussions among them via electronic means, without the presence of the Executive Directors and the Management, and will provide feedback to the Executive Chairman after such meetings. Mr Teng is also available to our shareholders who have concerns when contact through the normal channels of our Executive Chairman, CEO or Chief Financial Officer ("**CFO**") has failed to resolve such concerns or when circumstances are such that it would be more appropriate to contact him directly.

4. BOARD MEMBERSHIP

Principle 4: There should be a formal and transparent process for the appointment and re-appointment of directors to the Board.

The NC is responsible for making recommendations on all board appointments and re-nominations of Directors seeking re-election. The appointment and re-appointment of the Directors is then approved by the Board.

The NC comprises the following members:

Mr Teng Cheong Kwee	Chairman
Dr Diao Weicheng	Member
Ms Alice Lai Kuen Kan	Member

Except for Dr Diao Weicheng, all the members of the NC, including the chairman of the NC, are independent and non-executive.

The NC is guided by the written terms of references, which set out the duties and responsibilities of the NC, and are approved by the Board. The principal responsibilities of the NC include, *inter alia*, the following:

(a) conducting an annual review of the size, composition and core competencies of and skills required by the Board and the Board Committees;

(b) making recommendations to the Board on the appointment of new Executive and Non-Executive Directors, including making recommendations on the composition of the Board generally and the balance between Executive and Non-Executive Directors appointed to the Board;

(c) reviewing, assessing and recommending nominee(s) or candidate(s) for appointment or election to the Board, having regard to his/her qualifications, competency and whether or not he/she is independent and in the case of a re-nomination, to his/her contribution and performance (e.g. attendance, preparedness, participation and candour);

(d) determining, on an annual basis and as and when circumstances require, if a Director is independent;

(e) reviewing and approving any new employment of related persons and the proposed terms of their employment;

(f) reviewing the Board succession plans for directors, in particular, the Chairman and CEO;

(g) assessing the effectiveness of the Board as a whole and the contribution of each individual Director to the effectiveness of the Board, and to decide how the Board's performance may be evaluated and propose objective performance criteria;

(h) deciding 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 and other principal commitments; and

(i) reviewing training and professional development programs for the Board on an annual basis.

REPORT ON **CORPORATE GOVERNANCE**

When the need to appoint a new Director arises, either to replace a retiring Director or to enhance the Board's strength, the NC, in consultation with the Board and the Management, evaluates and determines the selection criteria and any potential candidate, whether proposed by the Management or the Directors or identified through the NC's network of contacts or sourced through external professional search firms. The NC will meet or conduct telephone interviews with the proposed candidates to assess suitability and ensure that the candidates are suitable before nominating them to the Board for approval and appointment as Directors.

There are no alternate directors appointed to the Board.

New Directors are only appointed on Board after the NC has reviewed and considered the skills, qualifications and experience of the nominated Director. The NC further considers factors such as the ability of the prospective candidate to contribute to the discussions of the Board and the Board Committees, taking into consideration the composition of the Board and the mix of expertise, skills and attributes of existing Directors. Where it is necessary for the NC to source a candidate for appointment as a Director, the NC would ascertain the skills, knowledge and competencies required, and seek potential candidates either through the Board members' network of contacts or, if necessary, engage external help. Following review, the NC will identify a shortlist, and meet with the shortlisted candidates for an interview before making recommendation to the Board for consideration and approval. Further, the NC, in considering the re-appointment of a Director, evaluates such Director's contribution and performance, such as his attendance at meetings.

During FY2018, no new Director was appointed to the Board.

Pursuant to its duties and responsibilities, the NC has conducted its annual review of the Independent Directors' independence and is of the view that Mr Teng Cheong Kwee, Ms Alice Lai Kuen Kan and Professor Wang Puqu are "independent" in accordance with the 2012 Code. Each Independent Director did not participate in the NC's deliberation on his own independence.

Pursuant to Article 91 of the Company's Constitution, one-third of the Directors for the time being are required to retire from office by rotation, such that all Directors shall retire from office once at least every three years. The Directors to retire in a year shall be those subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between those persons who became or were last re-elected as Directors on the same day, those retiring shall (unless they otherwise agree among themselves) be determined by lot.

Accordingly, at this upcoming annual general meeting ("**AGM**"), the NC has recommended and the Board has approved that:

- Mr Li Meijin and Professor Wang Puqu, being amongst the longest serving directors since their last re-election, shall retire and stand for re-election.

For more information, please refer to the section on the "Notice of the Annual General Meeting" in this Annual Report.

Particulars of the Directors

None of the Directors holds any shares in the Company and its related corporations. The directorships and chairmanships held by the Directors, both present (as at 31 December 2018) and held over the preceding 3 years (from 31 December 2015 to 31 December 2018), as well as other major appointments are as follows:

Name	Directorships	Major Appointments (other than Directorships)
Dr Diao Weicheng	*Present* Listed companies Nil Others • AVIC International Ship Development (Beijing) Co., Ltd. • AVIC Weihai Shipyard Co., Ltd. • AVIC Weihai Import and Export Co., Ltd. • AVIC International Shanghai Company Limited • Schneider Shanghai Low Voltage Terminal Apparatus Co., Ltd. • AVIC International Steel Trade Co., Ltd. • AVIC International Coal Logistics Co., Ltd.	*Present* • AVIC International Holding Corporation (Executive Vice President)
	In the Past 3 Years Listed Companies • FIYTA Holdings Ltd. • Rainbow Department Store Co., Ltd. Others • AVIC International Marine Engineering (Lux), S.àr.l[i] • Shennan Circuit Co., Ltd. • AVIC International Ship Development Pte. Ltd.[ii] • AVIC International Ship Engineering Pte. Ltd.[iii] • AVIC International Marine Engineering Pte. Ltd.[iv] • Kaixin Industrial Pte. Ltd.[v] • Deltamarin Ltd	

REPORT ON **CORPORATE GOVERNANCE**

Name	Directorships	Major Appointments (other than Directorships)
	Note: *(i) As announced on 6 January 2017, AVIC International Marine Engineering (Lux), S.àr.l was dissolved on 3 January 2017 pursuant to the proposed intragroup restructuring exercise in relation to the Deltamarin Group announced by the Company on 20 October 2016 ("**Deltamarin Group Restructuring Exercise**").* *(ii) As announced on 3 July 2017, the members' voluntary liquidation of AVIC International Ship Development Pte. Ltd. was completed on 3 July 2017 pursuant to the proposed intragroup restructuring exercise announced by the Company on 12 August 2016 ("**Intragroup Restructuring Exercise**").* *(iii) As announced on 8 September 2017, the members' voluntary liquidation of AVIC International Ship Engineering Pte. Ltd. was completed on 7 September 2017 pursuant to the Deltamarin Group Restructuring Exercise.* *(iv) As announced on 27 September 2017, the members' voluntary liquidation of AVIC International Marine Engineering Pte. Ltd. was completed on 27 September 2017 pursuant to the Deltamarin Group Restructuring Exercise.* *(v) As announced on 13 February 2018, the members' voluntary liquidation of Kaixin Industrial Pte. Ltd. was completed on 13 February 2018 pursuant to the Intragroup Restructuring Exercise.*	

Name	Directorships	Major Appointments (other than Directorships)
Mr Sun Yan	*Present* Listed companies Nil Others • AVIC Weihai Shipyard Co., Ltd. • AVIC International Offshore Xiamen Co., Ltd. • AVIC International Ship Development (Beijing) Co. Ltd. • AVIC International Ship Development (China). Ltd. • AVIC Dingheng Shipbuilding Co. Ltd. • Deltamarin Ltd • China National Aero-Technology Corporation Shanghai Limited Liability Company • Hong Kong AVIC International Shanghai Company Limited • AVIC International Shanghai Co., Ltd • JETSKY Shipping Development Limited • EARLY SUN Shipping Development Limited	*Present* • AVIC International Maritime Holdings Limited (CEO)
	In the Past 3 Years Listed Companies Nil Others • AVIC International Ship Development (Guangzhou) Co., Ltd.[i] • AVIC International Marine Engineering Pte. Ltd.[ii] • ARTIS Shipping Development Limited • ARROW Shipping Development Limited • ANVIC Shipping Development Limited • Porkgo Investment Limited • Polytek Investment Limited • Polyvision Investment Limited • Huayu Enterprises Limited • Henkin Investment Limited • AVIC International Offshore Pte. Ltd[iii]	

REPORT ON **CORPORATE GOVERNANCE**

Name	Directorships	Major Appointments (other than Directorships)
	Note: *(i) As announced on 9 November 2016, AVIC International Ship Development (Guangzhou) Co., Ltd. was deregistered as it has become inactive since 2014.* *(ii) As announced on 27 September 2017, the members' voluntary liquidation of AVIC International Marine Engineering Pte. Ltd. was completed on 27 September 2017 pursuant to the Deltamarin Group Restructuring Exercise.* *(iii) As announced on 27 August 2018, the members' voluntary liquidation of AVIC International Offshore Pte. Ltd. was completed on 25 August 2018.*	
Mr Li Meijin	*Present* Listed companies Nil Others • Deltamarin Ltd • AVIC Zhenjiang Shipyard Marine Pte. Ltd. • AVIC International Offshore Xiamen Co., Ltd. • Blue Ocean Ship Management & Engineering Limited	*Present* • AVIC International Ship Development (China). Ltd. (Vice President) • AVIC International Offshore Xiamen Co., Ltd. (General Manager)
	In the Past 3 Years Listed Companies Nil Others • AVIC International Marine Engineering (Lux), S.àr.l(i) • AVIC Tidestar Fast Offshore Pte. Ltd.(ii) • AVIC International Ship Development Pte. Ltd.(iii) • AVIC International Ship Engineering Pte. Ltd.(iv) • AVIC International Marine Engineering Pte. Ltd.(v) • Kaixin Industrial Pte. Ltd.(vi) • AVIC International Offshore Pte. Ltd.(vii) • Deltamarin Floating Construction Pte. Ltd.(viii)	

Name	Directorships	Major Appointments (other than Directorships)
	Note: *(i) As announced on 6 January 2017, AVIC International Marine Engineering (Lux), S.àr.l was dissolved on 3 January 2017 pursuant to the Deltamarin Group Restructuring Exercise.* *(ii) As announced on 3 April 2017, the members' voluntary liquidation of AVIC Tidestar Fast Offshore Pte. Ltd. was completed on 30 March 2017 pursuant to the Intragroup Restructuring Exercise.* *(iii) As announced on 3 July 2017, the members' voluntary liquidation of AVIC International Ship Development Pte. Ltd. was completed on 3 July 2017 pursuant to the Intragroup Restructuring Exercise.* *(iv) As announced on 8 September 2017, the members' voluntary liquidation of AVIC International Ship Engineering Pte. Ltd. was completed on 7 September 2017 pursuant to the Deltamarin Group Restructuring Exercise.* *(v) As announced on 27 September 2017, the members' voluntary liquidation of AVIC International Marine Engineering Pte. Ltd. was completed on 27 September 2017 pursuant to the Deltamarin Group Restructuring Exercise.* *(vi) As announced on 13 February 2018, the members' voluntary liquidation of Kaixin Industrial Pte. Ltd. was completed on 13 February 2018 pursuant to the Intragroup Restructuring Exercise.* *(vii) As announced on 27 August 2018, the members' voluntary liquidation of AVIC International Offshore Pte. Ltd. was completed on 25 August 2018.* *(viii) As announced on 23 October 2018, the members' voluntary liquidation of Deltamarin Floating Construction Pte. Ltd. was completed on 23 October 2018.*	

REPORT ON **CORPORATE GOVERNANCE**

Name	Directorships	Major Appointments (other than Directorships)
Mr Teng Cheong Kwee	*Present* Listed companies • Memtech International Ltd. • First Resources Limited • AEI Corporation Ltd. Others • Pheim Sicav-SIF • T3Z Advisory & Consultancy Pte. Ltd. • Pheim Asean All-Cap Equity Fund • CEL Impetus Corporate Finance Pte. Ltd. • Star Green Holding Pte. Ltd.	*Present* Nil
	In the Past 3 Years Listed Companies • Techcomp (Holdings) Limited Others • Junma Tyre Cord Company Ltd • Pheim Asset Management (Asia) Pte Ltd. • Kaixin Industrial Pte. Ltd.(i) *Note:* (i) *As announced on 13 February 2018, the members' voluntary liquidation of Kaixin Industrial Pte. Ltd. was completed on 13 February 2018 pursuant to the Intragroup Restructuring Exercise.*	
Professor Wang Puqu	*Present* Nil	*Present* • Peking University (Professor, School of Government)
	In the Past 3 Years Nil	

Name	Directorships	Major Appointments (other than Directorships)
Ms Alice Lai Kuen Kan	*Present* Listed companies • China Energine International (Holdings) Limited • Cosmopolitan International Holdings Limited • Regal Hotels International Holdings Limited • Shimao Property Holdings Limited • Mason Financial Holdings Limited Others • Asia Investment Management Limited • Asia Investment Corporate Management Limited • Asia Investment Group International Holdings Limited • Gladstone Investments Limited • Van Hoff Limited	*Present* Nil
	In the Past 3 Years Listed Companies • Shougang Concord International Enterprises Company Limited Others • Asia Investment Research Limited	

The 2012 Code recommends that the Board should determine the maximum number of listed company board representations which any Director may hold and that this should be disclosed in the Company's annual report. The NC notes that some of the Directors also serve on the boards of a number of other listed companies. The NC and the Board have not made a determination of the maximum number of board representations a Director may hold because the Board believes that each Director has to personally determine the demands of his or her competing directorships and obligations and assess how much time is available to serve on the Board effectively. The Board and the NC are of the opinion that in determining whether a Director is able to devote sufficient time to discharge his duties, the assessment should not be restricted to the number of board representations of each Director and their other principal commitments. Instead, the suitability of a Director should be assessed holistically, taking into account the level of Directors' participation in the Company, including his contributions at and outside meetings of the Board and relevant Board Committee and his attendance at such meetings. Taking into account the above, both the Board and NC are satisfied that, despite multiple board representations in certain instances, each Director has devoted sufficient time and attention to the affairs of the Company and has adequately fulfilled their duties as Directors of the Company.

REPORT ON **CORPORATE GOVERNANCE**

5. BOARD PERFORMANCE

Principle 5: There should be a formal annual assessment of the effectiveness of the Board as a whole and its board committees and the contribution by each director to the effectiveness of the Board.

The NC is responsible for recommending to the Board a framework for evaluating the performance of the Board as a whole, its Board Committees, and of each individual Director. Each member of our NC shall abstain from voting on any resolutions in respect of the assessment of his performance or re-nomination.

The NC has adopted a framework, which is reviewed from time to time, for assessing the performance and effectiveness of the Board. The performance criteria for the board measures factors such as the size and composition of the Board, the Board's access to information, accountability, board processes, Board performance in relation to discharging its principal responsibilities, communication with the Management and standard of conduct of the Directors. The NC has also incorporated a performance review framework assessing the effectiveness of each of the Board Committees, as well as each individual Director.

An annual evaluation by the NC of the Board and its Board Committees' performance is conducted through completion of a questionnaire and an individual self-assessment by each Director. The NC reviewed and discussed the results of the evaluation, and presented the findings to the Board. The Board discussed the findings, including issues pertaining to board size and composition and succession planning. The primary objective of the board evaluation exercise is to provide a platform for the Board and the Board Committees members to provide constructive feedback on the board processes and procedures and the effectiveness of the Board and the Board Committees.

Based on the NC's review of the results of the annual evaluation carried out, the Board and its Board Committees operate effectively and each Director is contributing to the overall effectiveness of the Board.

6. ACCESS TO INFORMATION

Principle 6: **In order to fulfil their responsibilities, directors should be provided with complete, adequate and timely information prior to the Board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.**

To enable the Board to fulfil its responsibilities, the Management strives to provide Board members with adequate information for Board meetings on a timely and ongoing basis. Prior to each Board meeting, the members of the Board are each provided with the relevant documents and information necessary, including financial statements together with background and explanatory statements, and progress reports of the Group's business operations. Further, the Directors are entitled to request from the Management such additional information as required in order to make informed and timely decisions. The Board has unrestricted access to the Company's records and information.

As a general rule, notices are sent to the Directors in advance of Board meetings, followed by the Board papers and related materials, such that the Directors have sufficient time to review and consider the matters being tabled and/or discussed at the Board meetings.

Board members (whether individually or as a whole) have separate and independent access to the Management and the Company Secretary at all times, and may, where necessary, seek independent professional advice at the expense of the Company. The Company Secretary generally attends all formal meetings of the Board and the Board Committees and ensures that all procedures are followed. Where the Company Secretary is unable to attend any Board meeting, he ensures that a suitable replacement is in attendance and that proper minutes of the same are taken and kept.

The Company Secretary also ensures that the Company complies with the requirements of the Companies Act, Chapter 50 of Singapore ("**Companies Act**") and the Catalist Rules. Under the direction of the Executive Chairman, the Company Secretary's responsibilities include ensuring good information flow within the Board and its Board Committees and between senior management and Non-Executive Directors, as well as facilitating orientation and assisting with professional development as required. The appointment and removal of the Company Secretary are both subject to the Board's approval.

Board members in fulfilling their duties and responsibilities, can as a group or individually, when deemed fit, direct the Company to appoint professional adviser(s) to render professional advice at the expense of the Company.

REPORT ON CORPORATE GOVERNANCE

7. PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

Principle 7: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

The RC makes recommendations to the Board on the framework of remuneration, and the specific remuneration packages for each Director and key management personnel, including the CEO. The RC comprises the following members:

Ms Alice Lai Kuen Kan	Chairperson
Mr Teng Cheong Kwee	Member
Professor Wang Puqu	Member

All the members of the RC, including the Chairperson, are independent and non-executive. The RC is guided by the written terms of references, which set out the duties and responsibilities of the RC, and are approved by the Board. The principal responsibilities of the RC include, *inter alia*, the following:

(a) recommending to the Board a framework of remuneration for the Directors and Executive Officers which covers all aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, options and benefits-in-kind;

(b) reviewing and recommending specific remuneration packages for each Director and key management personnel;

(c) recommending to the Board the remuneration of the Non-Executive Directors, which should be appropriate to the level of their respective contributions, taking into account factors such as effort and time spent, and the responsibilities of the Non-Executive Directors;

(d) determining the targets for any performance-related pay schemes in respect of the Executive Directors of the Group and to recommend to the Board the terms of renewal of their service contracts; and

(e) reviewing the Company's obligations arising in the event of termination of the Executive Directors' and Executive Officers' service contracts.

The RC has access to appropriate expert advice regarding executive compensation matters, if required. The RC's recommendations will be submitted for endorsement by our Board. Each member of the RC refrains from voting on any resolutions, participating in any deliberation or making any recommendation in respect of the assessment of his remuneration. No Director is involved in deciding his own remuneration.

The remuneration packages of the Executive Directors are based on service contracts. The Non-Executive and Independent Directors are paid yearly Directors' fees and these fees are subject to shareholders' approval at the AGM. In setting the remuneration packages of the Executive Directors, the Company takes into account the performance of the Group and that of the Executive Directors which are aligned with long term interest and risk policies of the Group, as well as the remuneration policy of the AVIC Group.

The RC will be provided with access to expert professional advice on remuneration matters when necessary, and the expenses of such services shall be borne by the Company.

8. LEVEL AND MIX OF REMUNERATION

Principle 8: **The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.**

The Executive Directors have entered into service agreements with the Company for an initial term of three (3) years. The service agreements shall be renewed thereafter on an annual basis and can be terminated by not less than six (6) months' notice in writing served by either party on the other.

The remuneration package of the Executive Directors and key management personnel include basic salary and contribution to compulsory pension plans as required under the relevant laws of the People's Republic of China ("**PRC**"). In setting remuneration packages, the Company takes into consideration the remuneration and employment conditions within the same industry and in comparable companies, and taking into account remuneration policies applicable to companies under the parent group. Executive Directors do not receive any Directors' fees but are remunerated as members of the Management. The RC reviews the compensation annually and ensures that the remuneration of the Executive Directors and key management personnel is commensurate with their performance and that of the Company, giving due regard to the financial and commercial health and business needs of the Group.

The Company does not currently provide any remuneration to its Non-Executive Directors, except for any reimbursements on reasonable costs and expenses incurred.

The Independent Directors receive Directors' fees, which are set taking into account factors such as effort and time spent, as well as the responsibilities and obligations of the Directors. In order to maximise shareholders' value, the Company recognises the need to pay competitive fees to attract, motivate and retain Directors without being excessive.

9. DISCLOSURE ON REMUNERATION

Principle 9: **Every company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration, in the company's Annual Report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key management personnel, and performance.**

Generally, the nature of the role performed and market practice are taken into consideration in determining the composition of the remuneration package for each of the Company's staff. For key executive officers ("**Executive Officers**") and Executive Directors, the Company adopts a performance-driven approach to compensation with rewards linked to individual, team and corporate performance. The Executive Officers and Executive Directors participate in an annual performance review process that assesses the individual's performance against set performance targets. Performance against these targets is a key factor determining their remuneration (in particular, the performance bonus component).

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The remuneration paid or payable to the Directors and Executive Officers for services rendered for FY2018 by percentage is, as follows:

Remuneration bands	Salary %	Performance Bonus %	Directors' Fees %	Allowances %	Other Benefits %	Total %
Directors						
Between S$250,000 to S$500,000						
Sun Yan	40	60	–	–	–	100
Directors						
Below S$250,000						
Dr Diao Weicheng	N/A	N/A	N/A	N/A	N/A	N/A
Li Meijin	80	20	–	–	–	100
Zhong Sijun[(1)]	N/A	N/A	N/A	N/A	N/A	N/A
Teng Cheong Kwee	–	–	100	–	–	100
Alice Lai Kuen Kan	–	–	100	–	–	100
Professor Wang Puqu	–	–	100	–	–	100
Executive Officers						
Below S$250,000						
Liao Hongbing	60	40	–	–	–	100

Note:

(1) Mr Zhong Sijun resigned as Non-Executive Director of the Company with effect from 9 March 2018.

The salary shown is inclusive of compulsory pension plans as required under the relevant PRC and/or Singapore laws. The variable performance bonus component is paid based on the achievement of the Group and the individual. For the avoidance of doubt, there will be no termination, retirement or post-employment benefit granted to the Directors, the CEO or key Executive Officers (who are not Directors or CEO). The Directors' fees are subject to shareholders' approval at the AGM.

The remuneration of the key executive officers and the Executive Directors, including the CEO, has been disclosed in bands of S$250,000. The Board is of the view that it would not be in the best interest of the Company to disclose the details of their remuneration, having regard to the highly competitive human resource environment, the confidential nature of staff remuneration matters and so as not to hamper the Company's efforts to retain and nurture its talent pool.

For FY2018, the aggregate amount of the total remuneration paid or payable to the Independent Directors in terms of Directors' fees (disclosed to the nearest thousand) is S$130,000, as indicated in the table below:

Directors	Fees(S$)/year	Aggregate Fees Paid for FY2018 (S$)	Total (%)
Teng Cheong Kwee	50,000	50,000	100
Alice Lai Kuen Kan	50,000	50,000	100
Professor Wang Puqu	30,000	30,000	100

The aggregate amount of total remuneration paid by way of salaries to the Executive Directors in FY2018 is not more than S$600,000. The Non-Executive Directors do not receive any fees for their roles as a Non-Executive Director of the Company.

The aggregate amount of the total remuneration paid to the Executive Officers (who are not Directors or CEO) for FY2018 is not more than S$250,000. The Company's current key Executive Officers are its Executive Directors (Dr Diao Weicheng, Mr Sun Yan and Mr Li Meijin), and its Chief Financial Officer, Mr Liao Hongbing. Accordingly, Mr Liao Hongbing is the only key management personnel who is not a Director of the Company.

The Company has no share option plans. Accordingly, no share option has been granted to the above Directors and Executive Officers.

There were no employees of the Group who are immediate family members of a Director or the CEO of the Company, and whose remuneration exceeded S$50,000 during FY2018. "Immediate family member" means the spouse, child, adopted child, stepchild, brother, sister and parent.

10. ACCOUNTABILITY AND AUDIT

Principle 10: The Board should present a balanced and understandable assessment of the company's performance, position and prospects.

Through the quarterly, half yearly and annual financial statements and timely announcements to shareholders, the Board aims to provide shareholders with adequate details that would allow a balanced and understandable assessment of the Group's financial performance, position and prospects. This responsibility extends to reports to regulators. The AC has been tasked to review the Company's financial information to ensure that the objective is met.

The Management currently provides the Board with appropriately detailed management accounts and such explanation and information on a regular basis and as the Board may require from time to time, to enable the Board to make a balanced and informed assessment of the Group's performance, position and prospects. The Board will update the shareholders on the operations and financial position of the Company through quarterly, half yearly and full year announcements as well as timely announcements of other matters as prescribed by the relevant rules and regulations.

The Board has established written policies where appropriate, to ensure compliance with legislative and regulatory requirements such as the Catalist Rules.

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11. RISK MANAGEMENT AND INTERNAL CONTROLS

Principle 11: The Board is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the company'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 Group's internal controls and systems are designed to provide reasonable assurance as to the integrity and reliability of the financial information and to safeguard and maintain accountability of assets. Procedures are in place to identify major business risks and evaluate potential financial effects, as well as for the authorisation of capital expenditure and investments.

The Group appoints internal auditors to carry out reviews of the adequacy and effectiveness of the Group's key internal controls, including financial, operational, compliance and information technology controls as well as risk management systems to the extent of their scope as laid out in their audit plan.

In addition, the external auditors of the Company, as part of their annual audit of the Group's financial statements, considered the Group's system of internal controls, including accounting procedures, internal controls and other aspects of the Group's business covered by their audit procedures. Any material weaknesses in internal controls, together with recommendations for improvement, are reported to the AC. In connection with the external audit of the financial statements of the Group for FY2018, the external auditors, PricewaterhouseCoopers LLP, have reviewed the books, records and internal accounting controls of the Group and have not identified any material internal control weaknesses.

There are also formal procedures in place for both the internal and external auditors to independently report conclusions and recommendations on the Group's internal controls to the Management and to the AC. The AC also reviews the effectiveness of the actions taken by the Management on the recommendations made by the internal and external auditors in this respect. To facilitate the AC, internal and external auditors to make an informed assessment of the Group's internal controls, information such as financial records and financial statements are provided by the Management.

The Board notes that under the 2012 Code, it is responsible for the governance of risks. The Board ensures that the Management maintains a sound system of risk management and internal controls to safeguard shareholders' interest and the Company's assets, and determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

The Management regularly reviews the Group'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 highlights all significant matters to the Board and the AC.

The Board has received assurance from the CEO and CFO as well as the internal auditors that:

(a) the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances; and

(b) the Company's risk management and internal control systems in place are effective.

The Board is satisfied that the system of internal procedures, controls and reviews that the Group has in place provides reasonable assurance against material financial misstatements or loss, safeguarding of assets, the maintenance of proper accounting records, reliability of financial information, compliance with legislation, regulations and best practices and the identification and management of business risks. The Board, with the concurrence of the AC, is therefore of the opinion that the Group's system of internal controls (including financial, operational, compliance and information technology controls) and risk management systems are adequate and effective to address financial, operational, and compliance and information technology risks that the Group faces in its current business environment. This opinion is arrived at based on the internal control framework established and maintained by the Group, the work performed by the internal and external auditors, reviews carried out by the Management, the AC, as well as assurances received from the CEO and CFO.

The Board notes that, despite their best efforts to implement risk management systems, no cost-effective system of internal control can provide absolute assurance against the occurrence of material errors, poor judgment in decision-making, human error, fraud or other irregularities. The system is designed to manage rather than eliminate all risks. As such, risk assessment and evaluation is an essential part of business planning and monitoring.

12. AUDIT COMMITTEE

Principle 12: The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.

The AC comprises the following members:

Mr Teng Cheong Kwee	Chairman
Ms Alice Lai Kuen Kan	Member
Professor Wang Puqu	Member

All the members of the AC, including the Chairperson, are independent and non-executive. The NC and the Board are of the view that the members of the AC collectively, and the AC chairman, have the requisite qualification, recent and relevant financial management knowledge, expertise and experience to discharge their responsibilities properly.

The AC is guided by the written terms of references, which set out the duties and responsibilities of the AC, and are approved by the Board. The principal responsibilities of the AC include, *inter alia*, the following:

(a) reviewing, together with the internal and external auditors, the audit plan, their evaluation of the system of internal accounting controls, their letter to the Management and the Management's response. It is intended that the AC shall, at least once a year, have a separate session with the internal and external auditors without the presence of the Management;

(b) reviewing the quarterly, half yearly and annual results announcements before submission to our Board for approval, focusing in particular on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, compliance with accounting standards and compliance with the Catalist Rules and any other relevant statutory or regulatory requirements;

(c) reviewing and reporting to the Board at least annually on the adequacy and effectiveness of the internal control procedures implemented by the Group, determining the scope of internal audit examinations and ensuring co-ordination between the internal/external auditors and the Management, and reviewing the assistance given by the Management to the auditors, and discussing problems and concerns, if any, arising from audits, and any matters which the auditors may wish to discuss (in the absence of the Management, where necessary);

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(d) reviewing and discussing with the external auditors any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on our Group's operating results or financial position, and the Management's response;

(e) considering and recommending to the Board on the proposals to the shareholders on the appointment, re-appointment and removal of the external auditors, matters relating to the resignation or dismissal of the auditors and approving the remuneration and terms of engagement of the external auditors;

(f) reviewing interested person transactions (if any) falling within the scope of Chapter 9 of the Catalist Rules;

(g) reviewing potential conflicts of interests, if any;

(h) undertaking such other reviews and projects as may be requested by the Board, and reporting to the Board its findings from time to time on matters arising and requiring the attention of the AC;

(i) generally undertaking such other functions and duties as may be required by statute or the Catalist Rules, or by such amendments as may be made thereto from time to time;

(j) reviewing and approving all hedging policies and instruments to be implemented by our Group, if any; and

(k) reviewing and approving the appointment of the Chief Financial Officer and Financial Controller to the extent that the finance and accounting function is appropriately resourced.

The AC has full authority to investigate any matter within its terms of reference, and will be given full access to and full co-operation from the Management and external and internal auditors and full discretion to invite any Director, Executive Officer or other employee of the Group to attend its meetings, and is given reasonable resources to enable it to discharge its functions properly and effectively. The AC also undertakes such further functions as may be agreed to by the AC and the Board from time to time.

For it to be able to perform its functions effectively, the AC meets with the external auditors and with the internal auditors, without the presence of the Management, at least annually for a review and discussion of any key issues raised. The AC is updated by the Management and the external auditors of changes to the accounting standards, the Catalist Rules and other regulations which could have an impact on the Group's financial statements.

During the course of FY2018, the AC's activities included:

(a) reviewing the quarterly, half yearly and annual results announcements before submission to the Board for approval;

(b) reviewing the internal control procedures implemented by the Group;

(c) reviewing the annual audit plan, approving any changes as necessary;

(d) reviewing the appointment of the independent internal auditor, and the findings of internal audits carried out;

(e) reviewing the appointment of the independent external auditor, and the results of the audit carried out;

(f) reviewing the interested party transactions falling within the scope of Chapter 9 of the Catalist Rules; and

(g) reviewing the group's financial and operating results and accounting policies.

External Auditors

On 26 April 2018, the Company re-appointed PricewaterhouseCoopers LLP ("**PwC**") as the external auditors of the Company, who shall be responsible for providing services in connection with the audit of the financial statements of the Group for FY2018.

For FY2018, the remuneration of audit services provided by PwC for the Group amounted to approximately RMB1.93 million. PwC did not provide any non-audit services to the Group in FY2018.

The AC has reviewed and is satisfied that PwC, the external auditors, have not provided any non-audit services to the Group during FY2018 that will prejudice their independence and objectivity.

The Company has put in place a whistle-blowing framework, endorsed by the AC, where employees of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and to ensure that arrangements are in place for the independent investigations of such matters and for appropriate follow up actions. There were no whistle-blowing letters received during FY2018 and as at the date of this Report.

The appointment of the external auditors for the Company, its subsidiaries and associated companies are in compliance with Rules 712 and 715 of the Catalist Rules. None of the AC members is (i) a former partner or director of the Group's existing external auditing firm within the previous 12 months; (ii) or hold any financial interest in the Group's existing external auditing firm.

Significant matters	**How the AC reviewed these matters and what decisions were made**
Impairment assessment on goodwill	The AC considered the assessment on goodwill impairment. It reviewed the reasonableness of the assumptions and estimates used by management in the assessment. The impairment review was an area of focus for the external auditor. The external auditor has included this as a key audit matter for FY2018. Please refer to page 72 of this Annual Report.
Revenue recognition over time by reference to progress towards completion of contracts	The AC considered the assessment on revenue recognition, in particular, for ship-design fee income and the process for estimating expected total manhours and cost, including the system for recording of project hours and the cost-incurred. The review of revenue recognition was also an area of focus for the external auditor. The external auditor has included this as a key audit matter for FY2018. Please refer to page 72 of this Annual Report.

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13. INTERNAL AUDIT

Principle 13: The Company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits.

The Company outsources its internal audit function. With effect from 24 July 2014, the Company has appointed Mazars LLP as its internal auditor. Mazars LLP has undertaken reviews in accordance with an internal audit plan approved by the AC. These reviews were undertaken to assess the effectiveness of the Group's system of internal control. The internal auditor reports directly to the AC chairman, and also reports administratively to the CEO. Mazars LLP has unfettered access to all the Company's documents, records, properties and personnel, including access to the AC. The internal auditor's scope of work and its internal audit findings and recommendations, together with Management's responses were submitted to the AC for review. The AC approves the hiring, removal, evaluation and compensation of Mazars LLP as the Company's internal auditor. Furthermore, at least annually, the AC reviews the adequacy and effectiveness of Mazars LLP as the Company's internal audit function.

14. SHAREHOLDER RIGHTS

Principle 14: Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.

The Company is committed to establishing a corporate governance culture that promotes fair and equitable treatment of all shareholders. All shareholders are treated fairly and equitably, and enjoy specific rights under the Companies Act and the Constitution.

These rights include, amongst others, pecuniary rights, for example, the right to participate in profit distributions and membership rights such as the right to participate in general meetings and the right to exercise their voting rights. Under Article 65 of the Constitution, all shareholders are entitled to attend and vote at the general meetings in person or by proxy. Further, pursuant to Article 71 of the Constitution, a shareholder can appoint up to a maximum of two proxies, who need not be shareholders of the Company, to attend and vote at general meetings.

As at 3 January 2016, the Companies Act has been amended to, amongst other things, allow certain members who are "relevant intermediaries" to attend and participate in general meetings without being constrained by the two-proxy requirement. A "relevant intermediary" as defined under the Companies Act includes (a) corporations holding licenses in providing nominee and custodial services and who hold shares in that capacity and (b) the CPF Board which purchases shares on behalf of the CPF investors.

Shareholders are given notice of general meetings with the sufficient notice period as required in the Companies Act, and are informed of the relevant rules and procedures governing general meetings, including voting procedures. Separate resolutions are proposed on each substantially separate issue at such general meetings. Shareholders are given the opportunity to raise questions and participate effectively at such general meetings on any issues that they may have relating to the resolutions to be passed.

The Company respects the equal information rights of all shareholders and is committed to the practice of fair, transparent and timely disclosure. All material information and changes in the Company or its business which would be likely to materially affect the price or value of the Company's shares are disclosed in a timely manner via SGXNET announcements. It is the Company's policy not to practise selective disclosure of material information.

15. COMMUNICATIONS WITH SHAREHOLDERS

Principle 15: Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.

The Company recognises that effective communication leads to transparency and enhances accountability. As such, the Company is committed to regular and proactive communication with its shareholders in line with continuous disclosure obligations of the Company under the Catalist Rules.

The Company, through its investor relations team, regularly conveys pertinent information, gathers views or input, and addresses shareholders' concerns. In this regard, the Company provides timely information to its shareholders via SGXNET announcements, the Company's Investor Relations website (http://avicintl.listedcompany.com/home.html) and news releases and ensures that price-sensitive information is publicly released, and is announced within the mandatory period. The Company does not practise selective disclosure. In the event there is inadvertent disclosure of material information that has not been announced, for example in the course of the Company's interactions with the investing community, a media release or announcement will be released via SGXNET promptly.

The Company's general meetings are the forum for dialogue with shareholders and allow the Board and Management to address shareholder questions and concerns. In addition, during the course of FY2018, the Management presented to various local and foreign investors and the media at more than three (3) investor and/or publicity meetings. These meetings provide a forum for the Management to explain the Group's strategy and financial performance. The Management also uses meetings with investors and analysts to solicit their perceptions of the Group.

The Company does not have a fixed dividend policy, and the payment of dividends shall be assessed by the Board from year to year. The form, frequency and amount of dividends declared each year will take into account the Group's profit, growth, cash position, positive cash flow generated from operations, projected capital requirements of the Group and other factors as the Board may deem appropriate. No dividends were paid out during FY2018 as the Company seeks to improve its cash position for operational requirements.

16. CONDUCT OF SHAREHOLDER MEETINGS

Principle 16: Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

Shareholders are informed of shareholders' meeting through notices contained in annual reports or circulars sent to all shareholders. These notices are also published in the newspaper and posted on the SGXNET. If shareholders are unable to attend the meeting, the Constitution of the Company allows a shareholder to appoint up to two proxies to attend and vote in place of the shareholder. The participation of shareholders is encouraged at the Company's AGM through open question and answer session.

Resolutions at general meetings are, as far as possible, structured separately on each substantially separate issue and may be voted on independently.

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The Directors endeavour to attend all AGMs. The chairman of each of the EC, AC, RC and NC will attend the Company's AGM to address shareholders' questions relating to the work of these Committees. The Company's external auditors, PricewaterhouseCoopers LLP, will also be invited to attend the AGM and are available to assist the Directors in addressing any relevant queries by the shareholders relating to the conduct of the audit and the preparation and content of their auditors' report.

In accordance with the 2012 Code requirements, all resolutions at the general meetings shall be put to vote by poll. Announcements of the detailed results of voting showing the number of votes cast for and against each resolution and the respective percentages are also made after each general meeting. The Company try, as far as possible, to put all resolutions to vote by electronic polling.

The minutes of the general meetings are prepared by the Company Secretary and include substantial comments or queries from shareholders, and responses from the Chairman, the Board and the Management. These minutes are available to shareholders of the Company at their request.

17. DEALINGS IN SECURITIES

In compliance with the Rule 1204(19) of the Catalist Rules, the Company has devised its own internal compliance code to provide guidance to its officers. Directors and officers of the Company are advised not to deal in the Company's shares on short-term considerations or when they are in the possession of unpublished price-sensitive information.

The Company prohibits dealings in its shares by its officers and employees during the period commencing two (2) weeks before the announcement of the Company's financial statements for each of the first three (3) quarters of its financial year, and one (1) month before the announcement of the Company's full financial year results, and ending on the day of the announcement of the relevant results.

18. MATERIAL CONTRACTS

Pursuant to Rule 1204(8) of the Catalist Rules, and save as disclosed in this section and in the section referred to as "Interested Person Transactions" below, neither the Company nor any of its subsidiaries have entered into any material contract involving the interests of the CEO, each Director or controlling shareholder, which is subsisting as at 31 December 2018, or if not then subsisting, then entered into since the end of the previous financial year ended 31 December 2017:

The particulars of the relevant material contracts are set out below:

(a) On 5 November 2014, the Company entered into a facility agreement with the Bank of China ("**BOC**"), pursuant to which BOC granted the Company a revolving credit facility of SGD45,000,000 at the floating interest rate of 2.0% per annum over SIBOR of a loan tenure of three years. The loan was drawn down in two tranches on 18 December 2014 and 26 December 2014. The term of the loan had expired on 3 November 2017. The Company had repaid a principal amount of SGD5 million and for the outstanding unrepaid portion of the loan, the Company had entered into a facility agreement with BOC on 3 November 2017 pursuant to which BOC granted the Company a revolving credit facility of SGD40,000,000 at an interest rate of 2.0% per annum over three (3) months SIBOR, for refinancing purposes (the "**New Loan**"). The New Loan, which has expired on 5 November 2018, was secured by a corporate guarantee from AVIC International Holding Limited, an immediate holding company of the Group, in favour of BOC. The New Loan has been fully repaid on 5 November 2018 and the corporate guarantee from AVIC International Holding Limited was fully discharged on 5 November 2018.

(b) On 19 May 2015, the Group entered into a 3-year term loan facility arrangement with the Industrial and Commercial Bank of China (Asia) Limited for a limit of USD50,000,000 and secured by the corporate guarantee of AVIC International Holding Limited, an immediate holding company of the Group. On 2 September 2015 and 7 October 2015, the Group had drawn down USD42,000,000 and USD8,000,000 respectively. The principal of the loan was to be repaid in 3 years from the date of loan drawdown on 2 September 2015 and 7 October 2015. The loan carries a floating interest rate of 2.60% per annum over LIBOR. The term of the loan had expired on 31 August 2018. The Group had on 31 August 2018 refinanced the loan ("**Refinanced Loan**"). The Refinanced Loan was to be repaid in one (1) year from the date of loan drawdown on 31 August 2018 and carries a floating interest rate of 2.60% per annum over LIBOR. The Refinanced Loan has been fully repaid on 31 January 2019 and the corporate guarantee from AVIC International Holding Limited was fully discharged on 31 January 2019.

19. INTERESTED PERSON TRANSACTIONS

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. The Company had on 26 April 2018 obtained its shareholders' approval for the adoption of the IPT Mandate in respect of certain categories of transactions that the Group may, in the ordinary course of business, enter into with any member of the AVIC Group. Save as disclosed below, the following agreements have been entered into pursuant to the authority conferred under the IPT Mandate in accordance with the guidelines and review procedures for interested person transactions as disclosed in the IPT Mandate.

	Aggregate value of all IPTs during the financial year under review (excluding transactions less than S$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	**Aggregate value of all IPTs conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S$100,000)**
	(RMB'000)	**(RMB'000)**
FY2018		
Transaction for Service fee income		
AVIC Dingheng Shipbuilding Co., Ltd	–	26,557
AVIC Weihai Shipyard Co., Ltd	–	17,251
Transaction for Financial service income		
AVIC Dingheng Shipbuilding Co., Ltd	–	74,491
AVIC Weihai Shipyard Co., Ltd	–	50,731
Transaction for Interest expense		
Catic International Finance Ltd	–	1,638
AVIC International Holdings Limited	–	2,276
AVIC International Holdings Corporation	–	11,293

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	Aggregate value of all IPTs during the financial year under review (excluding transactions less than S$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all IPTs conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S$100,000)
	(RMB'000)	(RMB'000)
Transaction for Rental expense		
China National Aero-Technology Shanghai Co., Ltd	–	869
Balance for Provision of financial assistance		
AVIC Dingheng Shipbuilding Co., Ltd	–	1,426,942
AVIC Weihai Shipyard Co., Ltd	–	884,000
Balance for Receipt of financial assistance		
Catic International Finance Ltd	–	177,468
AVIC International Holdings Corporation	–	800,277
Transaction for Corporate guarantee fee		
AVIC International Holdings Limited	–	4,171
AVIC International Holdings Corporation	–	2,949
Transaction for Ship-designing fee income		
AVIC Dingheng Shipbuilding Co., Ltd	–	379
AVIC Weihai Shipyard Co., Ltd	–	43,762
Transaction for Other expense		
Beijing Fashion Rainbow Department Store Co., Ltd	–	114
Transaction for Property management fee		
AVIC Property Management Co., Ltd	–	1,375
Transaction for Deposit service		
AVIC Finance Co., Ltd.	–	605,040

Save as disclosed in the table above, the Company did not enter into any IPTs which require disclosure or shareholders' approval under the Catalist Rules regulating IPTs during FY2018.

20. USE OF PROCEEDS RAISED FROM COMPLIANCE PLACEMENT

The Company has raised approximately S$10.6 million from its compliance placement exercise completed on 6 October 2011 ("**Compliance Placement**") in relation to the placement of 53,576,000 new shares ("**Placement Shares**") at S$0.285 per Placement Share.

As at the date of the Annual Report, the Group has not started to utilise the total net proceeds of the Compliance Placement of approximately S$10.6 million (after deducting listing expenses of approximately S$4.7 million arising from the Compliance Placement) (the "**Compliance Placement Proceeds**"). As announced by the Company on 21 November 2014, the net proceeds of the Compliance Placement Proceeds shall be used for general working capital purposes and any future acquisitions, joint ventures and strategic alliances. The breakdown of the net proceeds based on the purpose of utilisation, the amount allocated and the balance outstanding are as follows:

Purpose of utilisation	Amount Allocated (S$ million)	Total Amount utilised (S$ million)	Balance (S$ million)
Working capital and any future acquisitions, joint ventures and strategic alliances	10.6	–	10.6
Total	10.6	–	10.6

21. INTERESTS OF DIRECTORS

Rule 1204(7) of the Catalist Rules requires disclosure (as at the 21st day after the end of the financial year) of the direct and deemed interests of each Director of the Company in the Company's shares and convertible securities. Accordingly, the Company wishes to clarify that as at 21 January 2019, none of the Directors of the Company hold any interest in the Company's shares and convertible securities (if any).

22. SPONSOR FEES

The Company is currently under the SGX-ST Catalist sponsor-supervised regime. The continuing sponsor of the Company is Stamford Corporate Services Pte. Ltd. ("**Sponsor**"). Rule 1204(21) of the Catalist Rules requires disclosure of the amount of non-sponsor fees paid to the Sponsor. If no non-sponsor fees were paid, an appropriate negative statement is to be made. Accordingly, for FY2018, the Sponsor did not provide any non-sponsor services to the Company and no non-sponsor fees were paid during FY2018.

REPORT ON **CORPORATE GOVERNANCE**

AIMHL ANNUAL REPORT FY2018 – DISCLOSURE GUIDE

Guideline	Questions	How has the Company complied?
General	(a) Has the Company complied with all the principles and guidelines of the 2012 Code? If not, please state the specific deviations and the alternative corporate governance practices adopted by the Company in lieu of the recommendations in the 2012 Code.	The Company has complied in all material respects with the principles and guidelines set out in the 2012 Code.
	(b) In what respect do these alternative corporate governance practices achieve the objectives of the principles and conform to the guidelines in the 2012 Code?	Not applicable.
Board Responsibility		
Guideline 1.5	What are the types of material transactions which require approval from the Board?	The Company has adopted a set of Approving Limits of Authority which contains a schedule of matters specifically reserved for the Board's approval. In addition to matters such as annual budgets, financial plans and business strategies, the Board's approval is required for material transactions such as major acquisitions and disposals, funding and investment proposals.
Members of the Board		
Guideline 2.6	(a) What is the Board's policy with regard to diversity in identifying director nominees?	The composition of the Board is reviewed on an annual basis by the NC to ensure that the Board has the appropriate mix of skills, experience and expertise, and collectively possesses the necessary core competencies for effective functioning and informed decision-making. This is reflected in the diversity of backgrounds and competencies of our Directors.
	(b) Please state whether the current composition of the Board provides diversity on each of the following – skills, experience, gender and knowledge of the Company, and elaborate with numerical data where appropriate.	The Board comprises persons who possess core competencies and experience in accounting and finance, business and management experience, strategic planning, as well as industry knowledge. In recognition of the importance and value of gender diversity, the Board has one female Director and the NC continually reviews the composition of the Board to encourage diversity. The profile and experience of each Director is set out in the section titled "Board of Directors" in the Annual Report.

Guideline	Questions	How has the Company complied?
	(c) What steps has the Board taken to achieve the balance and diversity necessary to maximize its effectiveness?	The NC and the Board annually review and assess the structure, size and composition of the Board to ensure that it allows for effective decision-making. The NC and the Board take into account the scope and nature of the operations of the Group in its annual assessment.
Guideline 4.6	Please describe the board nomination process for the Company in the last financial year for	
	(i) selecting and appointing new directors; and	New Directors are only appointed on Board after the NC has reviewed and considered the skills, qualifications and experience of the nominated Director. The NC further considers factors such as the ability of the prospective candidate to contribute to the discussions of the Board and the Board Committees, taking into consideration the composition of the Board and the mix of expertise, skills and attributes of existing Directors. Where it is necessary for the NC to source a candidate for appointment as a Director, the NC would ascertain the skills, knowledge and competencies required, and seek potential candidates either through the Board members' network of contacts or, if necessary, engage external help. Following review, the NC will identify a shortlist, and meet with the shortlisted candidates for an interview before making recommendation to the Board for consideration and approval.
	(ii) re-electing incumbent directors.	The NC, in considering the re-appointment of a Director, evaluates such director's contribution and performance, such as his attendance and participation at meetings.

REPORT ON **CORPORATE GOVERNANCE**

Guideline	Questions	How has the Company complied?
Guideline 1.6	(a) Are new directors given formal training? If not, please explain why.	Yes.
	(b) What are the types of information and training provided to (i) new directors and	All newly appointed Directors undergo an orientation programme to familiarise them with the Group's businesses strategies, operations and corporate governance practices. Directors have the opportunity to visit the Group's operational facilities and meet with the Group's management to gain a better understanding of the Group's business operations. In addition, to ensure that the Board is able to carry out its functions effectively, prior to all Directors' respective appointments to the Board, the Directors have been briefed by the Company's legal adviser on their obligations as directors under the relevant Singapore laws and regulations and the Catalist Rules.
	(ii) existing directors to keep them up-to-date?	In the course of serving their terms as members of the Board, the Directors are provided with updates on changes in the relevant laws and regulations. In addition, the Directors are also kept informed of changing commercial risks faced by the Group through briefings at Board meetings, as well as articles and industry reports circulated by the Management to the Board. The Company has set aside a budget for all Directors to regularly attend appropriate courses, conferences and seminars to keep abreast of developments. These include programmes run by the Singapore Institute of Directors and other training institutions. From time to time, the Company also organises training sessions for its Directors and Management.

Guideline	Questions	How has the Company complied?
Guideline 4.4	(a) What is the maximum number of listed company board representations that the Company has prescribed for its directors? What are the reasons for this number?	The NC and the Board have not made a determination of the maximum number of board representations a Director may hold.
	(b) If a maximum number has not been determined, what are the reasons?	The Board believes that each Director has to personally determine the demands of his or her competing directorships and obligations and assess how much time is available to serve on the Board effectively.
	(c) What are the specific considerations in deciding on the capacity of directors?	The Board and the NC are of the opinion that in determining whether a Director is able to devote sufficient time to discharge his duties, the assessment should not be restricted to the number of board representations of each Director and their other principal commitments. Instead, the suitability of a Director should be assessed holistically, taking into account the level of the Director's participation in the Company, including his contributions at and outside meetings of the Board and relevant Board Committee and his attendance at such meetings.

REPORT ON **CORPORATE GOVERNANCE**

Guideline	Questions		How has the Company complied?
Board Evaluation			
Guideline 5.1	(a)	What was the process upon which the Board reached the conclusion on its performance for the financial year?	An annual evaluation by the NC of the Board and its Board Committees' performance is conducted through completion of a questionnaire and an individual self-assessment by each Director. The NC reviewed and discussed the results of the evaluation, and presented the findings to the Board. The Board discussed the findings, including issues pertaining to board size and composition and succession planning. The primary objective of the board evaluation exercise is to provide a platform for the Board and the Board Committees members to provide constructive feedback on the board processes and procedures and the effectiveness of the Board and the Board Committees. The performance criteria for the Board measures factors such as the size and composition of the Board, the Board's access to information, accountability, board processes, board performance in relation to discharging its principal responsibilities, communication with Management and standard of conduct of the Directors. The NC has also incorporated a performance review framework assessing the effectiveness of each of the Board Committees, as well as each individual Director.
	(b)	Has the Board met its performance objectives?	Based on the NC's review, the Board and its Board Committees operate effectively and each Director is contributing to the overall effectiveness of the Board.

Guideline	Questions	How has the Company complied?
Independence of Directors		
Guideline 2.1	Does the Company comply with the guideline on the proportion of independent directors on the Board? If not, please state the reasons for the deviation and the remedial action taken by the Company.	Yes. The Board currently has three (3) Independent Directors, which make up half of the Board as required under Guideline 2.2.
Guideline 2.3	(a) Is there any director who is deemed to be independent by the Board, notwithstanding the existence of a relationship as stated in the 2012 Code that would otherwise deem him not to be independent? If so, please identify the director and specify the nature of such relationship.	No.
	(b) What are the Board's reasons for considering him independent? Please provide a detailed explanation.	Not applicable.
Guideline 2.4	Has any independent director served on the Board for more than nine years from the date of his first appointment? If so, please identify the director and set out the Board's reasons for considering him independent.	No.
Disclosure on Remuneration		
Guideline 9.2	Has the Company disclosed each director's and the CEO's remuneration as well as a breakdown (in percentage or dollar terms) into base/fixed salary, variable or performance related income/bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives? If not, what are the reasons for not disclosing so?	The remuneration of the Directors and the CEO has been disclosed in bands of S$250,000, and the breakdown of such remuneration has been disclosed in percentage terms. The Board is of the view that it would not be in the best interest of the Company to disclose the details of their remuneration, having regard to the highly competitive human resource environment, the confidential nature of staff remuneration matters and so as not to hamper the Company's efforts to retain and nurture its talent pool.

REPORT ON **CORPORATE GOVERNANCE**

Guideline	Questions	How has the Company complied?
Guideline 9.3	(a) Has the Company disclosed each key management personnel's remuneration, in bands of S$250,000 or in more detail, as well as a breakdown (in percentage or dollar terms) into base/fixed salary, variable or performance-related income/bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives? If not, what are the reasons for not disclosing so?	Yes. The remuneration of Mr Liao Hongbing, being the only key management personnel (not being a Director), has been disclosed in bands of S$250,000 and the remuneration breakdown in percentage terms.
	(b) Please disclose the aggregate remuneration paid to the top five key management personnel (who are not directors or the CEO).	The Company's current key Executive Officers are its Executive Directors (Dr Diao Weicheng, Mr Sun Yan and Mr Li Meijin), and its Chief Financial Officer, Mr Liao Hongbing. Accordingly, Mr Liao Hongbing is the only key management personnel who is not a Director of the Company. The aggregate amount of the total remuneration paid to Mr Liao Hongbing for FY2018 is not more than S$250,000.
Guideline 9.4	Is there any employee who is an immediate family member of a director or the CEO, and whose remuneration exceeds S$50,000 during the year? If so, please identify the employee and specify the relationship with the relevant director or the CEO.	There were no employees of the Group who are immediate family members of a Director or the CEO of the Company, and whose remuneration exceeded S$50,000 during FY2018.
Guideline 9.6	(a) Please describe how the remuneration received by executive directors and key management personnel has been determined by the performance criteria.	For key Executive Officers and Executive Directors, the Company adopts a performance-driven approach to compensation with rewards linked to individual, team and corporate performance.
	(b) What were the performance conditions used to determine their entitlement under the short-term and long-term incentive schemes?	The Executive Officers and Executive Directors participate in an annual performance review process that assesses the individual's performance against set performance targets. Performance against these targets is a key factor determining their remuneration (in particular, the performance bonus component).
	(c) Were all of these performance conditions met? If not, what were the reasons?	Yes, the key Executive Officers and Executive Directors have met the performance targets for FY2018.

Guideline	Questions	How has the Company complied?
Risk Management and Internal Controls		
Guideline 6.1	What types of information does the Company provide to independent directors to enable them to understand its business, the business and financial environment as well as the risks faced by the Company? How frequently is the information provided?	Prior to each Board meeting, the members of the Board are each provided with the relevant documents and necessary information, including financial statements together with background and explanatory statements, and progress reports of the Group's business operations. Further, the Directors are entitled to request from Management such additional information as required in order to make informed and timely decisions. The Board has unrestricted access to the Company's records and information.
Guideline 13.1	Does the Company have an internal audit function? If not, please explain why.	Yes. The Company outsources its internal audit function to Mazars LLP.
Guideline 11.3	(a) In relation to the major risks faced by the Company, including financial, operational, compliance, information technology and sustainability, please state the bases for the Board's view on the adequacy and effectiveness of the Company's internal controls and risk management systems.	The Board's view is arrived at based on the internal control framework established and maintained by the Group, the work performed by the internal and external auditors, reviews carried out by the Management, the AC, as well as assurances received from the CEO and CFO. In assessing the Group's system of internal procedures, controls and reviews, the Board ensures that there is reasonable assurance against material financial misstatements or loss, safeguarding of assets, the maintenance of proper accounting records, reliability of financial information, compliance with legislation, regulations and best practices and the identification and management of business risks.
	(b) In respect of the past 12 months, has the Board received assurance from the CEO and the CFO as well as the internal auditor that:	Yes, the Board has received assurance from the CEO and CFO as well as the internal auditor that:
	(i) the financial records have been properly maintained and the financial statements give true and fair view of the Company's operations and finances; and	(a) the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances; and
	(ii) the Company's risk management and internal control systems are effective? If not, how does the Board assure itself of points (i) and (ii) above?	(b) the Company's risk management and internal control systems in place are effective.

REPORT ON **CORPORATE GOVERNANCE**

Guideline	Questions		How has the Company complied?
Guideline 12.6	(a)	Please provide a breakdown of the fees paid in total to the external auditors for audit and non-audit services for the financial year.	For FY2018, the remuneration in respect of audit services provided by PwC for the Group amounted to approximately RMB1.93 million. PwC did not provide any non-audit services to the Group in FY2018.
	(b)	If the external auditors have supplied a substantial volume of non-audit services to the Company, please state the bases for the Audit Committee's view on the independence of the external auditors.	The AC has reviewed and is satisfied that PwC, the external auditors, have not provided any non-audit services to the Group during FY2018 that will prejudice their independence and objectivity.
Communication with Shareholders			
Guideline 15.4	(a)	Does the Company regularly communicate with shareholders and attend to their questions? How often does the Company meet with institutional and retail investors?	The Company, through its investor relations team, regularly conveys pertinent information, gathers views or input, and addresses shareholders' concerns. In this regard, the Company provides timely information to its shareholders via SGXNET announcements, the Company's Investor Relations website (http://avicintl.listedcompany.com/home.html) and news releases and ensures that price-sensitive information is publicly released, and is announced within the mandatory period. In addition, the Company's general meetings provide the forum for dialogue with shareholders and allow the Board and Management to address shareholder questions and concerns. Besides regular updates through SGXNET announcements and the annual report, the Management presented to various local and foreign investors and the media at more than three (3) investor and/or publicity meetings during the course of FY2018.
	(b)	Is this done by a dedicated investor relations team (or equivalent)? If not, who performs this role?	Yes, the Company has a dedicated investor relations team.
	(c)	How does the Company keep shareholders informed of corporate developments, apart from SGXNET announcements and the annual report?	Apart from SGXNET announcements and the annual report, the Management conducts investor and/or publicity meetings which provide a platform for the Management to explain the Group's strategy and financial performance.
Guideline 15.5	If the Company is not paying any dividends for the financial year, please explain why.		No dividends were paid out during FY2018 as the Company seeks to improve its cash position for operational requirements.

DIRECTORS' **STATEMENT**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

The directors present their statement to the members together with the audited financial statements of the Group for the financial year ended 31 December 2018 and the balance sheet of the Company as at 31 December 2018.

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 76 to 156 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 2018 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:

Diao Weicheng
Teng Cheong Kwee
Alice Lai Kuen Kan
Wang Puqu
Sun Yan
Li Meijin

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

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.

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.

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Audit Committee

The Audit Committee of the Company, consisting of all non-executive directors, is chaired by Mr Teng Cheong Kwee and includes Ms Alice Lai Kuen Kan and Mr Wang Puqu. The Audit Committee has met four times since the last Annual General Meeting and has reviewed the following, where relevant, with the executive directors and external auditors and internal auditors of the Company:

- the external and internal audit plans/audit reports, the scope and results of the internal audit procedures and results of the internal auditors' examination and evaluation of the Group's systems of internal accounting controls;
- the Group's financial and operating results and accounting policies;
- the quarterly and annual announcements as well as the related press releases on the results of the Group and financial position of the Company and the Group;
- the interested person transactions falling within the scope of Chapter 9 of the listing manual;
- the co-operation and assistance given by the management to the Group's external and internal auditors; and
- the re-appointment of the independent auditor of the Group.

The Audit Committee has full access to and has the co-operation of the management and has been given the resources required for it to discharge its functions properly. It also has full discretion to invite any director and executive officer to attend its meetings. The external and internal auditors have unrestricted access to the Audit Committee.

The Audit Committee has recommended to the directors the nomination of PricewaterhouseCoopers LLP for re-appointment as independent auditor of the Group 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

Diao Weicheng	Sun Yan
Director	Director

29 March 2019

INDEPENDENT **AUDITOR'S REPORT**

TO THE MEMBERS OF AVIC INTERNATIONAL MARITIME HOLDINGS LIMITED

Report on the Audit of the Financial Statements

Our opinion

In our opinion, the accompanying consolidated financial statements of AVIC International Maritime Holdings Limited (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 Singapore Financial Reporting Standards (International) ("SFRS(I)") 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 2018 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 financial year ended 31 December 2018;
- the balance sheet of the Group and the balance sheet of the Company as at 31 December 2018;
- 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 judgements; 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.

INDEPENDENT **AUDITOR'S REPORT**

TO THE MEMBERS OF AVIC INTERNATIONAL MARITIME HOLDINGS LIMITED

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 2018. 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.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment on goodwill *Refer to Note 3(a) (Critical accounting estimates and assumptions) and Note 19(a) (Intangible assets) to the financial statements.* As at 31 December 2018, goodwill arising on consolidation amounted to RMB115 million. The goodwill amount was attributed to the acquisition of Deltamarin Ltd. and its subsidiaries (the "Deltamarin Group") in 2013. We focused on goodwill impairment assessment performed by management because of the significant judgements required in estimating the operating margin, revenue compounded annual growth rate, terminal growth rate and discount rate, in computing the recoverable amount of the Deltamarin Group cash-generating unit ("CGU").	We evaluated the reasonableness of management's estimate of the revenue compound annual growth rate and operating margin by taking into consideration the Deltamarin Group CGU's past performance, management's expectations of market developments and the industry trends for the shipping industry. We involved valuation specialists to assist in the assessment of the terminal growth rate and the discount rate applied by management. We noted the methodology and discount rate used by management were appropriate. We evaluated management's sensitivity analysis to assess the impact on the recoverable amount of the Deltamarin Group CGU by applying reasonable possible changes to the revenue compounded annual growth rate, the operating margin, the terminal growth rate and discount rate. We found the sensitivity analysis to be appropriate.
Revenue recognition over time by reference to progress towards completion of contracts *Refer to Note 3(b) (Critical accounting estimates and assumptions) to the financial statements.* Ship-design fee income is derived from consulting, design and engineering services to the marine and offshore industries and is recognised over time by reference to the progress of each ship-design fee contract. The measure of progress is determined based on the proportion of actual man-hours incurred to date to the estimated total man-hours required of each design contract. Ship-design fee income amounted to RMB381 million and represented approximately 65% of the Group's total revenue for the financial year ended 31 December 2018. When it is probable that the contract costs for ship-design contracts will exceed the total ship-design fee income, a provision for foreseeable losses is recognised as expense immediately. The Group has recognised RMB2 million as provision for foreseeable losses for the financial year ended 31 December 2018.	We obtained an understanding of on-going ship-design contracts through discussions with management and examination of contract documentation and correspondences with customers. In relation to the ship-design projects, we: • obtained an understanding of management's timesheet system on how actual manhours are recorded; • validated key controls over the timesheet system and payroll process; • assessed the accuracy of management's estimates over the total manhours required to complete the ship-design contracts; • performed tests of detail over subcontract costs and in-house payroll expenses; • recomputed the ship-design fee income recognised for the current financial year in relation to the stage of completion and agreed to the accounting records; • validated management's assessment of the cost-to-complete amount of ship-design contracts; and • verified the cost incurred to-date plus the estimated cost-to-complete and compared to the total contract value for each project to validate management's assessment of foreseeable losses. There were no exceptions noted.

Other Information

Management is responsible for the other information. The other information comprises the Directors' Statement (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the other sections of the annual report (the "Other Sections"), which are expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do 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.

When we read the Other Sections, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with SSAs.

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 SFRS(I), 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.

INDEPENDENT **AUDITOR'S REPORT**

TO THE MEMBERS OF AVIC INTERNATIONAL MARITIME HOLDINGS LIMITED

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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.

- 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 Soh Kok Leong.

PricewaterhouseCoopers LLP
Public Accountants and Chartered Accountants

Singapore, 29 March 2019

CONSOLIDATED STATEMENT OF **COMPREHENSIVE INCOME**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	2018 RMB'000	2017 RMB'000
Revenue	4	**587,660**	645,688
Cost of sales	5	**(242,792)**	(378,888)
Gross profit		**344,868**	266,800
Other income	7	**14,943**	14,947
Other gains and losses – net			
– Write back of impairment loss/(impairment loss) on financial assets	5	**3,435**	(7,119)
– Others	8	**(3,691)**	15,530
Expenses			
– Distribution and marketing	5	**(38,248)**	(40,760)
– Administrative	5	**(159,024)**	(136,470)
– Finance	9	**(100,669)**	(56,029)
– Other	5	**(2,288)**	(16,337)
Share of profit of associated companies	16	**546**	1,638
Profit before income tax		**59,872**	42,200
Income tax expense	10	**(21,061)**	(15,685)
Profit after tax		**38,811**	26,515
Other comprehensive income/(loss):			
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income of associated companies	16	**26**	174
Currency translation differences arising from consolidation			
– (loss)/gain		**(13,863)**	5,763
		(13,837)	5,937
Total comprehensive income		**24,974**	32,452
Profit attributable to:			
Equity holders of the Company		**27,280**	26,829
Non-controlling interests		**11,531**	(314)
		38,811	26,515
Total comprehensive income attributable to:			
Equity holders of the Company		**12,674**	28,908
Non-controlling interests		**12,300**	3,544
		24,974	32,452
Profit per share attributable to equity holders of the Company			
(expressed in RMB cents per share)			
Basic and diluted profit per share	11	**9.55**	9.39

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

BALANCE SHEET - **GROUP**

AS AT 31 DECEMBER 2018

	Note	31 December 2018 RMB'000	31 December 2017 RMB'000	1 January 2017 RMB'000
ASSETS				
Current assets				
Cash at bank	12	**256,598**	160,579	586,737
Trade and other receivables	13	**2,442,059**	2,342,204	862,932
Finance lease receivables	14	**23,610**	14,411	13,832
Inventories	15	**156,477**	139,885	278,962
		2,878,744	2,657,079	1,742,463
Non-current assets				
Trade and other receivables	13	**–**	–	11,167
Finance lease receivables	14	**19,788**	34,136	50,551
Investments in associated companies	16	**5,943**	5,371	2,504
Property, plant and equipment	18	**8,968**	8,381	7,006
Intangible assets	19	**191,325**	188,966	181,817
Available-for-sale financial assets		**–**	12	11
Deferred tax assets	25	**2,014**	1,721	1,545
		228,038	238,587	254,601
Total assets		**3,106,782**	2,895,666	1,997,064
LIABILITIES				
Current liabilities				
Trade and other payables	20	**296,365**	315,951	563,831
Borrowings	22	**1,905,491**	1,918,705	703,520
Finance lease liabilities	23	**1,161**	953	1,042
Derivative financial instruments	24	**24,753**	–	–
Current income tax liabilities	10	**21,825**	18,538	19,241
		2,249,595	2,254,147	1,287,634
Non-current liabilities				
Borrowings	22	**588,302**	395,033	492,240
Finance lease liabilities	23	**1,076**	553	755
Deferred tax liabilities	25	**15,108**	15,556	16,928
		604,486	411,142	509,923
Total liabilities		**2,854,081**	2,665,289	1,797,557
NET ASSETS		**252,701**	230,377	199,507
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	26	**101,237**	101,237	101,237
Other reserves	27	**19,563**	22,045	16,783
Retained profits		**56,822**	41,666	18,020
		177,622	164,948	136,040
Non-controlling interests	17	**75,079**	65,429	63,467
Total equity		**252,701**	230,377	199,507

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

BALANCE SHEET - **COMPANY**

AS AT 31 DECEMBER 2018

	Note	31 December 2018 RMB'000	31 December 2017 RMB'000	1 January 2017 RMB'000
ASSETS				
Current assets				
Cash at bank	12	**7,635**	4,373	24,479
Trade and other receivables	13	**16,915**	25,608	104,806
		24,550	29,981	129,285
Non-current assets				
Trade and other receivables	13	**–**	–	11,198
Investments in subsidiaries	17	**588,894**	585,093	575,124
Property, plant and equipment	18	**–**	106	136
		588,894	585,199	586,458
Total assets		**613,444**	615,180	715,743
LIABILITIES				
Current liabilities				
Trade and other payables	20	**19,258**	55,845	118,924
Due to subsidiaries (non-trade)	21	**301,577**	234,811	283,934
Borrowings	22	**177,468**	195,324	215,996
		498,303	485,980	618,854
Non-current liabilities				
Due to subsidiaries (non-trade)	21	**9,417**	9,488	8,767
		9,417	9,488	8,767
Total liabilities		**507,720**	495,468	627,621
NET ASSETS		**105,724**	119,712	88,122
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	26	**101,237**	101,237	101,237
Other reserves	27	**11,273**	8,619	7,152
(Accumulated losses)/retained profits		**(6,786)**	9,856	(20,267)
Total equity		**105,724**	119,712	88,122

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

CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Attributable to equity holders of the Company								
	Share capital RMB'000	Capital reserve RMB'000	Merger reserve RMB'000	Statutory reserve RMB'000	Currency translation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
2018									
Beginning of financial year	**101,237**	**11,944**	**(3,664)**	**19,895**	**(6,130)**	**41,666**	**164,948**	**65,429**	**230,377**
Profit for the year	–	–	–	–	–	**27,280**	**27,280**	**11,531**	**38,811**
Other comprehensive (loss)/income for the year	–	–	–	–	**(14,606)**	–	**(14,606)**	**769**	**(13,837)**
Total comprehensive income for the year	–	–	–	–	**(14,606)**	**27,280**	**12,674**	**12,300**	**24,974**
Distributions to non-controlling interests	–	–	–	–	–	–	–	**(2,650)**	**(2,650)**
Total transactions with owners, recognised directly in equity	–	–	–	–	–	–	–	**(2,650)**	**(2,650)**
Transfer to statutory reserve	–	–	–	**12,124**	–	**(12,124)**	–	–	–
End of financial year	**101,237**	**11,944**	**(3,664)**	**32,019**	**(20,736)**	**56,822**	**177,622**	**75,079**	**252,701**
2017									
Beginning of financial year	101,237	11,944	(3,664)	16,712	(8,209)	18,020	136,040	63,467	199,507
Profit/(loss) for the year	–	–	–	–	–	26,829	26,829	(314)	26,515
Other comprehensive income for the year	–	–	–	–	2,079	–	2,079	3,858	5,937
Total comprehensive income for the year	–	–	–	–	2,079	26,829	28,908	3,544	32,452
Distributions to non-controlling interests	–	–	–	–	–	–	–	(1,582)	(1,582)
Total transactions with owners, recognised directly in equity	–	–	–	–	–	–	–	(1,582)	(1,582)
Transfer to statutory reserve	–	–	–	3,183	–	(3,183)	–	–	–
End of financial year	101,237	11,944	(3,664)	19,895	(6,130)	41,666	164,948	65,429	230,377

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

CONSOLIDATED STATEMENT OF **CASH FLOWS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Profit before income tax		**59,872**	42,200
Adjustments for:			
– Amortisation of intangible assets		**6,280**	5,459
– Depreciation of property, plant and equipment		**3,639**	3,398
– Interest expense		**95,015**	48,485
– Interest income		**(2,362)**	(1,914)
– Gain on disposal of property, plant and equipment		**–**	(107)
– Property, plant and equipment written off		**213**	238
– Provision for foreseeable losses		**1,967**	–
– (Reversal)/allowance of doubtful debts			
– Trade		**(3,435)**	7,077
– Non-trade		**–**	42
– Share of profit of associated companies		**(546)**	(1,638)
– Unrealised currency translation gains		**(4,162)**	(2,666)
– Waiver of amount due to related corporation		**(1,258)**	–
– Write-down of inventories to net realisable value		**2,275**	16,087
		157,498	116,661
Change in working capital			
– Inventories		**(18,867)**	122,990
– Trade and other receivables		**(93,864)**	(1,461,785)
– Trade and other payables		**34,281**	(285,902)
Cash generated from/(used in) operations		**79,048**	(1,508,036)
Interest received		**2,362**	1,512
Income tax paid		**(17,857)**	(19,663)
Net cash provided by/(used in) operating activities		**63,553**	(1,526,187)
Cash flows from investing activities			
Additions to property, plant and equipment (Note A)		**(2,172)**	(2,315)
Additions to intangible assets		**(7,550)**	(394)
Proceeds on disposal of property, plant and equipment		**–**	107
Net cash used in investing activities		**(9,722)**	(2,602)
Cash flows from financing activities			
Dividends paid to non-controlling interests		**(2,650)**	(1,539)
Interest paid		**(98,912)**	(42,944)
Decrease in cash pledged with bank		**12,288**	65,998
Proceeds from borrowings		**3,836,978**	2,051,991
Repayment of borrowings		**(3,679,536)**	(909,456)
Repayment of finance lease liabilities		**(2,087)**	(893)
Net cash provided by financing activities		**66,081**	1,163,157
Net increase/(decrease) in cash and cash equivalents		**119,912**	(365,632)
Cash and cash equivalents			
Beginning of financial year		**135,024**	495,184
Effects of currency translation on cash and cash equivalents		**(11,605)**	5,472
End of financial year	12	**243,331**	135,024

Note A:

During the financial year ended 31 December 2018, the Group acquired property, plant and equipment with an aggregate cost of RMB4,259,000 (2017: RMB4,653,000), of which RMB2,087,000 (2017: RMB893,000) was acquired through finance leases and nil (2017: RMB1,445,000) was acquired by offsetting against dividend income from an associated company (Note 16). Cash payments amounting to RMB2,172,000 (2017: RMB2,315,000) were made to purchase property, plant and equipment.

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

Reconciliation of liabilities arising from financing activities

				Non-cash changes			
	1 January 2018 RMB'000	**Proceeds from borrowings RMB'000**	**Principal and interest payments RMB'000**	**Acquisition RMB'000**	**Interest expense RMB'000**	**Foreign exchange movement RMB'000**	**31 December 2018 RMB'000**
Borrowings	**2,313,738**	**3,836,978**	**(3,778,448)**	**–**	**94,918**	**26,607**	**2,493,793**
Finance lease liabilities	**1,506**	**–**	**(2,087)**	**2,087**	**97**	**740**	**2,343**

				Non-cash changes			
	1 January 2017 RMB'000	**Proceeds from borrowings RMB'000**	**Principal and interest payments RMB'000**	**Acquisition RMB'000**	**Interest expense RMB'000**	**Foreign exchange movement RMB'000**	**31 December 2017 RMB'000**
Borrowings	1,195,760	2,051,991	(952,400)	–	48,432	(30,045)	2,313,738
Finance lease liabilities	1,797	–	(893)	893	53	(344)	1,506

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

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

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

1. General information

AVIC International Maritime Holdings Limited is listed on the Singapore Exchange and incorporated in Singapore. The address of its registered office 8 Robinson Road, #13-00 ASO Building, Singapore 048544. Its principal place of business is 27th and 28th Floor, CATIC Mansion, 212 Jiangning Road, Shanghai 200041, the People's Republic of China ("PRC").

The principal activity of the Company is that of investment holding. The principal activities of its subsidiaries are disclosed in Note 17 to the financial statements.

2. Significant accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards International ("SFRS(I)") under the historical cost basis, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with SFRS(I) 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.

2.2 Adoption of SFRS(I)

As required by the listing requirements of Singapore Exchange, the Group has adopted SFRS(I) on 1 January 2018. These financial statements for the year ended 31 December 2018 are the first set of financial statements the Group prepared in accordance with SFRS(I). The Group's previously issued financial statements for periods up to and including the financial year ended 31 December 2017 were prepared in accordance with Singapore Financial Reporting Standards ("SFRS").

In adopting SFRS(I) on 1 January 2018, the Group is required to apply all of the specific transition requirements in SFRS(I) 1 First-time Adoption of SFRS(I).

Under SFRS(I) 1, these financial statements are required to be prepared using accounting policies that comply with SFRS(I) effective as at 31 December 2018. The same accounting policies are applied throughout all periods presented in these financial statements, subject to the mandatory exceptions and optional exemptions under SFRS(I) 1.

The Group's opening balance sheet has been prepared as at 1 January 2017, which is the Group's date of transition to SFRS(I) ("date of transition").

2. Significant accounting policies (Continued)

2.2 Adoption of SFRS(I) (Continued)

(a) Optional exemptions applied

SFRS(I) 1 allows the exemption from application of certain requirements under SFRS(I) on a retrospective basis. The Group has applied the following exemptions in preparing this first set of financial statements in accordance with SFRS(I):

(i) Business combinations

SFRS(I) 3 Business Combinations has not been applied to business combinations that occurred before the date of transition on 1 January 2017. The same classification as in its previous SFRS financial statements has been adopted.

The Group has not applied SFRS(I) 1-21 The Effects of Changes in Foreign Exchange Rates retrospectively to fair value adjustments and goodwill from business combinations that occurred before the date of transition to SFRS(I) on 1 January 2017. Such fair value adjustments and goodwill continue to be accounted for using the same basis as under SFRS 21.

(ii) Leases

The Group has not reassessed the determination of whether an arrangement contained a lease in accordance with SFRS(I) INT 4 Determining whether an Arrangement contains a Lease.

(iii) Short-term exemption on adoption on SFRS(I) 9 Financial Instruments

The Group has elected to apply the short-term exemption to adopt SFRS(I) 9 on 1 January 2018. Accordingly, the requirements of SFRS 39 *Financial Instruments: Recognition and Measurement* are applied to financial instruments up to the financial year ended 31 December 2017. The Group is also exempted from complying with SFRS(I) 7 *Financial Instruments:* Disclosure to the extent that the disclosures required by SFRS(I) 7 relate to the items within scope of SFRS(I) 9.

As a result, the requirements under SFRS are applied in place of the requirements under SFRS(I) 7 and SFRS(I) 9 to comparative information about items within scope of SFRS(I) 9.

(b) Adoption of SFRS(I) 15 Revenue from Contracts with Customers

SFRS(I) 15 is effective for financial year beginning on or after 1 January 2018. In accordance with the requirements of SFRS(I) 1, the Group adopted SFRS(I) 15 retrospectively.

SFRS(I) 15 establishes a single comprehensive model for the Group to use in accounting for revenue arising from contracts with customers. Under SFRS(I) 15, the Group recognises revenue when a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. The adoption of SFRS(I) 15 did not have any significant impact on the Group's financial statements except for disclosures.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Significant accounting policies (Continued)

2.2 Adoption of SFRS(I) (Continued)

(b) Adoption of SFRS(I) 15 Revenue from Contracts with Customers (Continued)

Following the presentation requirement in SFRS(I) 15, the Group has separately presented contract assets and contract liabilities in Note 13 and 20, respectively. The accounting policies for revenue recognition is set out in Note 2.3.

(c) Adoption of SFRS(I) 9 Financial Instruments

As disclosed in Note 2.2(a)(iii), the Group has elected to apply the short-term exemption to adopt SFRS(I) 9 on 1 January 2018. Accordingly, the requirements of SFRS 39 *Financial Instruments: Recognition and Measurement* are applied to financial instruments up to the financial year ended 31 December 2017.

At the same time, the Group is exempted from complying with SFRS(I) 7 Financial Instruments: Disclosures for the comparative period to the extent that the disclosures required by the SFRS(I) 7 relate to the items within scope of SFRS(I) 9.

As a result, the requirements under SFRS are applied in place of the requirements under SFRS(I) 7 and SFRS(I) 9 to comparative information about items within the scope of the SFRS(I) 9.

Classification and Measurement

For financial assets held by the Group on 1 January 2018, management has assessed the business models for managing the financial assets and the contractual cash flow characteristics of the financial assets to determine the appropriate classification for each financial asset under SFRS(I) 9.

The accounting policies for the classification and measurement of financial assets before and after 1 January 2018 are set out in Note 2.11.

Impairment of Financial Assets

Financial assets are subject to expected credit loss impairment model under SFRS(I) 9.

The Group has the following financial assets subject to the expected credit loss impairment model under SFRS(I) 9:

– Cash at bank;

– Trade and other receivables; and

– Finance lease receivables.

The impairment methodology under SFRS and SFRS(I) for each of these classes of financial assets is different. The impairment methodology for each of these classes of financial assets under SFRS(I) 9 is as disclosed in Note 2.11 and Note 29(b). The Group has assessed that there is no impact on the financial statement.

2. Significant accounting policies (Continued)

2.2 Adoption of SFRS(I) (Continued)

(d) There was no adjustment to the consolidated statement of comprehensive income of the Group, the balance sheet of the Group and of the Company, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group arising from the transition from SFRS to SFRS(I).

2.3 Revenue recognition

Revenue is recognised when the entity satisfies a performance obligation, that is when the customer obtains control of that asset. Revenue are presented, net of value-added tax, rebates and discount, and after eliminating sales within the Group.

(a) Ship-design fee income

Ship-design fee income is generated from consulting, design and engineering services to marine and offshore industries. The Group has two types of contracts for such services, fixed price contracts and variable price contracts.

For fixed priced contracts, revenue is recognised over time as ship-design services are rendered. The Group has assessed that any output from ship-design services has no alternative use for the Group due to contractual restriction, and the Group has enforceable rights to payment arising from the contractual terms. Revenue from fixed price contracts is recognised over time by reference to the Group's ship-design progress towards completing the specificed services as agreed with customers for each contract. The measure of progress is determined based on the actual man-hours incurred to date to the estimated total man-hours required of each design contract. This method provides a faithful depiction of the Group's performance in transferring control to the customer as it reflects the Group's effort incurred to satisfy the performance obligation.

For variable price contracts, revenue is recognised when the Group incurred man-hour time specific to the contract, and the Group has enforceable rights to payment arising from the contractual terms. Revenue is recognised to the extent that it is highly probable that a significant reversal will not occur.

For fixed priced and variable price contracts, the customer is invoiced on a milestone payment schedule. If the value of the services rendered by the Group exceed the payments, a contract asset is recognised. If the payments exceed the value of the services rendered, a contract liability is recognised.

(b) Ship-building construction income

Ship-building construction contracts with customers are fixed priced contracts. Revenue is recognised when the control over the vessel has been transferred to the customer. At contract inception, the Group assesses whether the Group transfers control of the vessel over time or at a point in time by determining if (a) its performance does not create an asset with an alternative use to the Group; and (b) the Group has an enforceable right to payment for performance completed to date.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Significant accounting policies (Continued)

2.3 Revenue recognition (Continued)

(b) Ship-building construction income (Continued)

The vessel has no alternative use for the Group due to contractual restriction, and the Group has enforceable rights to payment arising from the contractual terms. For these contracts, revenue is recognised over time by reference to the Group's progress towards completing the construction of the vessel. The measure of progress is determined based on the proportion of contract costs incurred to date to the estimated total contract costs. Cost incurred that are not related to the contract or that do not contribute towards satisfying a performance obligation are excluded from the measure of progress and instead are expensed as incurred.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in the profit or loss in the period in which the circumstances that give rise to the revision become known by management, on a cumulative catch-up basis.

The customer is invoiced on a milestone payment schedule. If the value of the goods transferred by the Group exceed the payments, a contract asset is recognised. If the payments exceed the value of the goods recognised, a contract liability is recognised.

(c) Sale of vessels

Revenue from sale of vessels is recognised when the Group has delivered the vessels to location specified by its customers and the customers have accepted the vessels in accordance with the sales contract.

(d) Shipbuilding project management service and project financing income

Shipbuilding project management service and project financing income generated from the provision of project management, agency and marine finance consultancy services and marine financing relating to ship-building, are recognised based on time-based method when the services are rendered over the period of the contract.

(e) Finance lease income

Finance lease 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.

(f) Interest income

Interest income from financial institutions is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through expected life of the financial asset to that asset's net carrying amount on initial recognition.

2. Significant accounting policies (Continued)

2.4 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 as other income.

2.5 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 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.

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 except for the acquisition of subsidiaries under common control, which predecessor method is applied.

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.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Significant accounting policies (Continued)

2.5 Group accounting (Continued)

(a) *Subsidiaries* (Continued)

(ii) *Acquisitions* (Continued)

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 Note 2.7(a) and 2.10(a) for the subsequent accounting policy on goodwill.

For acquisitions under common control, the excess of (a) the consideration transferred, the amount of any non-controlling interest in the acquiree over the (b) carrying value of the identifiable net assets acquired is recorded as "merger reserve" within other reserves.

(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 Note 2.9 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 within equity attributable to the equity holders of the Company.

2. Significant accounting policies (Continued)

2.5 Group accounting (Continued)

(c) Associated companies

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

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

(i) Acquisitions

Investments in associated companies 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 represents the excess of the cost of acquisition of the associated company over the Group's share of the fair value of the identifiable net assets of the associated company and is included in the carrying amount of the investments.

(ii) Equity method of accounting

In applying the equity method of accounting, the Group's share of its associated companies' post-acquisition profits or losses are recognised in profit or loss and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. These post-acquisition movements and distributions received from the associated companies are adjusted against the carrying amount of the investments. When the Group's share of losses in an associated company equals to or exceeds its interest in the associated company, 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. If the associated company 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 are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transactions provide evidence of impairment of the assets transferred. The accounting policies of associated companies are changed where necessary to ensure consistency with the accounting policies adopted by the Group.

(iii) Disposals

Investments in associated companies are derecognised when the Group loses significant influence. If the retained equity interest in the former associated company 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 is lost, and its fair value and any proceeds on partial disposal, is recognised in profit or loss.

Please refer to Note 2.9 for the accounting policy on investments in associated companies in the separate financial statements of the Company.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Significant accounting policies (Continued)

2.6 Property, plant and equipment

(a) *Measurement*

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

(b) *Depreciation*

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives as follows:

	Useful lives
Leasehold building	20 years
Office equipment	3 years
Computer	3 years
Motor vehicles	10 years
Renovation	3 – 6 years
Furniture and fixtures	3 years

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

(c) *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 entity and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in profit or loss when incurred.

(d) *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)".

The gain or loss arising on disposal an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

2. Significant accounting policies (Continued)

2.7 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 is included in the carrying amount of the investments.

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

(b) *Acquired technical knowhow and ship design engineering software licences*

Technical knowhow and ship design engineering software licences acquired are initially capitalised at cost and are subsequently carried at cost less accumulated amortisation and accumulated impairment losses.

These costs are amortised to profit or loss using straight-line method over their estimated useful lives or contractual legal rights as follows:

	Useful lives
Technical knowhow	15 years
Ship design engineering software licences	5 years

(c) *Acquired brand in a business combination*

The brand acquired in a business combination is identified and recognised separately from goodwill. The cost of the brand is the fair value at the acquisition date.

The brand acquired in a business combination is amortised to profit or loss using straight-line method over the estimated useful lives of 30 years.

The amortisation period and amortisation method of intangible assets other than goodwill are reviewed at least at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise. There is no change in the amortisation period and method for the acquired brand during the financial year ended 31 December 2018.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Significant accounting policies (Continued)

2.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.9 Investments in subsidiaries and associated companies

Investments in subsidiaries and associated companies 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.

2. Significant accounting policies (Continued)

2.10 Impairment of non-financial assets (Continued)

(b) Intangible assets
Property, plant and equipment
Investments in subsidiaries and associated companies

Intangible assets, property, plant and equipment and investments in subsidiaries and associated companies are tested for impairment whenever there is any objective evidence or indication 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 only 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.

2.11 Financial assets

The accounting for financial assets before 1 January 2018 are as follows:

(a) Classification

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale. The classification depends on the nature and purpose of financial assets and is determined at the time of initial recognition.

(i) Loans and receivables

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables (including trade and other receivables and bank balances and cash) are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest method, except for short-term receivables when the effect of discounting is immaterial.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Significant accounting policies (Continued)

2.11 Financial assets (Continued)

(a) Classification (Continued)

(ii) 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.

(d) Subsequent measurement

Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Interest and dividend income on available-for-sale financial assets are recognised separately in 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.

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*

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*

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 exists, 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 previously recognised as in profit or loss. The impairment losses recognised as an expense on equity securities are not reversed through profit or loss in subsequent period.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Significant accounting policies (Continued)

2.11 Financial assets (Continued)

The accounting for financial assets after 1 January 2018 are as follows:

(f) Classification and measurement

The Group classifies its financial assets in the following measurement categories:

– Amortised cost;
– Fair value through other comprehensive income (FVOCI); and
– Fair value through profit or loss (FVTPL).

The classification depends on the Group's business model for managing the financial assets as well as the contractual terms of the cash flows of the financial asset.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt instruments when and only when its business model for managing those assets changes.

At initial recognition

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

At subsequent measurement

(i) Debt instruments

Debt instruments mainly comprise of cash at bank, trade and other receivables, listed and unlisted debt securities.

There are three subsequent measurement categories, depending on the Group's business model for managing the asset and the cash flow characteristics of the asset:

– Amortised cost: Debt instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt instrument that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in interest income using the effective interest rate method.

2. Significant accounting policies (Continued)

2.11 Financial assets (Continued)

(f) Classification and measurement (Continued)

At subsequent measurement (Continued)

(i) Debt instruments (Continued)

– FVOCI: Debt instruments that are held for collection of contractual cash flows and for sale, and where the assets' cash flows represent solely payments of principal and interest, are classified as FVOCI. Movements in fair values are recognised in Other Comprehensive Income (OCI) and accumulated in fair value reserve, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and presented in "other gains and losses". Interest income from these financial assets is recognised using the effective interest rate method and presented in "interest income".

– FVTPL: Debt instruments that are held for trading as well as those that do not meet the criteria for classification as amortised cost or FVOCI are classified as FVTPL. Movement in fair values and interest income is recognised in profit or loss in the period in which it arises and presented in "other gains and losses".

(ii) Equity instruments

The Group subsequently measures all its equity investments at their fair values. Equity investments are classified as FVPL with movements in their fair values recognised in profit or loss in the period in which the changes arise and presented in "other gains and losses", except for those equity securities which are not held for trading. The Group has elected to recognise changes in fair value of equity securities not held for trading in other comprehensive income as these are strategic investments and the Group considers this to be more relevant. Movements in fair values of investments classified as FVOCI are presented as "fair value gains/losses" in Other Comprehensive Income. Dividends from equity investments are recognised in profit or loss as "dividend income".

(g) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt financial assets carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 29 details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, lease receivables and contract assets, the Group applies the simplified approach permitted by the SFRS(I) 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. **Significant accounting policies** (Continued)

2.11 **Financial assets** (Continued)

(h) 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 debt instrument, 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.

On disposal of an equity investment, the difference between the carrying amount and sales proceed is recognised in profit or loss if there was no election made to recognise fair value changes in other comprehensive income. If there was an election made, any difference between the carrying amount and sales proceed amount would be recognised in other comprehensive income and transferred to retained profits along with the amount previously recognised in other comprehensive income relating to that asset.

Trade receivables that are factored out to banks and other financial institutions with recourse to the Group are not derecognised until the recourse period has expired and the risks and rewards of the receivables have been fully transferred. The corresponding cash received from the financial institutions is recorded as borrowings.

2.12 **Derivatives financial instruments**

A derivative financial instrument is initially recognised at its fair value on the date the contract is entered into and is subsequently carried at its fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

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.

2.13 **Offsetting of financial instruments**

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

2. Significant accounting policies (Continued)

2.14 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 case they are presented as non-current liabilities.

Borrowings are initially measured at fair value, and are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit and loss over the period of the borrowings using the effective interest method.

2.15 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 measured at fair value and are subsequently carried at amortised cost, using the effective interest method.

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 used 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 current financial assets and liabilities carried at amortised cost approximate their carrying amounts.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Significant accounting policies (Continued)

2.17 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(a) *Lessee – Finance leases*

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

(b) *Lessee – Operating leases*

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(c) *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 "finance lease 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.

2.18 Inventories

Inventories relate to construction of vessels for sale and are carried at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

2. Significant accounting policies (Continued)

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, 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:

(i) 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

(ii) 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 except for investment properties. Investment property measured at fair value is presumed to be recovered entirely through sale.

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.

The Group accounts for investment tax credits (for example, productivity and innovative credit) similar to accounting for other tax credits where deferred tax asset is recognised for unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax credit can be utilised.

2.20 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, 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.

Provision for foreseeable losses on contracts is made when the unavoidable costs of meeting the obligations under these contracts exceed the economic benefits expected to be received from them.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Significant accounting policies (Continued)

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 on a mandatory, contractual or voluntary basis for Singapore subsidiaries.

Pursuant to the relevant regulations of the PRC government, the PRC subsidiaries of the Group (the "PRC Subsidiaries") have participated in central pension schemes (the "Schemes") operated by local municipal governments whereby the PRC Subsidiaries are required to contribute a certain percentage of the basic salaries of their employees to the Schemes to fund their retirement benefits. The local municipal governments undertake to assume the retirement benefit obligations of all existing and future retired employees of the PRC Subsidiaries. The only obligation of the PRC Subsidiaries with respect to the Schemes is to pay the ongoing required contributions under the Schemes mentioned above. Contributions under the Schemes are charged as expenses when incurred.

Pursuant to the relevant regulations of the Finland government, the Finland subsidiaries of the Group (the "Finland Subsidiaries") have participated in statutory earnings-related pension schemes (the "Schemes") managed by licensed not-for-profit pension insurance companies (the "PICs") under the government's monitor whereby the Finland Subsidiaries are required to contribute a certain percentage of the basic salaries of their employees to the Schemes to fund their retirement benefits. The PICs undertake to assume the retirement benefit obligations of all existing and future retired employees of the Finland Subsidiaries. The only obligation of the Finland Subsidiaries with respect to the Schemes is to pay the ongoing required contributions under the Schemes mentioned above. Contributions under the Schemes are charged as expenses when incurred.

The Group has no further payment obligations once the contributions have been paid.

(b) Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

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 Chinese Renminbi ("RMB"). The functional currency of the Company is Singapore dollar ("SGD").

2. Significant accounting policies (Continued)

2.22 Currency translation (Continued)

(b) Transactions and balances

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rate of exchange prevailing on the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of each reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised in other comprehensive income.

(c) Translation of Group entities' financial statements

For the purpose of presenting the Company and consolidated financial statements, the assets and liabilities of the Company and the Group entities (including comparatives) are expressed in RMB using exchange rates prevailing at the end of each reporting period. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in the Group's translation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to profit or loss.

In the case of a partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities (including monetary items that, in substance, form part of the net investment in foreign entities), are recognised in other comprehensive income and accumulated in a separate component of equity under the header of translation reserve.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Significant accounting policies (Continued)

2.22 Currency translation (Continued)

(c) *Translation of Group entities' financial statements* (Continued)

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.23 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the executive committee whose members are responsible for allocating resources and assessing performance of the operating segments.

2.24 Cash at bank

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash at bank and 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

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

2.26 Dividends to Company's shareholders

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

3. Critical accounting estimates and assumptions

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) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value-in-use of the CGU to which goodwill has been allocated. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. In estimating the future cash flows, management makes assumptions on the expected operating margin, revenue compound annual growth rate and terminal growth rate. The carrying amount of goodwill at the end of the reporting period was RMB114,706,000 (2017: RMB114,049,000) as disclosed in Note 19 to the financial statements. Effects of reasonable possible changes on impairment key assumptions are included in Note 19. No impairment loss (2017: nil) was recognised during the financial year.

3. Critical accounting estimates and assumptions (Continued)

(b) Revenue recognition of ship-design fee income

The Group's ship-design fee income is recognised over time by reference to progress towards completion of contract. Such revenue recognition requires the Group to measure the actual man-hour hours incurred to date to the estimated total man-hours required of each contract. Revenue from ship-design contracts is disclosed in Note 4 to the financial statements.

(c) Uncertain tax positions

The Group has exposure to income taxes mainly in the PRC and Finland. Significant judgement is involved in determining the Group's provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates on whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax provisions in the period in which such determination is made.

During the financial year ended 31 December 2015, one of the Group's wholly-owned Singapore-incorporated subsidiaries recorded a gain of RMB119,416,000 as a result of the transfer of its wholly-owned PRC incorporated subsidiary to AVIC International Ship Development (China) Co., Ltd. (AISD China), a wholly-owned subsidiary of the Group. Under the tax laws and regulations in the PRC, there is a 10% withholding tax obligation for the capital gains made by transferring shares of PRC incorporated companies. The taxable capital gains amount is computed based on PRC tax rules. As of 31 December 2015, management and its tax agent in China were in the process of communicating with the Chinese tax authorities to obtain a waiver of this tax liability. Pending the successful outcome of the discussion, the Group has recognised the full withholding tax liability of RMB8,259,000 for the intragroup restructuring exercises carried out in 2015.

During the financial year ended 31 December 2016, the Group's wholly-owned Singapore-incorporated subsidiaries recorded a total gain of RMB45,840,000 arising from the transfer of equity interests of AISD China to the Company. As of 31 December 2016, management has yet to receive a waiver from the Chinese tax authorities over the withholding tax liability on capital gains. Accordingly, management has recognised a liability of RMB6,602,000 for the transfer of shares during the financial year ended 31 December 2016.

As at 31 December 2018, the full withholding tax liability of RMB15,332,000 (2017: RMB15,332,000), inclusive of the effects of foreign translation on the opening balance of the tax provision for the intragroup restructuring exercises recognised in 2015 and 2016 remain disclosed as current income tax liability in the balance sheet of the Group pending any waiver to be obtained from the Chinese tax authorities.

(d) Net realisable value of inventories

The net realisable value of inventories represents the estimated selling price for the inventories work-in-progress less the estimated costs of completion and other costs necessary to make the sale. The Group has entered into shipbuilding contracts to construct certain units of vessels for sale. The Group determines the estimated selling price based on independent valuation obtained from a professional valuer as at the financial year end. The Group has recognised a charge of RMB2,275,000 (2017: RMB16,087,000) to write-down the cost of the inventories work-in-progress to its net realisable value. Further details are disclosed in Note 15 to the financial statements.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

4. Revenue

(a) Disaggregation of revenue contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major streams.

	At a point in time RMB'000	Overtime RMB'000	Total RMB'000
2018			
Ship-design fee income	**–**	**381,002**	**381,002**
Ship-building construction income	**–**	**27,531**	**27,531**
Shipbuilding project management service income	**–**	**43,808**	**43,808**
Project financing income	**–**	**124,773**	**124,773**
Finance lease income	**–**	**5,470**	**5,470**
Others	**5,076**	**–**	**5,076**
Total revenue	**5,076**	**582,584**	**587,660**
2017			
Ship-design fee income	–	274,820	274,820
Ship-building construction income	–	120,285	120,285
Sales of vessels	119,071	–	119,071
Shipbuilding project management service income	–	64,259	64,259
Project financing income	–	57,241	57,241
Finance lease income	–	7,287	7,287
Others	2,725	–	2,725
Total revenue	121,796	523,892	645,688

(b) Contract assets and liabilities

	31 December 2018 RMB'000	31 December 2017 RMB'000	1 January 2017 RMB'000
Contract assets (Note 13)			
– Shipbuilding construction contract	**27,110**	53,892	–
– Ship-design contracts	**26,180**	21,209	25,331
	53,290	75,101	25,331
Contract liabilities (Note 20)			
– Ship-design contracts	**82,105**	58,272	47,499

Contract assets relate to a fixed price shipbuilding construction contract and ship-design contracts. The contract assets balance decreased as the fixed price shipbuilding construction contract is expected to be completed in FY2019.

4. **Revenue** (Continued)

(b) **Contract assets and liabilities** (Continued)

Contract liabilities for fixed price ship-design contracts have increased due to more contracts in which the Group billed and received consideration ahead of the provision of services.

Prior to the adoption of SFRS(I) 15, contracts assets and contract liabilities were previously disclosed as "construction contracts – due from customers on construction contract" and "construction contracts – due to customers", respectively in the financial statements.

(i) *Revenue recognised in relation to contract liabilities*

	2018 RMB'000	2017 RMB'000
Revenue recognised in current period that was included in the contract liability balance at the beginning of the period		
– Ship-design contracts	**58,272**	47,499
Revenue recognised in current period from performance obligations satisfied in previous periods		
– Ship-design contracts	**–**	–

(ii) *Unsatisfied performance obligations*

	2018 RMB'000	2017 RMB'000	1 January 2017 RMB'000
Aggregate amount of the transaction price allocated to contracts that are partially or fully unsatisfied as at 31 December			
– Shipbuilding construction contract	**8,196**	–*	–*
– Ship-design contracts	**309,835**	–*	–*

* As permitted under the transitional provisions in the SFRS(I) 15, the transaction price allocated to partially or fully unsatisfied performance obligations as of 31 December 2017 and 1 January 2017 is not disclosed.

Management expects that 78% of the transaction price allocated to the unsatisfied performance obligations as of 31 December 2018 may be recognised as revenue during the next reporting period (RMB247,350,000). The remaining 22% (RMB70,681,000) may be recognised in the financial year ended 31 December 2020. The amount disclosed above does not include variable consideration which is subject to significant risk of reversal.

As permitted under the SFRS(I) 15, the aggregated transaction price allocated to unsatisfied contracts of periods one year or less, or are billed based on time incurred, is not disclosed.

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5. Expenses by nature

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Amortisation of intangible assets (Note 19)	**6,280**	5,459
Impairment loss/(write back of impairment loss) on financial assets		
– Non-trade	**–**	42
– Trade	**(3,435)**	7,077
Cost of sales of vessels (Note 15)	**–**	118,144
Contract labour and sub-contract costs	**207,662**	150,749
Depreciation of property, plant and equipment (Note 18)	**3,639**	3,398
Employee compensation (Note 6)	**114,873**	106,483
Insurance expenses	**1,553**	1,412
Office expenses	**19,277**	16,028
Other expenses	**7,383**	6,320
Professional fees	**18,230**	12,723
Property, plant and equipment written off	**213**	238
Provision for foreseeable losses (Note 20)	**1,967**	–
Rental expense on operating leases	**17,491**	17,331
Shipbuilding sub-contract costs	**24,391**	102,693
Travelling expenses	**17,118**	15,390
Write-down of inventories to net realisable value (Note 15)	**2,275**	16,087
Total cost of sales, distribution and marketing, administrative, and other operating expenses	**438,917**	579,574

6. Employee compensation

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Wages and salaries	**97,635**	87,860
Employer's contribution to defined contribution plans	**13,413**	9,355
Other benefits	**3,825**	9,268
	114,873	106,483

7. Other income

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Government grants	**10,880**	11,347
Interest income	**2,362**	1,914
Other income	**1,701**	1,686
	14,943	14,947

8. Other gains and losses – net

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Gain on disposal of property, plant and equipment	**–**	107
Foreign exchange (losses)/gains	**(403)**	15,423
Gains from voluntary liquidation of subsidiaries	**1,661**	–
Waiver of amount due to a related corporation	**1,258**	–
Financial loss arising from inadvertent payment transfers made for a ship-design contract	**(6,207)**	–
	(3,691)	15,530

9. Finance expenses

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Interest expense		
– Borrowings	**94,918**	48,432
– Finance lease liabilities	**97**	53
	95,015	48,485
(Refund of)/bank charges	**(1,465)**	3,576
Corporate guarantee fee	**7,119**	3,802
Others	**–**	166
	100,669	56,029

10. Income taxes

(a) Income tax expense

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Tax expense attributable to profit is made up of:		
Current income tax	**21,936**	18,174
Deferred income tax (Note 25)	**(875)**	(2,489)
	21,061	15,685

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10. Income taxes (Continued)

(a) Income tax expense (Continued)

Singapore income tax is calculated at 17% (2017: 17%) of the estimated assessable profit for the year. Taxation for the Group's operations in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions as explained below.

The corporate income tax rate in China and Finland are 25% (2017: 25%) and 20% (2017: 20%) respectively.

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

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Profit before tax	**59,872**	42,200
Share of profit of associated companies net of tax	**(546)**	(1,638)
Profit before tax and share of profit of associated companies	**59,326**	40,562
Tax calculated at tax rate of 17% (2017: 17%)	**10,085**	6,896
Effects of:		
– Different tax rates in other countries	**4,286**	4,121
– Expenses not deductible for tax purposes	**6,481**	8,419
– Income not subject to tax	**(891)**	(3,875)
– Utilisation of previously unrecognised tax losses	**(463)**	(454)
– Deferred tax assets not recognised	**1,229**	292
– Others	**334**	286
Tax charge	**21,061**	15,685

As at 31 December 2018, the Group has undistributed profits of subsidiaries of RMB235,119,000 (2017: RMB186,512,000). Dividends declared in respect of the undistributed profits will be subject to withholding tax of 5% for PRC and Finland subsidiaries. Deferred tax liability of approximately RMB11,756,000 (2017: RMB9,326,000) has not been recognised for the withholding tax as management 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.

At the end of the reporting period, the Group has unutilised tax losses of RMB25,557,000 (2017: RMB20,492,000), of which the tax losses from Finland subsidiaries of RMB7,585,000 (2017: RMB10,267,000) have expiry dates ranging from 31 December 2025 to 31 December 2026 (2017: 31 December 2025 to 31 December 2026), the remaining tax losses have no expiry date. No deferred tax asset has been recognised in respect of such losses as the realisation is uncertain.

10. Income taxes (Continued)

(b) Movement in current income tax liabilities

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Beginning of financial year	**18,538**	19,241
Currency translation differences	**(792)**	786
Income tax paid	**(17,857)**	(19,663)
Tax expense	**21,936**	18,174
End of financial year	**21,825**	18,538

11. Earnings per share

Basic earnings per share are 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.

	Group	
	2018	**2017**
Net profit attributable to equity holders of the Company (RMB'000)	**27,280**	26,829
Weighted average number of ordinary shares outstanding for basic earnings per share ('000)	**285,576**	285,576
Profit per share (expressed in RMB cents per share)	**9.55**	9.39

Diluted earnings per share is the same as the basic earnings per share for the financial years ended 31 December 2018 and 2017 as the Company has no potential dilutive ordinary shares.

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12. Cash at bank

	Group			Company		
	31 December		1 January	31 December		1 January
	2018	2017	2017	2018	2017	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and on hand	**243,331**	135,024	184,778	**7,635**	4,373	24,479
Cash pledged with bank	**13,267**	25,555	91,553	**–**	–	–
Fixed deposits	**–**	–	310,406	**–**	–	–
	256,598	160,579	586,737	**7,635**	4,373	24,479

For the purpose of presenting the consolidated statement of cash flows, cash and cash equivalents comprise the following:

	Group		
	31 December		1 January
	2018	2017	2017
	RMB'000	RMB'000	RMB'000
Cash and bank balances (as above)	**256,598**	160,579	586,737
Less: Cash pledged with bank	**(13,267)**	(25,555)	(91,553)
Cash and cash equivalents per consolidated statement of cash flows	**243,331**	135,024	495,184

Cash amounting to RMB13,267,000 (2017: RMB25,555,000) is pledged by the Group as collateral for letters of credit.

13. Trade and other receivables

	Group			Company		
	31 December		1 January	31 December		1 January
	2018	**2017**	**2017**	**2018**	**2017**	**2017**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Trade receivables						
– Third parties	**99,927**	106,064	68,068	**–**	–	–
– Related corporations	**16,343**	3,896	32,784	**14,219**	–	–
Less: Allowance for impairment of receivables	**–**	(7,312)	(222)	**–**	–	–
	116,270	102,648	100,630	**14,219**	–	–
Less: Non-current portion	**–**	–	(11,167)	**–**	–	–
Trade receivables – net	**116,270**	102,648	89,463	**14,219**	–	–
Contract assets (Note 4)	**53,290**	75,101	25,331	**–**	–	–
Loan receivables						
– Related corporations	**2,210,912**	2,121,593	–	**–**	–	–
Other receivables						
– Subsidiaries	**–**	–	–	**–**	–	61,988
– Related corporations	**47,471**	24,461	602,014	**–**	–	920
– Third parties	**1,054**	7,123	70,580	**–**	–	–
Less: Allowance for impairment of receivables	**–**	(3,478)	(3,704)	**–**	–	–
	48,525	28,106	668,890	**–**	–	62,908
Loan to a subsidiary	**–**	–	–	**–**	25,221	25,705
Less: Non-current portion	**–**	–	–	**–**	–	(11,198)
	–	–	–	**–**	25,221	14,507
Deposits	**5,198**	7,320	7,363	**2,668**	387	–
Less: Allowance for impairment of deposits	**–**	(1,374)	(1,517)	**–**	–	–
	5,198	5,946	5,846	**2,668**	387	–
Advances to suppliers	**5,949**	5,506	72,043	**–**	–	27,163
Staff advances	**406**	1,141	682	**–**	–	–
Value added tax/GST recoverable	**1,509**	2,163	677	**28**	–	228
	2,442,059	2,342,204	862,932	**16,915**	25,608	104,806

The Group's loan receivables due from related corporations are unsecured, bear interest at 6% per annum and are repayable on demand.

The Company's loan to a subsidiary is unsecured, bears interest at 3.25% per annum and was repaid during the financial year.

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14. Finance lease receivables

The Group leases vessels to a third party under finance leases. The lessee is obliged to purchase the vessels at the end of the lease term.

	Group		
	31 December		1 January
	2018	2017	2017
	RMB'000	RMB'000	RMB'000
Gross receivables due			
– Not later than one year	**26,842**	19,080	20,279
– Later than one year but within five years	**21,194**	39,257	62,003
	48,036	58,337	82,282
Less: Unearned finance income	**(4,638)**	(9,790)	(17,899)
Net investment in finance leases	**43,398**	48,547	64,383

The net investment in finance leases is analysed as follows:

	Group		
	31 December		1 January
	2018	2017	2017
	RMB'000	RMB'000	RMB'000
Not later than one year	**23,610**	14,411	13,832
Later than one year but within five years	**19,788**	34,136	50,551
	43,398	48,547	64,383

15. Inventories

	Group		
	31 December		1 January
	2018	2017	2017
	RMB'000	RMB'000	RMB'000
Inventories work-in-progress	**158,752**	155,972	278,962
Less: Write-down in value	**(2,275)**	(16,087)	–
	156,477	139,885	278,962

The Group has entered into shipbuilding contracts with a related corporation to construct certain units of vessels for sale. The inventories work-in-progress comprise mainly construction costs, design and engineering service fee, design license fee and other direct costs associated with the construction.

As at 31 December 2018, 5 units of completed vessels have been sold in prior financial years and 5 units remained as inventories.

The cost of inventories recognised as an expense and included in "cost of sales" amounted to nil (2017: RMB118,144,000) (Note 5).

15. Inventories (Continued)

During the financial year ended 31 December 2018, the Group has recognised a charge of RMB2,275,000 (2017: RMB16,087,000) (Note 5) to profit or loss to write-down the cost of inventories work-in-progress to net realisable value.

16. Investments in associated companies

	Group		
	31 December		1 January
	2018	2017	2017
	RMB'000	RMB'000	RMB'000
Beginning of financial year	**5,371**	2,504	1,773
Additions	**–**	2,500	–
Share of post-acquisition profit	**546**	1,638	679
Dividend received	**–**	(1,445)*	–
Share of other comprehensive income	**26**	174	52
End of financial year	**5,943**	5,371	2,504

* During the financial year ended 31 December 2017, the dividend income of RMB1,445,000 was settled by way of acquisition of property, plant and equipment from the associated company.

Details of the associated companies are as follows:

Name	Place of business/country of incorporation	Effective interest			Principal activities
		31 December		1 January	
		2018	2017	2017	
		%	%	%	
Held by Deltamarin Ltd.					
GPS Deltamarin (M) Sdn. Bhd.*	Malaysia	**39.79**	38.99	38.99	Design engineering
Shandong Deltamarin Marine Engineering Co., Ltd.*	People's Republic of China	**39.79**	39.79	39.79	Design engineering
Brodoplan d.o.o.*	Croatia	**39.79**	39.79	39.79	Design engineering
Held by AVIC International Ship Development (China). Ltd.					
R&M Marine Interior Turnkey Company (Shanghai) Ltd.**	People's Republic of China ("PRC")	**25.00**	25.00	–	Interior design

* Audited by PricewaterhouseCoopers Oy for consolidation purposes
** Not audited as the company was dormant during the financial year

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16. Investments in associated companies (Continued)

On 29 December 2017, the Group acquired 25% interest in the issued share capital of R&M Marine Interior Turnkey Company (Shanghai) Ltd. ("R&M") for a total consideration of RMB2,500,000. The shares of R&M are held by AVIC International Ship Development (China) Co., Ltd., a subsidiary of the Group.

There are no (2017: Nil) contingent liabilities relating to the Group's interests in the associated companies as at 31 December 2018.

Summarised financial information for associated companies

The directors are of the opinion that the associated companies are immaterial to the Group individually. Accordingly, only the aggregated summarised financial information of the associated companies is disclosed.

Set out below is the aggregate of the amounts presented in the financial statements of the Group's associated companies (and not the Group's share of those amounts):

	31 December		1 January
	2018	**2017**	**2017**
	RMB'000	**RMB'000**	**RMB'000**
Total assets	**25,725**	17,302	8,467
Total liabilities	**(8,249)**	(1,835)	(3,788)
Net assets	**17,476**	15,467	4,679

	31 December		1 January
	2018	**2017**	**2017**
	RMB'000	**RMB'000**	**RMB'000**
Revenue	**23,257**	20,798	17,113
Profit after tax for the year	**3,370**	3,503	3,467

17. Investments in subsidiaries

	Company 31 December	
	2018	**2017**
	RMB'000	**RMB'000**
Equity investments at cost		
Beginning of financial year	**585,093**	575,124
Currency translation differences	**3,801**	9,969
End of financial year	**588,894**	585,093

17. Investments in subsidiaries (Continued)

Details of the Company's subsidiaries are as follows:

Name	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 interests		
			31 December 2018 %	31 December 2017 %	1 January 2017 %	31 December 2018 %	31 December 2017 %	1 January 2017 %	31 December 2018 %	31 December 2017 %	1 January 2017 %
Held by AVIC International Maritime Holdings Limited											
AVIC Ship Investments Limited[(2)]	Investment holding	Hong Kong	**100**	100	100	**100**	100	100	**–**	–	–
AVIC International Offshore Pte. Ltd.*	Ship-trading agency and import and export business	Singapore	**–**	100	100	**–**	100	100	**–**	–	–
AVIC International Ship Development (China). Ltd.[(2)]	Ship-trading related businesses	PRC	**100**	100	100	**100**	100	100	**–**	–	–
AVIC Zhenjiang Shipyard Marine Pte. Ltd.[(1)]	Trading, ship-trading agency and shipbuilding related businesses	Singapore	**60**	60	60	**60**	60	60	**40**	40	40
Deltamarin Floating Construction Pte. Ltd.*	Providing engineering, procurement and construction services	Singapore	**–**	51	51	**–**	89.99	89.99	**–**	10.01	10.01
Deltamarin Ltd.[(3)]	Provision of consulting, design and engineering services to the marine and offshore industries	Finland	**79.57**	79.57	79.57	**79.57**	79.57	79.57	**20.43**	20.43	20.43
Held by AVIC Ship Investments Limited											
AVIC Ship Europe GmbH[(3)]	Investment holding	Germany	**100**	100	100	**100**	100	100	**–**	–	–
Held by AVIC Zhenjiang Shipyard Marine Pte. Ltd.											
Blue Ocean Ship Management & Engineering Limited[(2)]	Acquiring, owning, selling, brokering and chartering of various types of vessels, including without limitation tugboats and offshore vessels	Hong Kong	**100**	100	100	**60**	60	60	**40**	40	40

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17. Investments in subsidiaries (Continued)

Details of the Company's subsidiaries are as follows: (Continued)

Name	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 interests		
			31 December 2018 %	31 December 2017 %	1 January 2017 %	31 December 2018 %	31 December 2017 %	1 January 2017 %	31 December 2018 %	31 December 2017 %	1 January 2017 %
Held by Deltamarin Ltd.											
Deltamarin (China) Co., Ltd.[(2)]	Consulting services for ocean engineering/supply chain/ environmental/energy/lifecycle management, investment information, consulting and technical services	PRC	**100**	100	100	**79.57**	79.57	79.57	**20.43**	20.43	20.43
Deltamarin Sp.z o.o.[(3)]	Design and marine engineering, project management and consultancy	Poland	**100**	100	100	**79.75**	79.75	79.75	**20.43**	20.43	20.43
Held by AVIC International Ship Development (China). Ltd.											
AVIC International Offshore Xiamen Co., Ltd.[(2)]	Wholesale import and export, commission agency of ship/ marine engineering equipment/ marine equipment, material and accessories	PRC	**100**	100	100	**100**	100	100	**–**	–	–
AVIC International Ship Development (Beijing) Co., Ltd.[(2)]	Ship-trading agency and import and export business	PRC	**100**	100	100	**100**	100	100	**–**	–	–

(1) Audited by PricewaterhouseCoopers LLP, Singapore.
(2) Audited by PricewaterhouseCoopers LLP, Singapore for consolidation purpose.
(3) Audited by PricewaterhouseCoopers Oy.
* Liquidated during the financial year

17. Investments in subsidiaries (Continued)

Significant restrictions

Cash and short-term deposits of RMB157,809,000 (2017: RMB33,401,000) are held in the People's Republic of China and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

Carrying value of non-controlling interests

	31 December 2018 RMB'000	31 December 2017 RMB'000	1 January 2017 RMB'000
Deltamarin Ltd.(i)	**65,603**	57,236	48,956
AVIC Zhenjiang Shipyard Marine Pte. Ltd.(ii)	**9,476**	8,184	14,499
Other subsidiaries with immaterial non-controlling interests	**–**	9	12
Total	**75,079**	65,429	63,467

(i) Includes Deltamarin Ltd. and its subsidiaries.

(ii) Includes AVIC Zhenjiang Shipyard Marine Pte. Ltd. and its subsidiary.

Summarised financial information of subsidiaries with material non-controlling interests

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. These are presented before inter-company eliminations.

Summarised balance sheet

	Deltamarin Ltd.			AVIC Zhenjiang Shipyard Marine Pte. Ltd.		
	31 December		1 January	31 December		1 January
	2018	2017	2017	2018	2017	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current						
Assets	**300,242**	212,763	166,784	**218,043**	237,757	311,006
Liabilities	**(162,077)**	(114,945)	(87,490)	**(212,817)**	(250,108)	(324,981)
Total current net assets/(liabilities)	**138,165**	97,818	79,294	**5,226**	(12,351)	(13,975)
Non-current						
Assets	**199,133**	198,445	197,087	**19,788**	34,136	50,555
Liabilities	**(16,185)**	(16,109)	(17,680)	**–**	–	(3)
Total non-current net assets	**182,948**	182,336	179,407	**19,788**	34,136	50,552
Net assets	**321,113**	280,154	258,701	**25,014**	21,785	36,577

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17. **Investments in subsidiaries** (Continued)

Summarised income statement

	Deltamarin Ltd. 31 December		AVIC Zhenjiang Shipyard Marine Pte. Ltd. 31 December	
	2018	**2017**	**2018**	**2017**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Revenue	**370,965**	264,432	**5,470**	126,359
Profit/(loss) before income tax	**65,410**	27,371	**2,084**	(13,057)
Income tax (expense)/credit	**(13,051)**	(4,682)	**–**	3
Other comprehensive income for the year	**1,525**	16,792	**1,145**	1,112
Total comprehensive income/(loss) for the year	**53,884**	39,481	**3,229**	(11,942)
Total comprehensive income/(loss) allocated to non-controlling interests	**11,008**	8,066	**1,292**	(4,777)
Dividends to non-controlling interest	**(2,650)**	(1,582)	**–**	–

Summarised cash flows

	Deltamarin Ltd.		AVIC Zhenjiang Shipyard Marine Pte. Ltd.	
	2018	**2017**	**2018**	**2017**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Net cash generated/(used in) from operating activities	**1,369**	27,824	**(5,665)**	(3,171)
Net cash used in investing activities	**(5,423)**	(770)	**–**	–
Net cash used in financing activities	**(15,227)**	(8,124)	**(11,942)**	8,852
Net (decrease)/increase in cash and cash equivalents	**(19,281)**	18,930	**(17,607)**	5,681
Cash and cash equivalents at beginning of financial year	**124,393**	76,916	**20,279**	15,712
Effects of currency translation on cash and cash equivalents	**464**	4,137	**352**	(1,114)
Cash and cash equivalents at end of financial year	**105,576**	99,983	**3,024**	20,279

18. Property, plant and equipment

	Leasehold building RMB'000	Office equipment RMB'000	Computer RMB'000	Motor vehicles RMB'000	Renovation RMB'000	Furniture and fixtures RMB'000	Total RMB'000
Group							
31 December 2018							
Cost							
Beginning of financial year	**1,479**	**6,033**	**10,032**	**848**	**3,014**	**–**	**21,406**
Currency translation differences	**9**	**28**	**265**	**1**	**21**	**–**	**324**
Additions	**–**	**1,435**	**2,465**	**–**	**359**	**–**	**4,259**
Write-off	**–**	**–**	**(2,160)**	**–**	**(156)**	**–**	**(2,316)**
End of financial year	**1,488**	**7,496**	**10,602**	**849**	**3,238**	**–**	**23,673**
Accumulated depreciation							
Beginning of financial year	**55**	**3,667**	**7,135**	**447**	**1,721**	**–**	**13,025**
Currency translation differences	**1**	**18**	**118**	**1**	**6**	**–**	**144**
Depreciation charge	**74**	**789**	**1,818**	**162**	**796**	**–**	**3,639**
Write-off	**–**	**–**	**(2,057)**	**–**	**(46)**	**–**	**(2,103)**
End of financial year	**130**	**4,474**	**7,014**	**610**	**2,477**	**–**	**14,705**
Net book value							
End of financial year	**1,358**	**3,022**	**3,588**	**239**	**761**	**–**	**8,968**
31 December 2017							
Cost							
Beginning of financial year	–	5,876	8,964	835	1,856	17	17,548
Currency translation differences	34	339	511	13	65	–	962
Additions	1,445	414	1,525	–	1,269	–	4,653
Disposals	–	(381)	(950)	–	–	–	(1,331)
Write-off	–	(215)	(18)	–	(176)	(17)	(426)
End of financial year	1,479	6,033	10,032	848	3,014	–	21,406
Accumulated depreciation							
Beginning of financial year	–	3,406	5,623	282	1,214	17	10,542
Currency translation differences	1	206	361	4	32	–	604
Depreciation charge	54	593	2,115	161	475	–	3,398
Disposals	–	(381)	(950)	–	–	–	(1,331)
Write-off	–	(157)	(14)	–	–	(17)	(188)
End of financial year	55	3,667	7,135	447	1,721	–	13,025
Net book value							
End of financial year	1,424	2,366	2,897	401	1,293	–	8,381
Net book value							
Beginning of financial year	–	2,470	3,341	553	642	–	7,006

The carrying amount of the Group's property, plant and equipment includes an amount of RMB2,217,000 (31 December 2017: RMB1,484,000, 1 January 2017: RMB1,772,000) secured in respect of assets held under finance leases.

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18. **Property, plant and equipment** (Continued)

	Computer RMB'000	Renovation RMB'000	Total RMB'000
Company			
31 December 2018			
Cost			
Beginning of financial year	**136**	**153**	**289**
Currency translation differences	**3**	**4**	**7**
End of financial year	**139**	**157**	**296**
Accumulated depreciation			
Beginning of financial year	**136**	**47**	**183**
Currency translation differences	**3**	**4**	**7**
Depreciation charge	**–**	**106**	**106**
End of financial year	**139**	**157**	**296**
Net book value			
End of financial year	**–**	**–**	**–**
31 December 2017			
Cost			
Beginning of financial year	134	150	284
Currency translation differences	2	3	5
End of financial year	136	153	289
Accumulated depreciation			
Beginning of financial year	134	14	148
Currency translation differences	2	–	2
Depreciation charge	–	33	33
End of financial year	136	47	183
Net book value			
End of financial year	–	106	106
Net book value			
Beginning of financial year	–	136	136

19. Intangible assets

	Group		
	31 December		1 January
	2018	2017	2017
	RMB'000	RMB'000	RMB'000
Composition:			
Goodwill arising on consolidation [Note (a)]	**114,706**	114,049	106,796
Acquired brand [Note (b)]	**45,371**	46,846	45,492
Technical knowhow [Note (c)]	**23,143**	25,567	26,335
Ship-design engineering software licences [Note (d)]	**8,105**	2,504	3,194
Total	**191,325**	188,966	181,817

(a) Goodwill arising on consolidation

	Group		
	31 December		1 January
	2018	2017	2017
	RMB'000	RMB'000	RMB'000
Beginning of financial year	**114,049**	106,796	103,497
Currency translation differences	**657**	7,253	3,299
End of financial year	**114,706**	114,049	106,796

Goodwill is allocated to Deltamarin Ltd. and its subsidiaries (the "Deltamarin Group") cash-generating unit ("DM-CGU") which is in the business of provision of consulting, design and engineering services to the marine and offshore industries.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of the DM-CGU is determined based on value-in-use calculations. The key assumptions for the value-in-use calculations are those relating to the discount rate, terminal growth rate, revenue compound annual growth rate and operating margin during the period. Management estimates the discount rate using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the DM-CGU. The growth rate is based on industry growth forecasts. Operating margin is based on past trends and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets for DM-CGU approved by management for the next five years based on an estimated revenue compound annual growth rate of 3.5% (2017: 3.5%) per annum, an estimated operating margin of 11.5% (2017: 11.3%) and a terminal growth rate of 3.5% (2017: 3.5%) per annum for period beyond 5 years.

The pre-tax discount rate used to discount the forecast cash flows from the DM-CGU is 15.02% (2017: 15.08%) per annum.

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19. **Intangible assets** (Continued)

(a) **Goodwill arising on consolidation** (Continued)

The impairment test carried out as at 31 December 2018 for DM-CGU, which includes 100% of the goodwill recognised on the balance sheet, has revealed that the recoverable amount of the CGU is RMB53.1 million (2017: RMB48.5 million) or 25.1% (2017: 22.3%) higher than its carrying amount. A further decrease in the revenue compound annual growth rate by 6.6% (2017: 5.7%) per annum or a further decrease in operating margin by 1.6% (2017: 2.0%) would result in the recoverable amount of DM-CGU being equal to its carrying amount.

(b) **Acquired brand**

	Group		
	31 December		1 January
	2018	2017	2017
	RMB'000	RMB'000	RMB'000
Cost			
Beginning of financial year	**52,052**	48,742	47,237
Currency translation differences	**300**	3,310	1,505
End of financial year	**52,352**	52,052	48,742
Accumulated amortisation			
Beginning of financial year	**5,206**	3,250	1,575
Amortisation charge (Note 5)	**1,735**	1,696	1,635
Currency translation differences	**40**	260	40
End of financial year	**6,981**	5,206	3,250
Net book value	**45,371**	46,846	45,492

(c) **Technical knowhow**

	Group		
	31 December		1 January
	2018	2017	2017
	RMB'000	RMB'000	RMB'000
Cost			
Beginning of financial year	**38,349**	35,911	34,802
Currency translation differences	**221**	2,438	1,109
End of financial year	**38,570**	38,349	35,911
Accumulated amortisation			
Beginning of financial year	**12,782**	9,576	6,960
Amortisation charge (Note 5)	**2,557**	2,499	2,409
Currency translation differences	**88**	707	207
End of financial year	**15,427**	12,782	9,576
Net book value	**23,143**	25,567	26,335

19. **Intangible assets** (Continued)

(d) Ship-design engineering software licences

	Group		
	31 December		1 January
	2018	2017	2017
	RMB'000	RMB'000	RMB'000
Cost			
Beginning of financial year	**12,573**	12,059	10,692
Additions	**7,550**	394	1,064
Write-off	**–**	(692)	–
Currency translation differences	**86**	812	303
End of financial year	**20,209**	12,573	12,059
Accumulated amortisation			
Beginning of financial year	**10,069**	8,865	7,489
Amortisation charge (Note 5)	**1,988**	1,264	1,162
Write-off	**–**	(692)	–
Currency translation differences	**47**	632	214
End of financial year	**12,104**	10,069	8,865
Net book value	**8,105**	2,504	3,194

The amortisation charges for acquired brand, technical knowhow and ship-design engineering software licences are classified as administrative expenses in profit or loss.

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20. Trade and other payables

	Group			Company		
	31 December		1 January	31 December		1 January
	2018	2017	2017	2018	2017	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables						
– Third parties	**37,473**	71,145	20,042	**–**	–	64
– Related corporation	**–**	–	–	**–**	–	27,963
Contract liabilities (Note 4)	**82,105**	58,272	47,499	**–**	–	–
Advances received						
– Third parties	**3,432**	101	63,834	**–**	–	–
– Related corporations	**–**	37,389	189,499	**–**	36,705	66,957
	3,432	37,490	253,333	**–**	36,705	66,957
Accrued expenses	**77,197**	65,082	48,198	**2,132**	2,771	3,737
Accrued construction costs	**31,919**	19,067	67,788	**–**	–	–
Other payables						
– Third parties	**6,083**	6,030	10,130	**53**	–	–
– Immediate holding corporation	**658**	2,789	–	**–**	–	–
– Related corporations	**43,918**	43,088	110,290	**66**	66	4,793
– Associated companies	**6,030**	3,936	948	**–**	–	–
Interest payable to banks	**4,081**	6,588	1,742	**1,675**	971	78
Other tax payable	**1,502**	2,464	3,861	**–**	–	–
Other provisions	**1,967**	–	–	**15,332**	15,332	15,332
	296,365	315,951	563,831	**19,258**	55,845	118,924

The other payables due to immediate holding corporation, related corporations and associated companies are unsecured, interest-free and are repayable on demand.

Included in other provisions of the Group is RMB1,967,000 of foreseeable losses recognised for a contract with customer.

Other provisions of the Company relate to liabilities assumed on behalf of subsidiaries that have undergone members' voluntary liquidation during the financial year ended 31 December 2016 as part of the Group's intra-group reorganisation exercise.

21. Due to subsidiaries (non-trade)

RMB9,417,000 (31 December 2017: RMB9,488,000, 1 January 2017: RMB8,767,000) of the non-trade amount due to subsidiaries is unsecured, bears interest at 2.3% (31 December 2017: 2.3%, 1 January 2017: 2.3%) per annum and is repayable on 31 January 2021.

The remaining non-trade amount due to subsidiaries of RMB301,577,000 (31 December 2017: RMB234,811,000, 1 January 2017: RMB283,934,000) are unsecured, interest-free and are repayable on demand.

22. Borrowings

	Group			Company		
	31 December		1 January	31 December		1 January
	2018	2017	2017	2018	2017	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current						
Bank borrowings	**1,140,810**	1,796,306	568,713	**–**	195,324	215,996
Loans from non-controlling interests	**66,532**	87,898	98,138	**–**	–	–
Loans from related corporations	**698,149**	34,501	36,669	**177,468**	–	–
	1,905,491	1,918,705	703,520	**177,468**	195,324	215,996
Non-current						
Bank borrowings	**278,302**	395,033	492,240	**–**	–	–
Loans from a related corporation	**310,000**	–	–	**–**	–	–
	588,302	395,033	492,240	**–**	–	–
Total borrowings	**2,493,793**	2,313,738	1,195,760	**177,468**	195,324	215,996

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

	Group			Company		
	31 December		1 January	31 December		1 January
	2018	2017	2017	2018	2017	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
6 months or less	**1,143,543**	108,595	56,763	**–**	195,324	215,996
6 – 12 months	**487,545**	1,687,711	511,950	**–**	–	–
1 – 5 years	**588,302**	395,033	492,240	**–**	–	–
	2,219,390	2,191,339	1,060,953	**–**	195,324	215,996

(a) Guarantee granted

Bank borrowings of the Group and the Company are guaranteed by the Company's holding corporations and related corporations.

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22. Borrowings (Continued)

(b) Fair value of non-current borrowings

	Group			Company		
	31 December		1 January	31 December		1 January
	2018	2017	2017	2018	2017	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current borrowings	**588,302**	395,033	492,240	**–**	–	–

The fair values above are determined from the cash flow analysis, discounted at market per annum borrowing rates of an equivalent instrument at the balance sheet date which the directors expected to be available to the Group as follows:

	Group			Company		
	31 December		1 January	31 December		1 January
	2018	2017	2017	2018	2017	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Borrowings	**3.19%**	2.71%	3.49%	**–**	–	–

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

(c) Loans from non-controlling interests

The loans from non-controlling interests are unsecured, interest-free and are repayable on demand. These loans are denominated in United States Dollars ("USD") and the carrying amount approximate its fair values.

(d) Loans from related corporations

The Group and Company's current loans from related corporations are unsecured, interest bearing at 2.04% to 5.62% per annum and are repayable on demand. These loans amounting to RMB490,277,000 and RMB207,872,000 are denominated in RMB and USD, respectively and the carrying amount approximates its fair value. The Group's non-current loans from a related corporation are unsecured, interest bearing at 2.04% per annum and are repayable in 2020 and 2021.

23. Finance lease liabilities

	Group		
	31 December		1 January
	2018	2017	2017
	RMB'000	RMB'000	RMB'000
Minimum lease payments due			
– Not later than one year	**1,194**	980	1,073
– Between one and five years	**1,149**	585	801
	2,343	1,565	1,874
Less: Future finance charges	**(106)**	(59)	(77)
Present value of finance lease liabilities	**2,237**	1,506	1,797

The present values of finance lease liabilities are analysed as follows:

	Group		
	31 December		1 January
	2018	2017	2017
	RMB'000	RMB'000	RMB'000
Not later than one year	**1,161**	953	1,042
Between one and five years	**1,076**	553	755
	2,237	1,506	1,797

The Group leases certain of its property, plant and equipment under finance leases. The average lease term is 3 years (2017: 3 years). For the financial year ended 31 December 2018, the average effective interest rate was 3.17% (2017: 3.62%) per annum. Interest rates are fixed at the contract date, and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in Euro.

The fair values of the Group's lease obligations approximate their carrying amounts.

The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

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24. Derivative financial instruments

	Group		
	Contract notional amount	Fair value	
		Asset	Liability
	RMB'000	RMB'000	RMB'000
31 December 2018			
Derivatives not held for hedging:			
– Currency options	**491,550**	**–**	**16,327**
– Currency forwards	**159,723**	**–**	**8,426**
		–	**24,753**

During the current financial year, the Group has entered into forward and option currency contracts with different financial institutions on behalf of a related corporation in the People's Republic of China, to hedge future cash transactions denominated in United States dollars ("USD").

25. Deferred income taxes

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

	Group		
	31 December		1 January
	2018	2017	2017
	RMB'000	RMB'000	RMB'000
Deferred income tax liabilities			
– To be recovered within one year	**860**	858	841
– To be recovered after one year	**14,248**	14,698	16,087
	15,108	15,556	16,928
Deferred income tax assets			
– To be recovered after one year	**(2,014)**	(1,721)	(1,545)

25. Deferred income taxes (Continued)

The movement in deferred income tax assets and liabilities is as follows:

Deferred income tax liabilities

	Fair value adjustment on business combination RMB'000	Accrued revenue RMB'000	Total RMB'000
31 December 2018			
Beginning of financial year	**14,485**	**1,071**	**15,556**
Currency translation differences	**79**	**50**	**129**
(Credited)/charged to profit or loss	**(860)**	**283**	**(577)**
End of financial year	**13,704**	**1,404**	**15,108**
31 December 2017			
Beginning of financial year	14,369	2,559	16,928
Currency translation differences	957	21	978
Credited to profit or loss	(841)	(1,509)	(2,350)
End of financial year	14,485	1,071	15,556

Deferred income tax assets

	Provisions RMB'000	Total RMB'000
31 December 2018		
Beginning of financial year	**(1,721)**	**(1,721)**
Currency translation differences	**5**	**5**
Credited to profit or loss	**(298)**	**(298)**
End of financial year	**(2,014)**	**(2,014)**
31 December 2017		
Beginning of financial year	(1,545)	(1,545)
Currency translation differences	(37)	(37)
Credited to profit or loss	(139)	(139)
End of financial year	(1,721)	(1,721)

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26. Share capital

	No. of ordinary shares	Amount RMB'000
Group and Company		
2018 and 2017		
Beginning and end of financial year	285,576,000	101,237

Fully paid ordinary shares, which have no par value, carry one vote per share and a right to dividends as and when declared by the Company.

27. Other reserves

(a) Composition:

	Group			Company		
	31 December		1 January	31 December		1 January
	2018	2017	2017	2018	2017	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Capital reserve	**11,944**	11,944	11,944	**10,429**	10,429	10,429
Merger reserve	**(3,664)**	(3,664)	(3,664)	**–**	–	–
Statutory reserve	**32,019**	19,895	16,712	**–**	–	–
Currency translation reserve	**(20,736)**	(6,130)	(8,209)	**844**	(1,810)	(3,277)
	19,563	22,045	16,783	**11,273**	8,619	7,152

Other reserves are non-distributable.

(b) Movements:

(i) Capital reserve

Capital reserve represents a deemed contribution from the immediate holding corporation as a result of initially measuring the shareholder's loan at fair value.

(ii) Merger reserve

Merger reserve relates to the acquisition of AVIC Zhenjiang Shipyard Marine Pte. Ltd. from a related corporation under common control during the financial year ended 31 December 2015 and represents the difference between the carrying amount of the net assets acquired and the consideration paid for the acquisition.

27. Other reserves (Continued)

(b) Movements: (Continued)

(iii) Statutory reserve

	2018 RMB'000	2017 RMB'000
Beginning of financial year	**19,895**	16,712
Transfer from retained profits	**12,124**	3,183
End of financial year	**32,019**	19,895

The PRC subsidiaries follow the accounting principles and relevant financial regulations of the People's Republic of China ("PRC GAAP") applicable to Sino-foreign equity joint venture enterprises in the preparation of the accounting records and statutory financial statements.

Appropriation to the statutory reserve by the Sino-foreign equity joint venture enterprise is determined at 10% of the profit arrived in accordance with PRC GAAP for each year.

The profit arrived at must be set-off against any accumulated losses sustained by the subsidiaries in prior years, before allocation is made to the statutory reserve. Appropriation to the subsidiary reserve must be made before distribution of dividends to shareholders. The appropriation is required until the statutory reserve reaches 50% of the registered capital. This statutory reserve is not distributable in the form of cash dividends.

(iv) Currency translation reserve

	Group		Company	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Beginning of financial year	**(6,130)**	(8,209)	**(1,810)**	(3,277)
Net currency translation differences of financial statements of foreign subsidiaries and associated companies	**(13,837)**	5,937	**2,654**	1,467
Less: Non-controlling interests	**(769)**	(3,858)	**–**	–
End of financial year	**(20,736)**	(6,130)	**844**	(1,810)

The translation reserve account comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations in their respective functional currencies to be presented in RMB.

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28. Commitments

(a) Contractual commitments

Contractual expenditure contracted for at the balance sheet date but not recognised in the financial statements, excluding those relating to investments in associated companies (Note 16), are as follows:

	Group		
	31 December		1 January
	2018	2017	2017
	RMB'000	RMB'000	RMB'000
Vessels-under-construction to be held as inventories	**16,201**	26,776	63,313

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

The Group leases office buildings from non-related parties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

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:

	Group		
	31 December		1 January
	2018	2017	2017
	RMB'000	RMB'000	RMB'000
Not later than one year	**11,238**	14,295	19,711
Between one and five years	**30,019**	36,813	21,596
Later than five years	**–**	10,003	13,273
	41,257	61,111	54,580

29. Financial risk management

Financial risk factors

The management of the Group monitors and manages the financial risks relating to the operations of the Group to ensure appropriate measures are implemented in a timely and effective manner. These risks include market risk (foreign exchange risk and interest rate risk), credit and liquidity risk.

The Group does not hold or issue derivative financial instruments for trading purposes.

29. Financial risk management (Continued)

Financial risk factors (Continued)

There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risk. Market risk exposures are measured using sensitivity analysis indicated below.

(a) Market risk

(i) Currency risk

Foreign currency risk occurs as a result of the Group's transactions that are not denominated in the entities' respective functional currencies. These transactions arise from the Group's ordinary course of business. The Group transacts business in various currencies and the most significant currency exposure is in United States dollars ("USD"), Singapore dollars ("SGD"), Euro ("EUR") and Chinese renminbi ("RMB").

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

	SGD RMB'000	USD RMB'000	RMB RMB'000	EUR RMB'000
At 31 December 2018				
Financial assets				
Cash at bank	**2,197**	**23,669**	**150,964**	**79,768**
Trade and other receivables	**2,696**	**2,301,134**	**3,228**	**74,253**
Due from subsidiaries	**–**	**452,812**	**7,589**	**23,307**
Finance lease receivables	**–**	**43,398**	**–**	**–**
	4,893	**2,821,013**	**161,781**	**177,328**
Financial liabilities				
Trade and other payables	**(2,251)**	**(76,536)**	**(55,418)**	**(73,154)**
Borrowings	**–**	**(1,049,945)**	**(1,443,848)**	**–**
Due to subsidiaries	**–**	**(452,812)**	**(7,589)**	**(23,307)**
Derivative financial instruments	**–**	**(24,753)**	**–**	**–**
Finance lease liabilities	**–**	**–**	**–**	**(2,237)**
	(2,251)	**(1,604,046)**	**(1,506,855)**	**(98,698)**
Net financial assets/(liabilities)	**2,642**	**1,216,967**	**(1,345,074)**	**78,630**
Currency exposure of financial assets/(liabilities) net of those denominated in the respective entities' functional currency	**105**	**(596,719)**	**123**	**(1,626)**

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

29. **Financial risk management** (Continued)

(a) **Market risk** (Continued)

(i) *Currency risk* (Continued)

	SGD RMB'000	USD RMB'000	RMB RMB'000	EUR RMB'000
At 31 December 2017				
Financial assets				
Cash at bank	549	24,528	33,938	101,564
Trade and other receivables	387	17,589	2,195,415	46,043
Due from subsidiaries	–	495,170	262,211	9,363
Available-for-sale investments	–	–	–	12
Finance lease receivables	–	48,547	–	–
	936	585,834	2,491,564	156,982
Financial liabilities				
Trade and other payables	(3,919)	(26,334)	(80,903)	(106,569)
Borrowings	(195,324)	(795,206)	(1,309,000)	(14,208)
Due to subsidiaries	–	(495,170)	(262,211)	(9,363)
Finance lease liabilities	–	–	–	(1,506)
	(199,243)	(1,316,710)	(1,652,114)	(131,646)
Net financial (liabilities)/assets	(198,307)	(730,876)	839,450	25,336
Currency exposure of financial assets/(liabilities) net of those denominated in the respective entities' functional currency	19	(397,296)	2,403	(354)

29. Financial risk management (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:

	SGD RMB'000	USD RMB'000	RMB RMB'000	EUR RMB'000
At 1 January 2017				
Financial assets				
Cash at bank	24,817	17,913	462,255	81,752
Trade and other receivables	244	1,538	709,375	64,891
Due from subsidiaries	–	461,811	31,765	18,453
Available-for-sale investments	–	–	–	11
Finance lease receivables	–	64,383	–	–
	25,061	545,645	1,203,395	165,107
Financial liabilities				
Trade and other payables	(4,106)	(80,585)	(135,746)	(38,701)
Borrowings	(215,996)	(499,390)	(480,374)	–
Due to subsidiaries	–	(461,811)	(31,765)	(18,453)
Finance lease liabilities	–	–	–	(1,797)
	(220,102)	(1,041,786)	(647,885)	(58,951)
Net financial (liabilities)/assets	(195,041)	(496,141)	555,510	106,156
Currency exposure of financial liabilities net of those denominated in the respective entities' functional currency	(98)	(22,214)	(5,563)	(59)

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

29. **Financial risk management** (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:

	SGD RMB'000	USD RMB'000	RMB RMB'000	EUR RMB'000
At 31 December 2018				
Financial assets				
Cash at bank	**2,092**	**5,386**	**13**	**144**
Trade and other receivables	**2,668**	**14,219**	**–**	**–**
	4,760	**19,605**	**13**	**144**
Financial liabilities				
Trade and other payables	**(2,252)**	**(1,674)**	**–**	**–**
Due to subsidiaries	**–**	**(287,792)**	**–**	**(23,202)**
Borrowings	**–**	**(177,468)**	**–**	**–**
	(2,252)	**(466,934)**	**–**	**(23,202)**
Net financial assets/(liabilities)	**2,508**	**(447,329)**	**13**	**(23,058)**
Currency exposure of financial (liabilities)/assets net of those denominated in the Company's functional currency	**–**	**(447,329)**	**13**	**(23,058)**
At 31 December 2017				
Financial assets				
Cash at bank	417	2,058	13	1,885
Trade and other receivables	387	25,221	–	–
	804	27,279	13	1,885
Financial liabilities				
Trade and other payables	(3,808)	–	–	–
Due to subsidiaries	(244,299)	–	–	–
Borrowings	(195,324)	–	–	–
	(443,431)	–	–	–
Net financial (liabilities)/assets	(442,627)	27,279	13	1,885
Currency exposure of financial assets net of those denominated in the Company's functional currency	–	27,279	13	1,885

29. Financial risk management (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:

	SGD RMB'000	USD RMB'000
At 1 January 2017		
Financial assets		
Cash at bank	24,479	–
Trade and other receivables	–	88,613
	24,479	88,613
Financial liabilities		
Trade and other payables	(8,672)	(27,963)
Due to subsidiaries	(292,701)	–
Borrowings	(215,996)	–
	(517,369)	(27,963)
Net financial (liabilities)/assets	(492,890)	60,650
Currency exposure of financial assets net of those denominated in the Company's functional currency	–	60,650

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

29. Financial risk management (Continued)

(a) Market risk (Continued)

(i) Currency risk (Continued)

If the SGD, USD and EUR change against the RMB by 10% (31 December 2017: 10%, 1 January 2017: 10%) respectively with all other variables including tax rate being held constant, the effects arising from the Group's net financial liability/asset position will be as follows:

	Increase/(Decrease) Group Profit after tax		
	31 December		1 January
	2018 RMB'000	2017 RMB'000	2017 RMB'000
SGD against RMB			
– Strengthened	**9**	2	(8)
– Weakened	**(9)**	(2)	8
USD against RMB			
– Strengthened	**(49,528)**	(32,976)	(1,844)
– Weakened	**49,528**	32,976	1,844
EUR against RMB			
– Strengthened	**(135)**	(30)	(5)
– Weakened	**135**	30	5
RMB against EUR			
– Strengthened	**10**	199	(462)
– Weakened	**(10)**	(199)	462

If the USD, RMB and EUR change against the SGD by 10% (31 December 2017: 10%, 1 January 2017: 10%) respectively with all other variables including tax rate being held constant, the effects arising from the Company's net financial liability/asset position will be as follows:

	Increase/(Decrease) Company Profit after tax		
	31 December		1 January
	2018 RMB'000	2017 RMB'000	2017 RMB'000
USD against SGD			
– Strengthened	**(37,128)**	2,264	5,034
– Weakened	**37,128**	(2,264)	(5,034)
RMB against SGD			
– Strengthened	**1**	1	–
– Weakened	**(1)**	(1)	–
EUR against SGD			
– Strengthened	**(1,914)**	156	–
– Weakened	**1,914**	(156)	–

29. **Financial risk management** (Continued)

(a) **Market risk** (Continued)

(ii) Interest rate risk

The Group's exposure to changes in interest rates relates primarily to the Group's fixed deposits with banks, bank borrowings at floating rate, and loans from related corporations at floating rate. The Group does not use derivative financial instruments to hedge its risks and the details of the Group's interest rate exposure is disclosed in Note 22 to the financial statements.

If interest rates had been 50 (31 December 2017: 50, 1 January 2017: 50) basis points higher or lower and all other variables were held constant, the Group's and the Company's profit for the year ended 31 December 2018 would decrease/increase by RMB11,097,000 (31 December 2017: RMB5,374,000, 1 January 2017: RMB3,263,053) and nil (31 December 2017: RMB1,004,000, 1 January 2017: RMB1,736,200) respectively. This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

(b) **Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The major classes of financial assets of the Group and of the Company are bank deposits, trade and other receivables and finance lease receivables. For trade receivables, the Group adopts the policy of dealing only with related corporations and third-party customers of appropriate credit standing and history, and obtaining sufficient collateral or buying credit insurance where appropriate to mitigate credit risk. For other financial assets, the Group adopts the policy of dealing only with high credit quality counterparties.

As the Group and the Company do not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the balance sheet.

The movements in credit loss allowance are as follows:

	Trade receivables RMB'000	**Other receivables RMB'000**	**Other financial assets at amortised cost RMB'000**	**Total RMB'000**
Group				
Balance at 1 January 2018 under SFRS	7,312	3,478	1,374	12,164
Application of SFRS(I) 9 (Note 2.2)	–	–	–	–
Balance at 1 January 2018 under SFRS(I) 9	7,312	3,478	1,374	12,164
Loss allowance recognised in profit or loss during the year on:				
– Reversal of unutilised amount	(3,435)	–	–	(3,435)
Receivables written off as uncollectible	(3,877)	(3,478)	(1,374)	(8,729)
Balance at 31 December 2018	–	–	–	–

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

29. **Financial risk management** (Continued)

(b) **Credit risk** (Continued)

The receivables written off as uncollectible are relating to allowance provided in previous financial years in relation to cancellation of projects by customers, which the Group has attempted to recover. The Group currently does not have any business dealing with these customers.

Cash at bank and finance lease receivables are subject to immaterial credit loss.

(i) Trade receivables, other receivables and contract assets

The Group uses a provision matrix to measure the lifetime expected credit loss allowance for trade receivables and contract assets.

In measuring the expected credit losses, trade receivables and contract assets are grouped based on shared credit risk characteristics and days past due. The contract assets relate to unbilled work in progress, which have substantially the same risk characteristics as the trade receivables for the same type of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

In calculating the expected credit loss rates, the Group considers historical loss rates for each category of customers and adjusts to reflect current and forward-looking macroeconomic factors affecting the ability of the customers to settle the receivables.

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group considers a financial asset as in default if the counterparty fails to make contractual payments within a commercially reasonable timeframe that is determined by the Group. Where receivables are written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognised in profit or loss.

Other financial assets at amortised cost comprise of other receivables, deposits and staff advances. These are considered "low credit risk" as the counterparties, including related corporations have strong capacity in meeting the contractual cash flows in near term.

During the financial year ended 31 December 2018, the Group has assessed that the expected credit loss arising from trade receivables, other receivables and contract assets is insignificant and no expected credit loss has been provided during the financial year.

29. **Financial risk management** (Continued)

(b) **Credit risk** (Continued)

Previous accounting policy for impairment of financial assets

In 2017, the impairment of financial assets was assessed based on the incurred loss impairment model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively, to determine whether there was objective evidence than an impairment had been incurred but not yet identified.

The Group considered that there was evidence if any of the following indicators were present:

- Significant financial difficulties of the debtor;
- Probability that the debtor will enter bankruptcy or financial reorganisation; and
- Default or delinquency in payments

(i) Financial assets that are neither past due nor impaired

Bank deposits that are neither past due nor impaired are mainly deposits with banks with high credit-ratings assigned by international credit-rating agencies. Trade and other receivables due to non-related corporations that are neither past due nor impaired are substantially companies with a good collection track record with the Group.

The Group and Company's receivables from related corporations and subsidiaries are neither past due nor impaired.

(ii) Financial assets that are past due and/or impaired

There is no other class of financial assets that is past due and/or impaired except for trade and other receivables.

The age analysis of trade receivables past due but not impaired is as follows:

	Group	
	31 December 2017 RMB'000	**1 January 2017 RMB'000**
Past due < 1 months	**11,921**	9,828
Past due 1 to 3 months	**15,791**	18,561
Past due over 3 months	**36,824**	30,475
	64,536	58,864

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

29. Financial risk management (Continued)

(b) Credit risk (Continued)

Previous accounting policy for impairment of financial assets (Continued)

(ii) *Financial assets that are past due and/or impaired* (Continued)

The carrying amount of trade receivables individually determined to be impaired and the movement in the related allowance for impairment are as follows:

	Group	
	31 December 2017 RMB'000	**1 January 2017 RMB'000**
Past due over 6 months	**7,312**	222
Less: Allowance for impairment	**(7,312)**	(222)
	–	–
Beginning of financial year	**222**	428
Allowance made	**7,299**	–
Write-back of allowance	**(222)**	(206)
Currency translation difference	**13**	–
End of financial year	**7,312**	222

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

	Group	
	31 December 2017 RMB'000	**1 January 2017 RMB'000**
Past due over 6 months	**10,804**	74,112
Less: Allowance for impairment	**(4,852)**	(5,221)
	5,952	68,891
Beginning of financial year	**5,221**	1,797
Allowance made	**3,524**	4,761
Write-back of allowance	**(3,482)**	(1,337)
Allowance utilised	**(419)**	–
Currency translation difference	**8**	–
End of financial year	**4,852**	5,221

(c) Liquidity risk

The Group maintains sufficient cash and cash equivalents, and internally generated cash flows to finance its activities. The Group finances its liquidity needs through internally generated cash flows and external financing, and minimises liquidity risk by keeping committed credit lines available.

29. Financial risk management (Continued)

(c) Liquidity risk (Continued)

The following tables detail the remaining contractual maturity for financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company are required to pay. The table includes both interest and principal cash flows.

	On demand or within 1 year RMB'000	Within 2 to 5 years RMB'000	Total RMB'000
Group			
At 31 December 2018			
Trade and other payables	**207,359**	**–**	**207,359**
Borrowings	**1,951,596**	**599,523**	**2,551,119**
Finance lease liability	**1,194**	**1,149**	**2,343**
Derivative financial instruments			
– Currency options	**491,550**	**–**	**491,550**
– Currency forwards	**159,723**	**–**	**159,723**
	2,811,422	**600,672**	**3,412,094**
At 31 December 2017			
Trade and other payables	217,725	–	217,725
Borrowings	1,949,585	403,357	2,352,942
Finance lease liability	980	585	1,565
	2,168,290	403,942	2,572,232
At 1 January 2017			
Trade and other payables	259,138	–	259,138
Borrowings	740,354	526,586	1,266,940
Finance lease liability	1,073	801	1,874
	1,000,565	527,387	1,527,952
Company			
At 31 December 2018			
Trade and other payables	**3,926**	**–**	**3,926**
Due to subsidiaries	**301,577**	**9,868**	**311,445**
Borrowings	**179,079**	**–**	**179,079**
	484,582	**9,868**	**494,450**
At 31 December 2017			
Trade and other payables	3,808	–	3,808
Due to subsidiaries	234,811	10,154	244,965
Borrowings	200,746	–	200,746
	439,365	10,154	449,519
At 1 January 2017			
Trade and other payables	36,635	–	36,635
Due to subsidiaries	283,934	9,600	293,534
Borrowings	228,636	–	228,636
	549,205	9,600	558,805

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

29. Financial risk management (Continued)

(d) Capital risk

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance, and to ensure that all externally imposed capital requirements are complied with.

Net debt is calculated as borrowings plus trade and other payables plus due to subsidiaries less cash at bank. Total capital is calculated as total equity plus net debt. Certain PRC subsidiaries of the Group are required to set aside a minimum amount of 10% of profits annually. Such profits are accumulated in a separate reserve called "Statutory Reserve" (Note 27). The statutory reserves may only be distributed to shareholders upon liquidation of the subsidiaries.

The Group's overall strategy remains unchanged from 2015.

	Group			**Company**		
	31 December		**1 January**	**31 December**		**1 January**
	2018	**2017**	**2017**	**2018**	**2017**	**2017**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Net debt	**2,533,560**	2,469,110	1,172,854	**500,085**	491,095	603,142
Total equity	**252,701**	230,377	199,507	**105,724**	119,712	88,122
Total capital	**2,786,261**	2,699,487	1,372,361	**605,809**	610,807	691,264

The Group and the Company are in compliance with all external financial ratios and covenants imposed on the holding corporations for the loans extended to the Group and the Company for the financial years ended 31 December 2018 and 2017. These ratios and covenants include amount of net tangible assets, ratio of total liabilities to net tangible assets, and ratio of Earnings Before Interest, Taxes, Depreciation and Amortisation ("EBITDA") to interest expenses.

(e) Fair value measurements

The table below presents the financial instruments recognised and measure at fair value and classified by level of the following fair value hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) 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) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Group	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2018	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Derivative financial liabilities	–	24,753	–	24,753

29. Financial risk management (Continued)

(e) Fair value measurements (Continued)

There were no transfers between Level 1, Level 2 and Level 3 during the financial year.

The Group did not have any financial assets or liabilities that were measured and carried at fair value in prior financial years.

(f) Financial instruments by category

The following table sets out the financial instruments as at the end of the reporting period:

	Group			Company		
	31 December		1 January	31 December		1 January
	2018	2017	2017	2018	2017	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at amortised cost	**2,681,307**	2,468,560	1,427,168	**24,522**	29,981	113,092
Available-for-sale financial assets	**–**	12	11	**–**	–	–
Financial liabilities at FVPL	**24,753**	–	–	**–**	–	–
Financial liabilities at amortised cost	**2,703,389**	2,532,969	1,456,695	**492,388**	443,431	545,332

30. Immediate and ultimate holding corporations

The Company's immediate holding corporation is AVIC International Holdings Limited, a corporation incorporated in People's Republic of China. The Company's ultimate holding corporation is Aviation Industry Corporation of China, incorporated in the People's Republic of China.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

31. 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) Sales and purchases of goods and services

	Group	
	2018	2017
	RMB'000	RMB'000
Guarantee expenses to holding corporations	**(7,119)**	(3,802)
Interest expenses to related corporations	**(15,207)**	–
Other income from related corporations	**–**	267
Project financing income from related corporations	**124,773**	57,241
Property management fees to related corporations	**(1,410)**	(1,260)
Purchase of property, plant and equipment from an associated company	**–**	(1,445)
Rental expense to related corporations	**(888)**	(899)
Service fee income from related corporations	**43,808**	62,865
Shipbuilding contract costs to related corporations	**(15,908)**	(59,655)
Ship-design fee income from related corporations	**44,141**	52,149
Waiver of amount due to a related corporation	**1,258**	–

Related corporations refer to fellow subsidiaries and subsidiaries of the immediate holding corporation.

Outstanding balances at 31 December 2018, 31 December 2017 and 1 January 2017, arising from sale/purchase of goods and services, are unsecured and receivable/payable within 12 months from balance sheet date and disclosed in Notes 13, 20 and 22.

(b) Compensation of directors and key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	Group	
	2018	2017
	RMB'000	RMB'000
Short-term benefits	**3,945**	3,878
Post-employment benefits	**368**	310
	4,313	4,188

The remuneration of directors and executive officers of the Company is determined by the remuneration committee having regard to the performance of individuals and market trends.

32. Segment information

For the purpose of the resource allocation and assessment of segment performance, the Group's management has focused on the business operating units which in turn, are segregated based on their services. This forms the basis of identifying the segments of the Group under SFRS(I) 8 – Operating Segments.

The Group's reportable operating segments under SFRS(I) 8 are as follows:

(a) Ship-design service – provision of ship-design services.

(b) Shipbuilding construction service – provision of shipbuilding construction services.

(c) Shipbuilding project management service – provision of shipbuilding project management and consultancy services.

(d) Project financing – provision of marine financing services.

(e) Vessels trading and leasing – sale of vessels and vessel leasing.

(f) Others – sale of goods used in shipbuilding, marketing and consulting service, and EPC service.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 2. Segment profit represents the profit earned by each segment without allocation of finance income, finance costs, and income tax expense. This is the measure reported to the management for the purposes of resource allocation and assessment of segment performance.

For the purposes of monitoring segment performance and allocating resources between segments, the management monitors the tangible and financial assets attributable to each segment.

Goodwill has been allocated to ship-design service segment as described in Note 19 to the financial statements. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segment.

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32. Segment information (Continued)

Information regarding the Group's reportable segments is presented as below:

	Ship-design service RMB'000	Ship-building construction service RMB'000	Shipbuilding project management service RMB'000	Project financing RMB'000	Vessels trading and leasing RMB'000	Others RMB'000	Total RMB'000
2018							
Sales							
Third parties	336,861	27,531	–	–	5,470	890	370,752
Related corporations	44,141	–	43,808	124,773	–	4,186	216,908
	318,002	27,531	43,808	124,773	5,470	5,076	587,660
Inter-segment sales	–	–	–	–	–	–	–
	318,002	27,531	43,808	124,773	5,470	5,076	587,660
Results							
Segment results	71,275	(8,306)	17,401	1,710	2,085	2,489	86,654
Assets							
Segment assets	380,569	25,942	17,021	2,210,912	162,246	302,135	3,098,825
Unallocated assets							7,957
Total assets							3,106,782
Liabilities							
Segment liabilities	155,937	23,929	39,129	1,876,230	136,404	64,396	2,296,025
Unallocated liabilities							558,056
Total liabilities							2,854,081
Other information							
Depreciation	2,709	118	188	536	–	88	3,639
Amortisation	6,280	–	–	–	–	–	6,280
Write-down in value of inventories	–	–	–	–	(2,275)	–	(2,275)
Share of profit/(losses) of associated companies	1,638	–	–	–	–	(1,092)	546
Additions to property, plant and equipment	2,944	179	285	811	–	40	4,259
Additions to intangible assets	7,550	–	–	–	–	–	7,550

32. Segment information (Continued)

Information regarding the Group's reportable segments is presented as below: (Continued)

	Ship-design service RMB'000	Ship-building construction service RMB'000	Shipbuilding project management service RMB'000	Project financing RMB'000	Vessels trading and leasing RMB'000	Others RMB'000	Total RMB'000
2017							
Sales							
Third parties	222,671	120,285	1,394	–	126,358	2,725	473,433
Related corporations	53,349	–	62,865	57,241	–	–	173,455
	276,020	120,285	64,259	57,241	126,358	2,725	646,888
Inter-segment sales	(1,200)	–	–	–	–	–	(1,200)
	274,820	120,285	64,259	57,241	126,358	2,725	645,688
Results							
Segment results	29,282	4,876	21,874	11,501	(13,058)	726	55,201
Assets							
Segment assets	362,811	53,891	30,536	2,129,667	269,283	42,374	2,888,562
Unallocated assets							7,104
Total assets							2,895,666
Liabilities							
Segment liabilities	113,754	55,792	77,868	1,635,710	19,829	50,213	1,953,166
Unallocated liabilities							712,123
Total liabilities							2,665,289
Other information							
Depreciation	2,667	55	304	271	4	97	3,398
Amortisation	5,459	–	–	–	–	–	5,459
Write-down in value of inventories	–	–	–	–	16,087	–	16,087
Share of profit of associated companies	1,638	–	–	–	–	–	1,638
Additions to property, plant and equipment	3,332	111	613	546	–	51	4,653
Additions to intangible assets	394	–	–	–	–	–	394

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

32. **Segment information** (Continued)

Segment revenue represents revenue generated from external and internal customers. Segment profits represent the profit earned by each segment after allocating central administrative costs. This is the measure reported to the management for the purpose of resource allocation and the assessment of segment performance.

(a) Reconciliations

(i) Segment profits

A reconciliation of segment results to profit before tax is as follows:

	2018 RMB'000	2017 RMB'000
Segment results	**86,654**	55,201
Unallocated:		
Foreign exchange gains	**–**	15,220
Other income	**602**	848
Marketing, distribution and administrative expense	**(5,340)**	(9,423)
Finance cost	**(22,044)**	(19,646)
	59,872	42,200

(ii) Segment assets

The amounts reported to the management 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, investment in associated companies, and available-for-sale financial assets.

Segment assets are reconciled to total assets as follows:

	2018 RMB'000	2017 RMB'000
Segment assets for reportable segments	**3,098,825**	2,888,562
Unallocated:		
Deferred tax assets	**2,014**	1,721
Available-for-sale financial assets	**–**	12
Investments in associated companies	**5,943**	5,371
	3,106,782	2,895,666

(iii) Segment liabilities

The amounts provided to the management with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment. All liabilities are allocated to the reportable segments other than income tax liabilities, deferred tax liabilities and borrowings.

32. Segment information (Continued)

(a) Reconciliations (Continued)

(iii) Segment liabilities (Continued)

Segment liabilities are reconciled to total liabilities as follows:

	2018 RMB'000	2017 RMB'000
Segment liabilities for reportable segments	**2,296,025**	1,953,166
Unallocated:		
Current income tax liabilities	**21,825**	18,538
Deferred tax liabilities	**15,108**	15,556
Borrowings	**521,123**	678,029
	2,854,081	2,665,289

(b) Revenue from major products and services

The Group's revenue generated from the Group's largest customers by each segment are detailed below:

	Ship-design service RMB'000	Ship-building construction service RMB'000	Shipbuilding project management service RMB'000	Project financing RMB'000	Vessels trading and leasing RMB'000	Others RMB'000
2018						
Customer 1	**157,165**	**–**	**–**	**–**	**–**	**–**
Customer 2	**33,451**	**–**	**17,251**	**50,284**	**–**	**1,252**
Customer 3	**–**	**–**	**26,557**	**74,489**	**–**	**653**
Customer 4	**42,594**	**–**	**–**	**–**	**–**	**–**
Customer 5	**35,660**	**–**	**–**	**–**	**–**	**–**
Customer 6	**–**	**27,531**	**–**	**–**	**–**	**–**
Customer 7	**22,894**	**–**	**–**	**–**	**–**	**–**
Total	**291,764**	**27,531**	**43,808**	**124,773**	**–**	**1,905**
2017						
Customer 1	–	120,285	–	–	–	–
Customer 2	94,312	–	–	–	–	–
Customer 3	50,278	–	28,808	28,067	–	–
Customer 4	–	–	–	–	75,373	–
Customer 5	1,871	–	34,057	29,174	–	–
Customer 6	–	–	–	–	43,698	–
Customer 7	19,108	–	–	–	–	–
Total	165,569	120,285	62,865	57,241	119,071	–

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

32. **Segment information** (Continued)

(c) Geographical information

The Group's revenue from customers and information about its segment assets by geographical location are detailed below:

	Revenue	
	2018	2017
	RMB'000	RMB'000
PRC	**322,698**	332,130
Germany	**194,422**	100,496
British Virgin Islands	**–**	75,373
Nigeria	**–**	43,698
Finland	**25,257**	42,825
United States	**5,454**	18,546
Oman	**–**	7,287
Other countries	**39,829**	25,333
	587,660	645,688

	Non-current assets	
	2018	2017
	RMB'000	RMB'000
PRC	**9,052**	5,780
Finland	**199,119**	198,445
Germany	**79**	120
Singapore	**–**	106
Oman	**19,788**	34,136
	228,038	238,587

33. New or revised accounting standards and interpretations

Below are the mandatory standards, amendments and interpretations to existing standards that have been published, and are relevant for the Group's accounting periods beginning on or after 1 January 2019 and which the Group has not early adopted:

(a) SFRS(I) 16 *Leases* (effective for annual periods beginning on or after 1 January 2019)

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.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB41,256,000 (Note 28).

For the remaining lease commitments the Group expects to recognise right-of-use assets of approximately RMB34,870,000 on 1 January 2019, lease liabilities of RMB35,456,000 (after adjustments for prepayments and accrued lease payments recognised).

The impact on the net profit after tax of the Group arising from the adoption of SFRS(I) 16 is not expected to be material.

The Group's activities as a lessor are not material and the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

(b) SFRS(I) INT 23 *Uncertainty Over Income Tax Treatments* (effective for annual periods beginning on or after 1 January 2019)

The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

i) how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty;

ii) that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. that detection risk should be ignored;

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

33. New or revised accounting standards and interpretations (Continued)

(b) SFRS(I) INT 23 *Uncertainty Over Income Tax Treatments* (effective for annual periods beginning on or after 1 January 2019) (Continued)

iii) that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment;

iv) that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty; and

v) that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

The Group does not expect additional tax liability to be recognised arising from the uncertain tax positions as disclosed in Note 3(c) on the adoption of the interpretation on 1 January 2019.

34. Authorisation of financial statements

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of AVIC International Maritime Holdings Limited on 29 March 2019.

STATISTICS OF **SHAREHOLDINGS**

AS AT 22 MARCH 2019

No. of Issued Shares	:	285,576,000
No. of Treasury Shares	:	0
No. of Subsidiary Holdings[1]	:	0
Percentage of Treasury Shares and Subsidiary Holdings[2]	:	0.00%
Class of shares	:	Ordinary shares
Voting Rights	:	One vote per share

Notes:

(1) "Subsidiary Holdings" means any Issued Shares of the Company held by its subsidiaries (as referred to in the Companies Act, Chapter 50 of Singapore ("**Companies Act**")).

(2) Percentage calculated against the total number of Issued Shares (excluding Treasury Shares and Subsidiary Holdings).

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 – 99	1,837	44.46	77,747	0.03
100 – 1,000	1,959	47.41	626,699	0.22
1,001 – 10,000	264	6.39	637,992	0.22
10,001 – 1,000,000	63	1.52	8,042,440	2.82
1,000,001 AND ABOVE	9	0.22	276,191,122	96.71
TOTAL	**4,132**	**100.00**	**285,576,000**	**100.00**

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	UOB KAY HIAN PRIVATE LIMITED	211,036,317	73.90
2	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	26,077,336	9.13
3	RHB SECURITIES SINGAPORE PTE. LTD.	19,019,547	6.66
4	CITIBANK NOMINEES SINGAPORE PTE LTD	8,012,306	2.81
5	HSBC (SINGAPORE) NOMINEES PTE LTD	7,018,221	2.46
6	PANG WING SENG	1,438,300	0.50
7	RAFFLES NOMINEES (PTE.) LIMITED	1,292,149	0.45
8	PHILLIP SECURITIES PTE LTD	1,159,569	0.41
9	DBS NOMINEES (PRIVATE) LIMITED	1,137,377	0.40
10	LIM TECK CHAY	800,000	0.28
11	LEUNG TAI KEUNG	584,000	0.20
12	YUEN SUK CHING	584,000	0.20
13	CHICKEN DELIGHT PRIVATE LIMITED	526,200	0.18
14	DB NOMINEES (SINGAPORE) PTE LTD	486,120	0.17
15	OCBC SECURITIES PRIVATE LIMITED	419,778	0.15
16	OU YANG YAN TE	308,831	0.11
17	NGAN YEOW CHWEE	300,000	0.11
18	PHUA GIM CHUAN	291,000	0.10
19	CHENG BING	240,000	0.08
20	ABN AMRO CLEARING BANK N.V.	237,472	0.08
	TOTAL	**280,968,523**	**98.38**

STATISTICS OF **SHAREHOLDINGS**

AS AT 22 MARCH 2019

Substantial Shareholders as at 22 March 2019

(as recorded in the Register of Substantial Shareholders)

	Direct Interest		Deemed Interest	
	No. of Shares	**%**	**No. of Shares**	**%**
Name of Substantial Shareholder				
Aviation Industry Corporation of China (中国航空工业集团公司) (AVIC)[1]	–	–	210,947,369	73.87
AVIC International Holding Corporation (中国航空技术国际控股有限公司) (AVIC International)[1]	–	–	210,947,369	73.87
AVIC International Shenzhen Company Limited (中国航空技术深圳有限公司) (AVIC International Shenzhen)[1]	–	–	210,947,369	73.87
AVIC International Holdings Limited (中航国际控股股份有限公司) (Stock Code:161:HK), formerly known as CATIC Shenzhen Holdings Limited (深圳中航集团股份有限公司) (AVIC IHL)[1]	210,947,369	73.87	–	–

Note:

(1) AVIC holds 62.52% of the registered capital of AVIC International, which in turn holds the entire registered capital of AVIC International Shenzhen. 35.6% and 39.4% of the share capital of AVIC IHL are directly held by AVIC International Shenzhen and AVIC International respectively. AVIC, AVIC International and AVIC International Shenzhen are therefore deemed interested in the Shares held by AVIC IHL by virtue of Section 7 of the Companies Act.

PUBLIC FLOAT (Rule 723)

Based on the information provided, to the best knowledge of the Directors and the substantial shareholders of the Company, approximately 26.13% of the issued ordinary shares of the Company was held in the hands of the public as at 22 March 2019. Accordingly, the Company has complied with Rule 723 of the Listing Manual Section B: Rules of Catalist of the Singapore Exchange Securities Trading Limited.

NOTICE OF THE **ANNUAL GENERAL MEETING**

AVIC INTERNATIONAL MARITIME HOLDINGS LIMITED

(formerly known as AVIC International Investments Limited)

(Incorporated in the Republic of Singapore)

(Registration No. 201024137N)

NOTICE IS HEREBY GIVEN that the Annual General Meeting of AVIC International Maritime Holdings Limited (the "**Company**") will be held at 2:00 p.m. on 26 April 2019 at Phoenix Grand Ballroom, Level 6, Novotel Singapore Clarke Quay, 177A River Valley Road, Singapore 179031 for the following purposes:

As Ordinary Business

1. To receive and adopt the Audited Financial Statements of the Company for the financial year ended 31 December 2018 ("**FY2018**"), together with the Directors' Statement and Report of the Auditors thereon. **(Resolution 1)**

2. To approve the Directors' Fees of S$130,000 for FY2018. **(Resolution 2)**

3. To re-elect Mr Li Meijin, a Director who is retiring pursuant to Article 91 of the Constitution of the Company, and who, being eligible, is offering himself for re-election. **(Resolution 3)**
[Explanatory Note (i)]

4. To re-elect Professor Wang Puqu, a Director who is retiring pursuant to Article 91 of the Constitution of the Company, and who, being eligible, is offering himself for re-election. **(Resolution 4)**
[Explanatory Note (ii)]

5. To re-appoint Messrs PricewaterhouseCoopers LLP as Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 5)**

As Special Business

To consider and if deemed fit to pass the following Ordinary Resolution with or without modifications:

6. SHARE ISSUE MANDATE

THAT pursuant to Section 161 of the Companies Act, Chapter 50 of Singapore ("**Companies Act**") and Rule 806 of the Listing Manual Section B: Rules of Catalist ("**Catalist Rules**") of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), authority be and is hereby given to the Directors of the Company to:

(a) allot and issue shares in the capital of the Company ("**Shares**") whether by way of rights, bonus or otherwise; and/or

(b) 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, convertible securities or other instruments convertible into Shares;

NOTICE OF THE **ANNUAL GENERAL MEETING**

at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion deem fit and, notwithstanding the authority conferred by this Resolution, issue shares in pursuance of any Instruments made or granted by the Directors of the Company while this Resolution was in force, provided that:

(c) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) to be issued pursuant to this Resolution shall not exceed one hundred percent (100%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (d) below), of which the aggregate number of Shares to be issued other than on a pro-rata basis to existing shareholders of the Company (including shares to be issued in pursuant of the Instruments, made or granted pursuant to this Resolution) does not exceed fifty percent (50%) of the total number of issued Shares (excluding treasury shares) (as calculated in accordance with sub-paragraph (d) below);

(d) subject to such calculation as may be prescribed by the SGX-ST, for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (c) above, the total number of issued shares (excluding treasury shares) shall be based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:

(i) new Shares arising from the conversion or exercise of any convertible securities;

(ii) new Shares arising from exercising of share options or vesting of share awards which are outstanding or subsisting at the time of the passing of this Resolution; and

(iii) any subsequent bonus issue, consolidation or subdivision of shares;

(e) 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 Catalist Rules for the time being in force (unless such compliance has been waived by the SGX-ST), all legal requirements under the Companies Act and the Constitution of the Company; and

(f) such authority 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, unless revoked or varied by the Company in a general meeting.

[Explanatory Note (iii)] **(Resolution 6)**

7. To transact any other ordinary business that may properly be transacted at an annual general meeting.

By Order of the Board

Yap Lian Seng and Dr Qiu Yang
Joint Company Secretaries

Singapore, 11 April 2019

Explanatory Notes:

(i) **Resolution 3:** Pursuant to Article 91 of the Constitution of the Company, Mr Li Meijin will retire at the forthcoming Annual General Meeting and shall be eligible to offer himself for re-election at that meeting. If re-elected, he will remain as an Executive Director of the Company.

(ii) **Resolution 4:** Pursuant to Article 91 of the Constitution of the Company, Professor Wang Puqu will retire at the forthcoming Annual General Meeting and shall be eligible to offer himself for re-election at that meeting. If re-elected, he will remain as an Independent Director of the Company, and a member of the Audit Committee and Remuneration Committee.

(iii) **Resolution 6:** If passed, this Resolution will empower the Directors of the Company, effective 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 or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue Shares, make or grant Instruments convertible into Shares and to issue shares pursuant to such Instruments, up to a number not exceeding in total 100% of the issued Shares (excluding treasury shares, if any), of which up to 50% may be issued other than on a pro-rata basis to shareholders.

(iv) Detailed information on the Directors who are proposed to be elected/re-elected can be found under the sections on "Board of Directors" and "Additional Information on Directors Seeking Election/Re-Election" of the Annual Report.

Notes:

1. (i) A member (who is not a relevant intermediary) of the Company entitled to attend and vote at the Annual General Meeting of the Company is entitled to appoint not more than two proxies to attend, speak and vote on his behalf and where a member appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the Member Proxy Form.

   (ii) A member (who is a relevant intermediary) of the Company entitled to attend and vote at the Annual General Meeting of the Company is entitled to appoint more than two proxies to attend, speak and vote on his behalf, 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 proportion of the shareholding concerned to be represented by each proxy shall be specified in the Member Proxy Form.

   "Relevant intermediary" has the meaning ascribed to it in Section 181(6) of the Companies Act.

2. A proxy need not be a member of the Company.

3. If a member is unable to attend the Annual General Meeting and wishes to appoint a proxy to attend and vote at the Annual General Meeting on his behalf, then he should complete and sign the relevant Member Proxy Form and deposit the duly completed Member Proxy Form at the Company's registered office at 8 Robinson Road, #13-00 ASO Building, Singapore 048544 at least forty-eight (48) hours before the time of the holding of the Annual General Meeting.

4. A Depositor whose name appears in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289 of Singapore) as at a time not earlier than seventy-two (72) hours prior to the time of the Annual General Meeting who/which is (i) an individual but is unable to attend the Annual General Meeting personally and wishes to appoint a nominee to attend and vote; or (ii) a corporation, must complete, sign and return the Depositor Proxy Form and deposit the duly completed Depositor Proxy Form at the Company's registered office at 8 Robinson Road, #13-00 ASO Building, Singapore 048544, at least forty-eight (48) hours before the time of the Annual General Meeting.

5. If a member who has Shares entered against his name in the Depository Register and Shares registered in his name in the Register of Members of the Company is unable to attend the Annual General Meeting and wishes to appoint a proxy, he should use the Depositor Proxy Form and the Member Proxy Form for, respectively, the Shares entered against his name in the Depository Register and the Shares registered in his name in the Register of Members of the Company.

NOTICE OF THE **ANNUAL GENERAL MEETING**

6. A Depositor who is an individual and whose name is shown in the Depository Register as at a time not earlier than seventy-two (72) hours prior to the time of the Annual General Meeting and who wishes to attend the Annual General Meeting in person need not take any further action and can attend and vote at the Annual General Meeting as CDP's proxy without the lodgment of any proxy.

7. By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the 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) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents) 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), 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) 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.

ADDITIONAL INFORMATION ON DIRECTORS SEEKING ELECTION/ RE-ELECTION AT THE **ANNUAL GENERAL MEETING**

As at 29 March 2019

	Li Meijin	**Professor Wang Puqu**
Age	55	63
Date of Appointment	31 March 2014	28 May 2013
Job Title	Executive Director	Independent Director Member of the Audit Committee and Remuneration Committee
Date of last re-election as Director (if applicable)	26 April 2017	28 April 2016
Country of principal residence	China	China
The Board's comments on the re-election (including rationale, selection criteria, and the search and nomination process)	The NC and the Board reviewed the nomination of Mr Li Meijin ("**Mr Li**") and Professor Wang Puqu ("**Professor Wang**") for re-election at the AGM. When considering the nomination of Mr Li and Professor Wang, the NC and the Board took into account *inter alia*, their contribution to the Company over the years, extensive experience, skills set and overall contribution to the effectiveness of the Board, which includes their time commitment, participation and candour at Board and Board Committees meetings, despite their multiple board representations and/or other principal commitments. The NC and the Board also reviewed the independence of Professor Wang and is of the view that he is "independent" in accordance with the 2012 Code. In view of the above, the NC and the Board recommend the re-election of Mr Li and Professor Wang as Executive Director and Independent Director respectively, of the Company.	
Whether appointment is executive, and if so, the area of responsibility	Executive. In charge of the Group's administrative and operational matters.	Non-Executive.
Professional qualifications	• Bachelor of Engineering, Northwestern Polytechnical University • Senior Engineer accredited by the Aviation Industry Corporation of China, Ltd.	• Bachelor of Laws, Peking University • Master of Laws, Peking University • PhD in Law, Peking Univeristy • Professor, Peking University (School of Government)

ADDITIONAL INFORMATION ON DIRECTORS SEEKING ELECTION/ RE-ELECTION AT THE **ANNUAL GENERAL MEETING**

As at 29 March 2019

Relationship (including immediate family relationships) with any existing director, existing executive officer, the Company and/or substantial shareholder of the Company or any of its principal subsidiaries	Nil	Nil
Conflict of interests (including any competing business)	Nil	Nil
Working experience and occupation(s) during the past 10 years	2004 to 2013 AVIC International Xiamen Co., Ltd. Deputy General Manager 2014 to present AVIC International Maritime Holdings Limited Executive Director 2016 to present AVIC International Offshore Xiamen Co., Ltd. General Manager 2016 to 2018 AVIC International Offshore Pte. Ltd. General Manager 2017 to present AVIC International Ship Development (China). Ltd. Vice President	1995 to present Peking University Professor, School of Government
Undertaking submitted to the Company in the form of Appendix 7H of Catalist Rule 704(6)	Yes	Yes
Shareholding interest in the Company and its subsidiaries	Nil	Nil

Other Principal Commitments including Directorships	Past Directorships (for the last 5 years) • AVIC International Marine Engineering (Lux), S.àr.l • AVIC Tidestar Fast Offshore Pte. Ltd. • AVIC International Ship Development Pte. Ltd. • AVIC International Ship Engineering Pte. Ltd. • AVIC International Marine Engineering Pte. Ltd. • Kaixin Industrial Pte. Ltd. • AVIC International Offshore Pte. Ltd. • Deltamarin Floating Construction Pte. Ltd. Present Directorships • Deltamarin Ltd • AVIC Zhenjiang Shipyard Marine Pte. Ltd. • AVIC International Offshore Xiamen Co., Ltd. • Blue Ocean Ship Management & Engineering Limited Present Principal Commitments • AVIC International Ship Development (China). Ltd. (Vice President) • AVIC International Offshore Xiamen Co., Ltd. (General Manager)	Past Directorships (for the last 5 years) Nil Present Directorships Nil Present Principal Commitments Peking University (Professor, School of Government)
Date of announcement of first appointment	31 March 2014	28 May 2013
Responses to questions (a) to (k) under Appendix 7F of the Catalist Rules	Negative confirmation	Negative confirmation

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AVIC INTERNATIONAL MARITIME HOLDINGS LIMITED
(Incorporated in the Republic of Singapore)
(Registration No. 201024137N)

1. For investors who have used their CPF monies to buy shares in the capital of AVIC INTERNATIONAL MARITIME HOLDINGS LIMITED, this report is forwarded to them at the request of their CPF Approved Nominees and is sent FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

PROXY FORM – ANNUAL GENERAL MEETING

I/We, ______________________________ (name) of ______________________________

______________________________ (address) being a member/members of AVIC INTERNATIONAL MARITIME HOLDINGS LIMITED (the "**Company**"), hereby appoint:

Name	Address	NRIC/Passport No.	Proportion of Shareholdings	
			No. of Shares	%

and/or (delete as appropriate)

Name	Address	NRIC/Passport No.	Proportion of Shareholdings	
			No. of Shares	%

or failing him/her, the Chairman of the Annual General Meeting, as my/our proxy/proxies to attend and to vote for me/us on my/our behalf and, if necessary, to demand a poll at the Annual General Meeting of the Company to be held at Phoenix Grand Ballroom, Level 6, Novotel Singapore Clarke Quay, 177A River Valley Road, Singapore 179031 on 26 April 2019 at 2:00 p.m. and at any adjournment thereof.

(Please indicate with an "X" in the spaces provided whether you wish your vote(s) to be cast for or against the resolutions as set out in the Notice of Annual General Meeting. In the absence of specific directions, the proxy/proxies will vote or abstain as he/they may think fit, as he/they will on any other matter arising at the Annual General Meeting.)

ORDINARY BUSINESS		**For**	**Against**
Resolution 1	To receive and adopt the Audited Financial Statements of the Company for the financial year ended 31 December 2018 ("**FY2018**"), together with the Directors' Statement and Report of the Auditors thereon.		
Resolution 2	To approve the Directors' Fees of S$130,000 for FY2018.		
Resolution 3	To re-elect Mr Li Meijin, a Director who is retiring pursuant to Article 91 of the Constitution of the Company.		
Resolution 4	To re-elect Professor Wang Puqu, a Director who is retiring pursuant to Article 91 of the Constitution of the Company.		
Resolution 5	To re-appoint Messrs PricewaterhouseCoopers LLP as Auditors of the Company and to authorise the Directors of the Company to fix their remuneration.		
SPECIAL BUSINESS		**For**	**Against**
Resolution 6	To approve and adopt the Share Issue Mandate.		

Dated this ________ day of ________________ 2019

Total Number of Shares held in:	
CDP Register	
Register of Members	

____
Signature(s) of members(s) or Common Seal

IMPORTANT: PLEASE READ THE NOTES OVERLEAF

NOTES:

1. Please insert the total number of Shares held by you. If you have shares entered against your name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289 of Singapore), you should insert that number of shares. If you have shares registered in your name in the Register of Members of the Company, you should insert that number of shares. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you 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 you.

2. (i) A member (who is not a relevant intermediary) of the Company entitled to attend and vote at the Annual General Meeting of the Company is entitled to appoint not more than two proxies to attend, speak and vote on his behalf and where a member appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the Member Proxy Form.

   (ii) A member (who is a relevant intermediary) of the Company entitled to attend and vote at the Annual General Meeting of the Company is entitled to appoint more than two proxies to attend, speak and vote on his behalf, 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 proportion of the shareholding concerned to be represented by each proxy shall be specified in the Member Proxy Form.

   "Relevant intermediary" has the meaning ascribed to it in Section 181(6) of the Companies Act, Chapter 50 of Singapore ("**Companies Act**").

3. A proxy need not be a member of the Company.

4. If the instrument appointing a proxy is returned without any indication as to how the proxy shall vote, the proxy shall vote or abstain as he thinks fit.

5. If the instrument appointing a proxy is returned without the name of the proxy indicated, the instrument appointing a proxy shall be invalid.

6. If the appointor is an individual, the instrument appointing a proxy shall be signed by the appointor or his attorney.

7. If the appointor is a corporation, the instrument appointing a proxy shall be either given under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation. 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 meeting, in accordance with Section 179 of the Companies Act.

8. The signature on the instrument appointing a proxy need not be witnessed. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument appointing a proxy, failing which the instrument may be treated as invalid.

9. The instrument appointing a proxy must be deposited at the Company's registered office at 8 Robinson Road, #13-00 ASO Building, Singapore 048544, at least forty-eight (48) hours before the time appointed for holding of the Annual General Meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) for the taking of the poll at which it is to be used.

General:

The Company shall be entitled to reject the 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. In addition, in the case of shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at seventy-two (72) hours before the time appointed for holding the Annual General Meeting, as certified by The Central Depository (Pte) Limited to the Company.

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the 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) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents) 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), 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) 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.

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