



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

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AVIC International Maritime Holdings Limited

AVIC INTERNATIONAL MARITIME HOLDINGS LIMITED

ANNUAL REPORT 2015

**RIDING
WAVES
MOVING
FORWARD**
ANNUAL REPORT **2015**



OUR VISION

TO BE A LEADING PROVIDER OF INTEGRATED
MARITIME SERVICES

OUR MISSION

GO BEYOND COMMERCE FOR A
BETTER WORLD

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CORPORATE PROFILE

**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 (“AVIC”)
(中国航空工业集团公司)
group of companies
(the “AVIC Group”).

As an active player in the marine and offshore industry, 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. In 2014, the company established a joint-venture company with Deltamarin, Deltamarin Floating Construction Pte. Ltd., to provide engineering, procurement and construction services.

Ranked 159th among Fortune Global Top 500 corporations in 2015*, 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-159/>

OUR BUSINESS AND STRATEGY

SHIPBUILDING PROJECT M&C

- Services include ship design, construction (outsourced), procurement, newbuilding management and marine finance arrangement
- Providing design and engineering services through Deltamarin and other leading design institutes in China
- Providing marketing and consultancy services to shipyards such as promoting their corporate profile in overseas markets, seeking out shipowners 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
- Our Group also works with other established and reputable shipyards around the world

DESIGN & ENGINEERING

- With a strong track record of more than 20 years, Deltamarin provides one-stop expert 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
- It excels in cost efficient eco-designs



SHIP TRADING

- Offer an integrated procurement service which extends from market analysis to acquisition of goods and delivery to the door
- Leveraging on our Group's strengths and in-depth product knowledge, we are able to provide specialist technical support efficiently and our strong network allows us to source for competitively-priced quality products from around the world

ENGINEERING, PROCUREMENT AND CONSTRUCTION

- Focus on governmental ship and relevant engineering projects in developing countries
- Work with shipyards to organize, negotiate and sign the subcontract of projects
- 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
- Leveraging on the strong partnerships with excellent domestic and overseas shipyards and suppliers

OUR VISION

To be a leading provider of integrated maritime services.

OUR LONG-TERM STRATEGY

Our long-term strategy is to develop our existing shipbuilding project management and consultancy (“M&C”) business, as well as expand our scope of capabilities along the ship-design, shipbuilding and ship-trading related businesses value chain



CHAIRMAN'S MESSAGE

WHILE THE SHIP DESIGN
SEGMENT CONTINUED
CONTRIBUTING OVER 50%
OF THE TOTAL REVENUE,
THE SHIPBUILDING BUSINESS
HAS ENHANCED OUR REVENUE
STREAM TOO. OUR BUSINESS
PORTFOLIO HAS BEEN FURTHER
DIVERSIFIED, AND HAS STARTED
TO PRODUCE SYNERGY.

DR DIAO WEICHENG
EXECUTIVE CHAIRMAN



DEAR SHAREHOLDERS,

The weak shipping demand, oversupply of vessels and depressed shipping rates amid the economic slowdown in many major economies led the Baltic Dry Index to decline to an all-time low in 2015, and global shipping, shipbuilding and related businesses remained under pressure. AVIC International Maritime Holdings Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) maximized the efforts in exploring business opportunities, optimizing the synergies between our business segments, and improving operational efficiency. Backed by our established business network and strong capabilities in R&D and shipbuilding, our persistent efforts produced reasonably well results for 2015 with higher revenue and gross profit, while bottom line was impacted by some one-off items.

BUSINESS UPDATE

The Group is a PRC SOE (“State-Owned Enterprise”) that has a solid foothold in the market with strong reputation. We aim to grow into an integrated shipbuilding group that covers the entire shipbuilding industry value chain, including R&D, proprietary and agency project management service, shipbuilding and ship finance, etc.

During the year, the Group delivered 7 vessels, including 38000DWT bulk carriers and one 37000DWT Asphalt Tanker. As of 31 December 2015, the Group had an overall outstanding order book of 65 vessels in shipbuilding project management services, which is expected to support the performance of the Group in the current weak market.

Deltamarin, the Group’s ship design arm, is the largest independent ship design company in the world. Deltamarin has continued to enhance its reputation and expertise through making technological breakthroughs, and maintained a healthy new order flow, with total ship design orders worth EUR27 million in 2015. Key developments during the year included a joint development project to equip Dry Bulk Carriers of the future with LNG propulsion, a revolutionary Multigas Carrier Design, an Artic Tanker Design, a compact ferry design “DeltaLinx”, an Icebreaking Stand-by Vessel Design and a Future Container Feeder Design “A.Delta”. Recently, Deltamarin announced that it had signed a contract to design the world’s first LNG handysize bulk carriers. The

two B.Delta26LNG vessels will be constructed for the Finnish shipowner ESL Shipping Ltd by the Chinese Qingshan Shipyard of Sinotrans & CSC SBICO.

Despite the volatile market, the Group remains confident of the business outlook for shipbuilding and ship design in the long run, and our expertise, infrastructure and network globally will provide a solid base for the growth of the EPC business as an important profit contributor.

FINANCIAL REVIEW

Shipbuilding construction service revenue increased by over 200% year-on-year (“yoy”) in 2015 to RMB285.2 million, accounting for 48% of the Group’s total revenue. The strong performance was backed by a few key projects completed during the year in a weak market. Ship design revenue registered a 5% decrease to RMB230.0 million, which accounted for 39% of the total revenue. Total revenue contribution of shipbuilding and ship design segments increased to 87% in 2015, compared to 73% in 2014. Also supported by the higher revenue from project management service fees, the Group’s total revenue increased by 30% yoy in 2015 to RMB591.4 million. Gross profit increased 22% yoy to RMB201.9 million, and gross profit margin was maintained at a healthy level of 34%. However, the increase in operating expenses, primarily due to bad debts written off and one-time loss from disposal of subsidiaries, and income tax provisions, resulted in a loss attributable to equity shareholders of RMB4.2 million for 2015.

FURTHER DIVERSIFICATION

In order to capture the investment opportunities that come along in the market downturn, we completed the acquisition of 60% shareholding in AVIC Zhenjiang Shipyard Marine Pte. Ltd. (“AZM”) in September 2015. AZM is engaged in the business and trade of acquiring, owning, selling, brokering and chartering of various types of vessels, with a focus on vessel investment, and we believe the acquisition will enhance the Group’s vessel investment capabilities in the long term.

OUTLOOK

The shipbuilding market is expected to remain challenging in the foreseeable future, and the landscape of the industry will continue to evolve. According to research, in 2015, only 152 Chinese

yards reported any ship deliveries as compared to 292 in 2010. Further, only 69 yards had any shipbuilding contracts in 2015¹. As the concentration ratio in the industry increases, there has been a trend for new orders to favour yards of decent size and capabilities. We will seek to penetrate the US, Europe and developing markets, and explore Middle East and Latin America markets, leveraging on our expertise, the strong financial resources and the extensive network backed by our parent company. We will also introduce the transformation to focus on high value-added vessels such as RoPax vessels and chemical vessels to improve business efficiency. The need for environmental-protection will continue to support the demand for the design of high-tech, green vessels, and we expect Deltamarin to continue to ride the wave, grow its business network and contribute to the Group’s financial performance with its cutting-edge designs.

We will remain persistent and resilient against the continuing challenges in the shipbuilding industry, with focuses on playing out the strength of Deltamarin’s core capabilities and the synergies between our business segments, especially between shipbuilding and ship design. We will increase the volume of centralized procurement and continue to rationalize the cost structure. We will also tap on the opportunities brought by the One-Belt-and-One-Road Initiatives, leveraging on our brand value, so as to enhance the core value of the Group and deliver optimal returns 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 in a challenging year. 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 along with sustained growth of the Group in return.

DR DIAO WEICHENG
Executive Chairman

¹ JPMorgan “Asian shipbuilding industries – Chinese yards: 140 yards have disappeared, more to disappear for the next two years” – Jan 6, 2016

主席致辞

尊敬的各位股东，

2015年，由于主要经济体增速放缓，航运需求疲弱，运力过剩，运费持续承压，波罗的海干散货指数下滑至历史低点，全球航运、造船及相关行业持续低迷。中航国际船舶控股有限公司（“本公司”，连同其附属公司统称“本集团”）全力开拓商机，最大化发挥各业务部门之间的协同效应，并致力于提高运营效率。基于强大的业务网络，强劲的研发实力和造船能力，我们2015年坚持不懈的努力依然带来了可圈可点的成绩，收入和毛利同时增加，但净利受到了非经常性项目的影响有所下滑。

业务进展

本集团是一家高度市场化，并在市场上享有高度声誉的国有企业。我们的愿景是成长为覆盖研发、自有和代理船舶项目管理服务、造船、船舶融资等行业价值链各环节的综合性船舶服务提供商。

本年，集团共交付7艘船舶，其中包括38000DWT散货船和37000DWT Aspahalt油轮。截至2015年12月31日，集团拥有65艘造船项目管理服务在手订单，将支持集团在市场疲弱时期的表现。

集团的船舶设计部门Deltamarin是世界最大的独立于船企的船舶设计公司。Deltamarin持续实现技术突破，不断巩固其行业地位和声誉，订单情况稳定，2015年共获得价值2700万欧元的船舶设计订单。年内，为进一步顺应未来发展趋势，Deltamarin参与了联合开发项目LNG动力干散货船的设计。其他设计项目包括革命性的多用途天然气运输船、北极油轮、紧凑型摆渡轮“DeltaLinx”、破冰备用船及代表前沿趋势的集装箱支线船“A.Delta”的设计。近日，Deltamarin宣布签署合同，

设计世界上第一艘液化天然气灵便型散货船。这两艘B.Delta26 LNG船由芬兰船东ESL船务有限公司订制，将由中外运长航集团船舶重工总公司青山船厂建造。

尽管市场波动，集团仍对船舶设计和建造的长期业务前景充满信心。而我们的专业实力、业务架构和全球市场网络也将为EPC业务的增长提供坚实基础，使其成为集团的另一重要盈利来源。

财务回顾

造船服务收入2015年比去年同期（「同比」）增加200%至2.85亿人民币，占集团总收入的48%。造船服务在市场疲弱时期仍能取得良好表现，得益于年内完成的几个重点项目。船舶设计收入下降了5%至2.30亿人民币，占集团总收入的39%。造船及船舶设计部分共贡献了2015年总收入的87%，而2014年为73%。受益于项

目代理服务收入的提升，集团2015年度总收入同比增长30%至5.91亿人民币。毛利同比增长22%至2.02亿人民币，毛利率维持在34%的健康水平。然而，由于坏账核销、处置子公司等非经常性损失及所得税预提，导致运营费用增加，及2015年归属于母公司股东420万元人民币的亏损。

多元化经营战略

为捕捉市场低迷时期带来的投资机会，我们于2015年9月完成了对中航工业镇江船厂海洋私人有限公司（“AZM”）60%的股权收购。AZM重点业务为船舶投资，并从事各类船舶的收购、销售、经纪和租赁等各项业务。我们相信此次收购将提升集团船舶投资的长期能力。

未来展望及发展规划

我们认为造船市场在未来几年仍将充满挑战，同时，造船行业格局将持续

改变。据统计，2015年，只有152家中国船厂报告有船只交付，而2010年有292家；只有69家船厂在2015年获得了新造船合同。随行业集中度提高，船东更倾向于向具有一定规模和造船能力的大型船厂订造船只。我们将充分利用集团的专业优势，及母公司强大的资金资源和广泛的营销网络，努力拓展美国、欧洲和发展中国家市场，并发掘中东和拉美市场。我们还将更加专注于高附加值船舶，如客滚船和化学品船业务，以提高业务效率。此外，环保需求将继续支持高科技、绿色船舶的设计需求，Deltamarin将借此东风，继续拓展业务网络，凭借其尖端设计，为集团的业绩作出贡献。

我们将以恒心、毅力和韧性面对造船业的挑战。我们将重点打造Deltamarin的核心实力，充分发挥各业务板块之间，尤其是造船和船舶设计业务间的协同作

用。我们将提高集中采购规模，继续优化成本结构，并挖掘一带一路带来的机遇，充分利用我们的品牌价值，提升集团的核心价值，为股东提供最优回报。

感谢辞

我代表董事会，向集团管理团队和所有员工在这充满挑战的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。

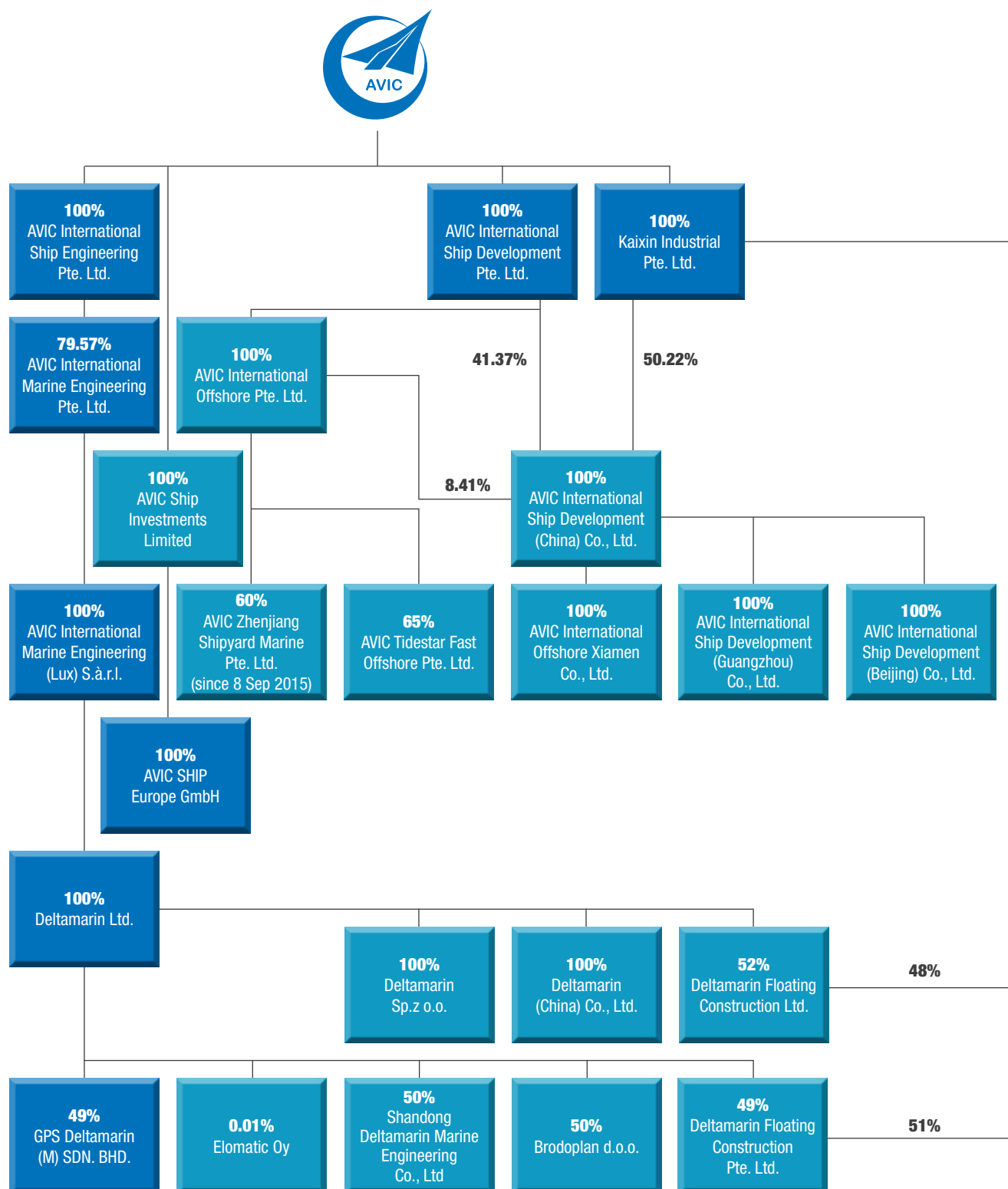
刁伟程博士
执行主席

KEEPING
FOCUS
**STAYING
RESILIENT**

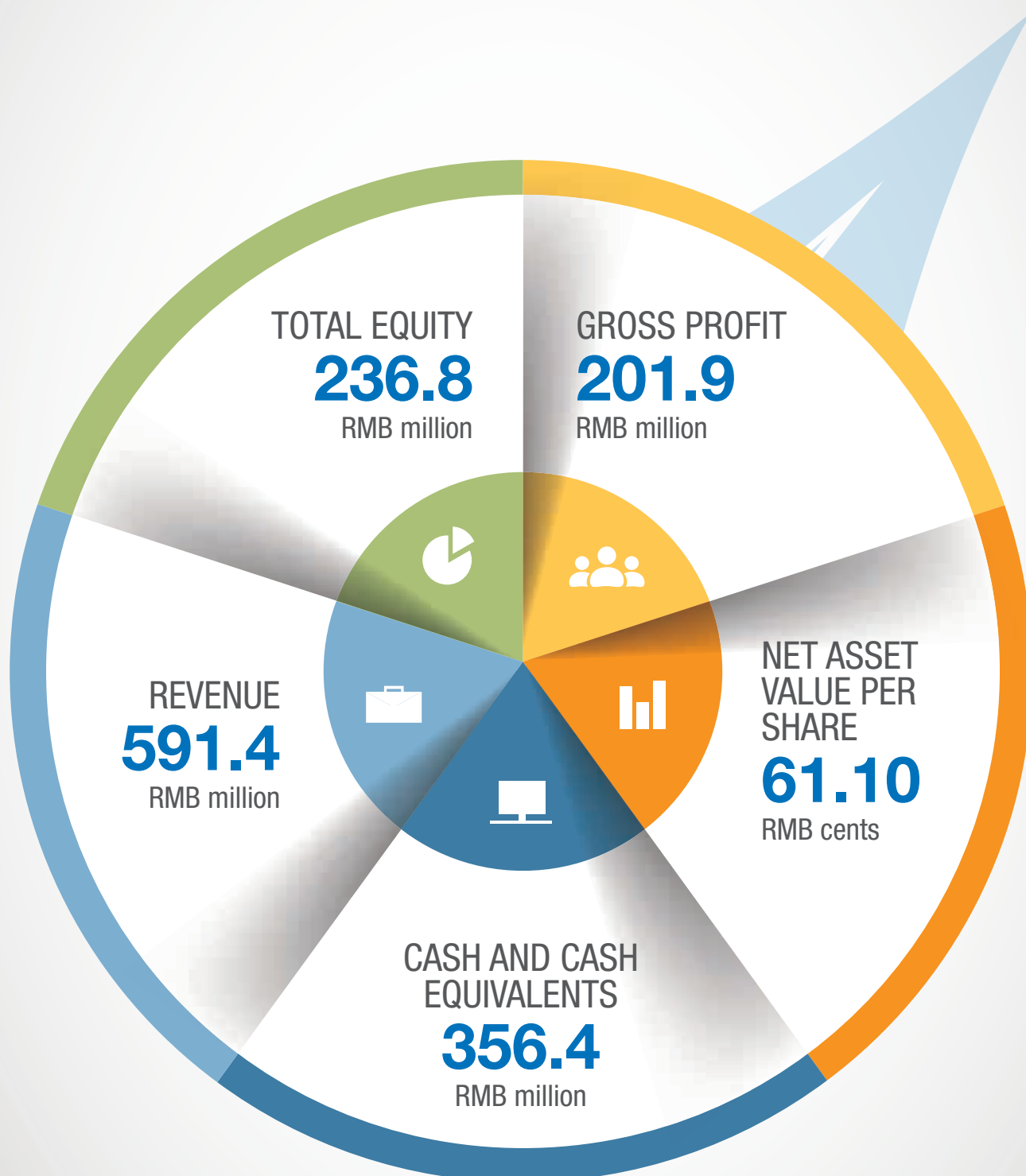




CORPORATE STRUCTURE



KEY HIGHLIGHTS IN FY2015



OPERATIONAL & FINANCIAL REVIEW

FINANCIAL SUMMARY

| For the year (RMB' million) | FY2015 | FY2014 |
|------------------------------|--------|--------|
| Revenue | 591.4 | 455.1 |
| Profit Before Income Tax | 8.9 | 24.2 |
| (Loss)/Profit for the period | (8.5) | 17.2 |

| At year end (RMB' million) | | |
|----------------------------|---------|-------|
| Current Assets | 960.9 | 602.0 |
| Non-Current Assets | 218.4 | 216.6 |
| Total Assets | 1,179.3 | 818.6 |
| Current Liabilities | 339.6 | 321.5 |
| Non-Current Liabilities | 602.9 | 254.8 |
| Total Liabilities | 942.5 | 576.3 |
| Total Equity | 236.8 | 242.3 |
| Cash and Cash Equivalents | 356.4 | 301.2 |

| Per Share Information (RMB cents) | | |
|--|--------|-------|
| Basic Earnings Per Share ¹ | (1.47) | 5.06 |
| Net Asset Value Per Share ¹ | 61.10 | 67.28 |

| Key Ratios | | |
|---|-------|-----|
| Current Ratio ² (times) | 2.8 | 1.9 |
| Return on Shareholders' Equity ³ (%) | (3.6) | 7.1 |
| Return on Assets ⁴ (%) | (0.7) | 2.1 |

Notes:

1 Based on 285,576,000 weighted average number of ordinary shares

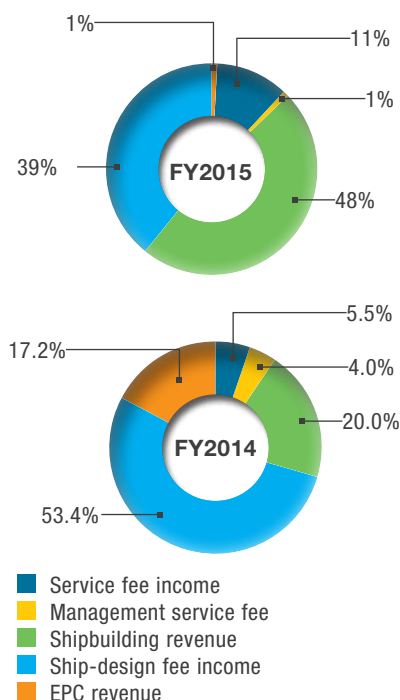
2 Defined as current assets/current liabilities

3 Defined as profit for the period/total equity

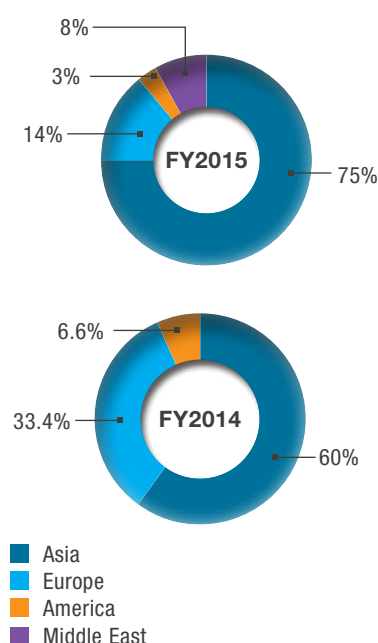
4 Defined as profit for the period/total assets

| Revenue by type of services (RMB' million) | FY2015 | FY2014 |
|--|--------------|--------------|
| Service fee income | 64.9 | 25.0 |
| Management service fee | 4.3 | 17.9 |
| Shipbuilding revenue | 285.2 | 90.9 |
| Ship-design fee income | 230.0 | 242.8 |
| EPC reveue | 7.0 | 78.2 |
| Other income | – | 0.3 |
| Total | 591.4 | 455.1 |

REVENUE BREAKDOWN BY BUSINESS SEGMENT



REVENUE BREAKDOWN BY GEOGRAPHICAL SEGMENT



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | FY2015 | FY2014 | Change |
|-----------------------------------|----------------|---------------|--------------|
| | (RMB'000) | (RMB'000) | (%) |
| Revenue | 591,382 | 455,058 | 30% |
| Cost of sales | (389,521) | (289,205) | 35% |
| Gross profit | 201,861 | 165,853 | 22% |
| Other operating income | 16,095 | 7,798 | 106% |
| Other (losses)/gains | (6,593) | 17,093 | N/M |
| Expenses | | | |
| – Distribution and marketing | (41,981) | (29,359) | 43% |
| – Administrative | (138,366) | (120,527) | 15% |
| – Finance | (17,159) | (15,951) | 8% |
| – Other | (6,489) | (315) | N/M |
| Share of results of associates | 1,524 | (378) | N/M |
| Profit before income tax | 8,892 | 24,214 | (63%) |
| Income tax expense | (17,382) | (7,018) | 148% |
| (Loss)/profit for the year | (8,490) | 17,196 | N/M |

REVENUE

The Group's revenue for financial year ended 31 December 2015 ("FY2015") increased 30% to RMB591.4 million. Asia remained the Group's largest market, contributing 74.5% of the Group's revenue. This was supplemented by revenue from Europe, Middle East and America. The main drivers of the increase in revenue came from the shipbuilding construction service and shipbuilding project management service.

COST OF SALES & GROSS PROFIT

Cost of sales increased 35% to RMB389.5 million in line with increased revenue. Consequently, gross profit increased 22% to RMB201.9 million due to greater contribution from higher margin shipbuilding business. Gross margin remained healthy at 34% in FY2015 compared to 36% in FY2014.

OTHER OPERATING INCOME

Other operating income consist of interest income and government grants, the increased by RMB8.3 million to RMB16.1 million in FY2015, mainly due to an increase RMB7.7 million in government grants.

OTHER (LOSSES)/GAINS

Other (losses)/gains mainly consist of foreign currency exchange and loss on disposal of a subsidiary. The decrease by RMB23.7 million from other gains in FY2014 to other losses in FY2015, mainly due to foreign exchange gain of RMB17.3 million arising from the repayment of a long-term loan denominated in Euro in FY2014 and compared to foreign exchange losses RMB2.9 million in FY2015 and RMB3.6 million loss on disposal of a subsidiary.

DISTRIBUTION AND MARKETING EXPENSES

Distribution and marketing expenses increased 43% to RMB42.0 million, inclusive of operating lease expenses which increased by approximately 87% to RMB1.2 million in FY2015 due to increased leasing expenses from China subsidiaries.

ADMINISTRATIVE EXPENSES

Administrative expenses increased 15% to RMB138.4 million in FY2015 largely due to increases in amortisation expenses, general office expenses, and employee benefits expenses as a result of higher headcount.

OPERATIONAL & FINANCIAL REVIEW

◆ OTHER OPERATING EXPENSES

Other operating expenses amounted to RMB6.5 million in FY2015 compared to RMB0.3 million in FY2014. This increase comprised mainly allowance for doubtful debts and bad debts written off.

◆ FINANCE COSTS

Finance costs increased RMB1.2 million to RMB17.2 million due mainly to new loan raised.

◆ SHARE OF RESULTS OF ASSOCIATES

In FY2015, the Group recorded a share of profit from associates of RMB1.5 million compared to a loss of RMB0.4 million in FY2014.

◆ INCOME TAX EXPENSE

Income tax expense increased by RMB10.4 million to RMB17.4 million in FY2015 mainly due to a provision for tax expense of RMB8.2 million on the gain arising from restructuring of subsidiaries under common control within the group.

◆ CURRENT ASSETS

As at 31 December 2015, the Group's cash and bank balances increased 52% or RMB108.2 million to RMB317.0 million from the previous period as more cash was deployed to finance working capital requirements. Pledged bank deposits decreased RMB53.1 million to RMB39.4 million mainly due to the release of payments to shipbuilders.

Trade receivables increased RMB16.0 million to RMB236.9 million. This mainly consisted of RMB98.4 million due from clients and RMB138.5 million from construction contract work in progress.

Other receivables decreased RMB30.9 million to RMB48.5 million mainly due to receipt of RMB43.2 million tax recoverable during the period and a RMB3.4 million decrease in prepayments. This was partially offset by RMB15.8 million increased in amount owing from related party.

◆ NON-CURRENT ASSETS

Plant and equipment, net of depreciation, increased RMB0.6 million to RMB8.6 million. Investment in associates increased RMB1.4 million to RMB1.8 million as at 31 December 2015. This represented the total amount of investment in non-controlling entities held by the Deltamarin Group.

Intangible assets decreased RMB21.7 million to RMB76.7 million as at 31 December 2015. This was mainly due to increased amortisation as a result of the change in estimated useful life from indefinite to 30 years and disposal of a subsidiary together with software license which had a carrying amount RMB9.7 million. The decrease was offset by an amount of RMB5.5 million arising from the translation of plant and equipment denominated in Euro to RMB.

The Group's goodwill amounted to RM103.5 million as at 31 December 2015 which was a decrease of RMB5.7 million from the previous period due to the depreciation of Euro which had an impact on the translation of the goodwill denominated in Euro to RMB.

◆ CURRENT LIABILITIES

Current portion of borrowing stood at RMB174.5 million, this mainly consist of three unsecured shareholder loans and amounted to RMB67.5 million of 65% and 60% owned subsidiaries of the Group and the group had drawn down RMB107 million of the 2-year term loan facility arrangement with China Merchants Bank Co., Ltd.

Trade payables decreased RMB46.0 million to RMB3.9 million mainly due to decrease of RMB42.2 million in trade payables to suppliers and decreased of RMB3.8 million for amounts due to construction contract customers.

Other payables and accruals increased RMB24.9 million to RMB110.4 million as at 31 December 2015, mainly due to the increase in accrual cost of RMB44.5 million for vessels

STATEMENT OF FINANCIAL POSITION

| | 31 December 2015 | 31 December 2014 |
|---|---------------------|---------------------|
| | (RMB'000) | (RMB'000) |
| Current assets | | |
| Cash and cash equivalents | 356,364 | 301,238 |
| Trade receivables and other receivables | 285,434 | 300,308 |
| Inventories | 319,141 | 481 |
| Non-current assets | | |
| Trade and other receivables | 26,837 | – |
| Investment in associated companies | 1,773 | 405 |
| Plant and equipment | 8,648 | 8,094 |
| Intangible assets | 180,204 | 207,584 |
| Available-for-sale investments | 11 | 49 |
| Deferred tax assets | 919 | 497 |
| Total assets | 1,179,331 | 818,656 |
| Current liabilities | | |
| Trade and other payables | 151,378 | 173,850 |
| Borrowings | 174,514 | 145,319 |
| Finance lease liabilities | 935 | 967 |
| Income tax payable | 12,787 | 1,377 |
| Non-current liabilities | | |
| Borrowings | 583,471 | 228,239 |
| Finance lease liabilities | 831 | 806 |
| Deferred tax liabilities | 18,535 | 22,039 |
| Trade and other payables | 35 | 3,735 |
| Total liabilities | 942,486 | 576,332 |
| Capital and reserves | | |
| Share capital | 101,237 | 101,237 |
| Other reserves | 24,684 | 35,372 |
| Accumulated profits | 48,572 | 55,530 |
| Non Controlling Interest | 62,352 | 50,185 |
| Total equity | 236,845 | 242,324 |

under construction at shipyards, partially offset by the repayment of amount due to former majority shareholder of RMB18.6 million. Income tax payable increased by RMB11.4 million to RMB12.8 million as at 31 December 2015, mainly due to a provision for tax expense of RMB8.2 million on the gain arising from the restructuring of china subsidiaries under common control within the group and provision for income tax expense of RMB3.2 million.

◆ NON-CURRENT LIABILITIES

Non-current borrowings increased by RMB355.2 million to RMB583.5 million as at 31 December 2015. This comprises three new bank loans from CCBC (RMB13 million), ICBC-ASIA (RMB324.6 million) and China Minsheng Bank (RMB39.4 million) raised during the year, the increased was partially offset by the repayment of loan from former majority shareholder of RMB19.2 million.

Deferred tax liabilities represented the tax liabilities for the timing differences arising from the recognition of the intangible assets, deferred ship-design fee income and fair valuation of Deltamarin Group's assets.

Other non-current liabilities decreased due to partial settlement of outstanding amount of Technology patent.

◆ CAPITAL AND RESERVE

The capital and reserve of the Group amounted to RMB174.5 million, comprising mainly share capital, accumulated profits, statutory reserve, translation reserve and a deemed contribution from the former majority shareholder as a result of initial recognition of shareholder's loan at fair value.

◆ NET CASH USED IN OPERATING ACTIVITIES

Cash used in by operating activities amounted to RMB97.3 million in FY2015 compared to RMB151.5 million used in FY2014. The cash outflow from operating activities was attributed mainly to the increase in inventory and trade receivables and decrease in trade payable. This was partially offset by the decrease in other receivables.

◆ NET CASH USED IN INVESTING ACTIVITIES

Cash outflow from investing activities amounted to RMB26 million in FY2015, compared to cash outflow of RMB16.0 million in FY2014. The increase in cash outflow was mainly due to net cash paid for acquisition of AVIC Zhenjiang Shipyard Marine Pte. Ltd ("AZM").

CONSOLIDATED CASH FLOW STATEMENTS

| | FY2015 | FY2014 |
|--|-----------|-----------|
| | (RMB'000) | (RMB'000) |
| Net cash used in operating activities | (97,296) | (151,537) |
| Net used in investing activities | (26,049) | (16,040) |
| Net cash from/(used in) financing activities | 235,274 | (28,421) |
| Net increase/(decrease) in cash and cash equivalents | 111,929 | (195,998) |
| Cash and cash equivalents at end of the financial period | 316,963 | 208,763 |

◆ NET CASH FROM FINANCING ACTIVITIES

Net cash inflow generated from financing activities was RMB235.3 million in FY2015, compared to net cash outflow of RMB28.4 million in FY2014. This was a result of new bank loans raised amounting to RMB369.8 million, and a decrease in pledged bank deposit amounting to RMB53.0 million. The cash inflow was partially offset by dividend paid to non-controlling interest of RMB2.2 million and interest paid of RMB9.1 million.



STEP
FORWARD
TOGETHER





BOARD OF DIRECTORS



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 29 April 2015. 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 and Shennan Circuit Co., Ltd. In addition, he is the Chairman of FIYTA Holdings Ltd. and Rainbow Department Store Co., Ltd, both of which are listed on the Shenzhen Stock Exchange.

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 Zhongshan 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) is our **CEO and Executive Director**. He was first appointed to our Board as Non-Executive Director on 28 May 2013 and was re-elected to our Board on 29 April 2014. 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., AVIC International Offshore Pte. Ltd., AVIC International Marine Engineering Pte. Ltd., AVIC International Marine Engineering (Lux), S.à.r.l 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 Manager of the Import Department in AVIC INT'L Beijing. From 1993 to 1996, Mr Sun served as 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 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.



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 he was most recently re-elected to our Board on 29 April 2015.

Presently, Mr Li also sits on the board of AVIC International Marine Engineering Pte. Ltd., AVIC International Offshore Pte. Ltd., AVIC International Ship Engineering Pte. Ltd., AVIC International Ship Development Pte. Ltd., Kaixin Industrial Pte. Ltd., Deltamarin Floating Construction Pte. Ltd., AVIC Tidestar Fast Offshore Pte. Ltd., AVIC Zhenjiang Shipyard Marine Pte. Ltd., AVIC International Marine Engineering (Lux), S.à.r.l 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 Assistant to General Manager of AVIC INT’L Xiamen.

Mr Li began his career in Xiamen South-East Aluminum 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 Aviation Industry Corporation of China.



MR HUANG GUANG (黄光) was first appointed as a **Non-Executive Director** to our Board on 28 May 2013 and was last re-elected to our Board on 29 April 2014.

Since 20 March 2012, Mr Huang has also been appointed as the Senior Vice President of AVIC International Holding Corporation. He currently sits on the board of AVIC International Xiamen Co., Ltd. (“**AVIC INT’L Xiamen**”) and used to sit on the board of AVIC International Offshore Pte. Ltd..

Mr Huang was appointed as a General Manager and Deputy Secretary of the Party Committee at AVIC INT’L Xiamen in 2001. From 2008 to 2010, he was also the General Manager and was promoted to the Secretary of the Party Committee of the same company.

Mr Huang graduated from Xiamen University with a Bachelor of Arts in 1984. In 1996 he obtained a Master of Business Administration and subsequently obtained an Executive Master of Business Administration in 2005 from the same University.

BOARD OF DIRECTORS



MR LIU AIYI (刘爱义) is our **Non-Executive Director**. He was first appointed to our Board on 31 March 2014 and was last re-elected to our Board on 29 April 2014.

Mr Liu has been appointed as the General Manager of the Human Resource Department of AVIC International Holding Corporation since July 2010. Presently, Mr Li also sits on the board of Tianma Microelectronics Co., Ltd., FIYTA Holdings Ltd., Shennan Circuit Co., Ltd., AVIC Real Estate Co., Ltd. and Rainbow Department Store Co., Ltd.

Prior to such appointment, Mr Liu had worked in the Aviation Industry Corporation of China since January 2001. He was first employed as the Vice Secretary, and subsequently as the Secretary of the Youth League Committee. In May 2003, he was transferred to the Human Resource Department, where he assumed the role of a Senior Business Manager. In December 2006, he was promoted to be the Director of Leader Cadre and from October 2008 to July 2010, he was appointed as the Director of Talent and Executives of the Human Resource Department.

Mr Liu was formerly a Publicity Officer at AVIC Beijing Institute of Measurement Testing Technology, from August 1997 to January 2001.

Mr Liu is a certified Senior Political Officer accredited by the Aviation Industry Corporation of China. He graduated from Peking University with a Bachelor of Arts in Chinese Language and Literature in 1997 and obtained a Master Degree in Public Policy in 2008 from the same university.



MR WANG MINGCHUAN (汪名川) is our **Non-Executive Director**. He was first appointed to our Board on 31 March 2014 and was last re-elected to our Board as Non-Executive Director on 29 April 2014.

Mr Wang is currently the Head of Finance Department and the Vice Chief Accountant of AVIC International Holding Corporation. He is also the Chief Accountant of AVIC International Shenzhen Co., Ltd. ("**AVIC INT'L Shenzhen**") since September 2010. He currently sits as a director on the boards of FIYTA Holdings Ltd., AVIC Real Estate Co., Ltd., Rainbow Department Store Co., Ltd and Tianma Micro-electronics Co., Ltd.

Over the past two decades from 1992, Mr Wang has held several positions at AVIC INT'L Shenzhen, including positions such as Manager, Deputy Manager of the Finance Department, and the Vice Chief Accountant and Chief Accountant of AVIC INT'L Shenzhen.

Prior to joining AVIC INT'L Shenzhen, Mr Wang worked in Shenzhen Shenrong Engineering Plastic Company as the Finance Manager from February 1989 to January 1992.

Mr Wang is a certified accountant accredited by the Ministry of Finance of the People's Republic of China and a certified Senior Accountant accredited by the Aviation Industry Corporation of China. He graduated from Southwestern University of Finance and Economics with a Bachelor of Accounting in 1986, and obtained a Master of Science in Engineering from Tongji University in 1996. He has also obtained an Executive Master in Business Administration from China Europe International Business School in 2009.



MR ZHONG SIJUN (钟思均) is our **Non-Executive Director**. He was first appointed to our Board on 2 July 2015.

Mr. Zhong is currently the Company Secretary of AVIC International Holdings Limited since June 2015. He is currently a director of Shennan Circuits Co., Ltd., Rainbow Department Store Co., Ltd, Tianma Micro-electronics Co., Ltd, AVIC Real Estate Co., Ltd and FIYTA Holdings Ltd..

From June 2009 to April 2015, Mr Zhong was the Deputy Manager of the Operations Department of AVIC International Holdings Limited. Prior to that, he was the Secretary to the Board of Shanghai Tianma Micro-electronics Co., Ltd.

from June 2006 to June 2009.

Mr Zhong graduated from Northwestern Polytechnical University with a Bachelor of Aircraft Design Engineering in 1999 and a Master of Management Science and Engineering in 2002 from the same university.



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 29 April 2014. Mr Teng chairs our Nominating Committee and is also a member of both the Remuneration Committee and Audit Committee.

Mr Teng is also currently serving as an independent director of several listed companies, namely, Techcomp (Holdings) Ltd, Memtech International Ltd, First Resources Ltd and AEI Corporation Ltd. He is also a Director of several unlisted companies: Pheim Asset Management (Asia) Pte Ltd., Pheim Sicav-SIF, T3Z Advisory & Consultancy Pte. Ltd. and Kaixin Industrial 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, and was responsible for listings, inspection and investigations from 1989 to 1999. 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 with First Class Honours in Bachelor of Engineering (Industrial) and Bachelor of Commerce.



MR CHONG TECK SIN was first appointed as an **Independent Director** to our Board on 18 April 2011 and was most recently re-elected to our Board as an Independent Director on 29 April 2015. Mr Chong sits as the chair of our Audit Committee and is a member of both our Nominating Committee and Remuneration Committee.

Mr Chong is also currently serving as an independent director of HKSE-listed Changan Minsheng APLL Logistics Co., Ltd., SGX-listed Civmec Ltd., Innotek Ltd. Mr Chong is also an independent director on the board of Accordia Golf Trust Management Pte. Ltd., the trustee-manager of the SGX-listed Accordia Golf Trust.

Between April 2004 and March 2010, Mr Chong was a board member of the Accounting and Corporate Regulatory Authority of Singapore. Between October 2008 and July 2010, he was also a board member of The National Kidney Foundation of Singapore. Prior to that from 1999 to 2004, he was the Group Managing Director (Commercial) of Seksun Corporation Ltd, a company listed on the SGX-ST. He joined Glaxo Wellcome Asia Pacific

BOARD OF DIRECTORS

Pte Ltd as its strategic development director for the People's Republic of China from 1997 to 1999. From 1994 to 1997, Mr Chong was the general manager (Marketing/Commercial) and subsequently senior general manager (Marketing, Singapore operations and Singapore branch) of China-Singapore Suzhou Industrial Park Development Co., Ltd., the developer of the China-Singapore Suzhou Industrial Park in the People's Republic of China. Before that, he held positions at Standard Chartered Bank from 1989 to 1994, the Economic Development Board from 1986 to 1989 and Nippon Kaiji Kyokai, an international ship classification society, from 1981 to 1986.

Mr Chong graduated with a Bachelor of Engineering (Naval Architecture) from the University of Tokyo in 1981 on a Singapore government scholarship and a Master of Business Administration (MBA) from the National University of Singapore in 1987.



MR 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 29 April 2014.

Mr 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".

Mr 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 was first appointed to our Board as an **Independent Director** on 18 April 2011, and was most recently re-elected to the same position on 29 April 2015. 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, and Asia Investment Research Limited, a research company, respectively, both of which are licensed corporations by the Securities and Futures Commission of

Hong Kong. She is also serving as an independent director of several listed companies on the Hong Kong Stock Exchange, namely, China Engene International (Holdings) Limited, Cosmopolitan International Holdings Limited, Regal Hotels International Holdings Limited, Shimao Property Holdings Limited and Shougang Concord International Enterprises Company Limited.

From 2005 to 1 April 2015, Ms Kan was the 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 the 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.

KEY MANAGEMENT

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 Securities and Futures Commission of Hong Kong.

MR LIAO HONGBING

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.

Presently, Mr Liao also sits on the board of AVIC International Offshore Pte. Ltd..

Mr Liao was appointed the Chief Accountant of AVIC International Ship Development (China) Co., 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 the Assistant to 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. 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 company, the Group is committed to its social responsibility. Over the last few years, the Group organised 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 China, through establishment of schools, provision of learning facilities and financial aid.

In 2015, the Group continued to provide financial support to Xianghua Village in Shanghai. The funding effectively solved the financial constraints of the village, and assisted them in infrastructure improvement. The Group supported the village through the regular purchase of agricultural products produced by the village. We encourage our staff to take part in volunteer work, and give back to community by serving local needs.

We are actively involved in various charitable activities in Singapore as well. Staff of the Group participated in “Race against Cancer”, a charity run organised by the Singapore Cancer Society.

ENVIRONMENTAL AWARENESS

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

In 2015, Deltamarin Ltd's Group delivered the scrubber systems, provides a unique environmentally friendly scrubber solution to ship-owners which reduces the sulphur content of the exhaust gases to less than 0.1%.

CORPORATE INFORMATION

BOARD OF DIRECTORS

DIAO WEICHENG

(Executive Chairman)

SUN YAN

(Executive Director and Chief Executive Officer)

LI MEIJIN

(Executive Director)

HUANG GUANG

(Non-Executive Director)

LIU AIYI

(Non-Executive Director)

WANG MINGCHUAN

(Non-Executive Director)

ZHONG SIJUN

(Non-Executive Director)

TENG CHEONG KWEE

(Lead Independent Director)

CHONG TECK SIN

(Independent Director)

ALICE LAI KUEN KAN

(Independent Director)

WANG PUQU

(Independent Director)

AUDIT COMMITTEE

CHONG TECK SIN

(Chairperson)

TENG CHEONG KWEE

ALICE LAI KUEN KAN

NOMINATING COMMITTEE

TENG CHEONG KWEE

(Chairperson)

DIAO WEICHENG

CHONG TECK SIN

ALICE LAI KUEN KAN

REMUNERATION COMMITTEE

ALICE LAI KUEN KAN

(Chairperson)

TENG CHEONG KWEE

CHONG TECK SIN

COMPANY SECRETARY

YAP LIAN SENG, LL.B. (HONS)

REGISTERED OFFICE

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PRINCIPAL PLACE OF BUSINESS

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No. 212 Jiangning Road
Jingan District
Shanghai 200041
The People's Republic of China

AUDITORS

PricewaterhouseCoopers LLP
8 Cross Street
#17-00 PWC Building
Singapore 048424
(Partner-in-charge: Soh Kok Leong,
Certified Public Accountant)
(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 BANKERS

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

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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 dubious financial engineering, 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 Company is guided in its corporate governance practices by the applicable laws, rules and regulations, the Listing Manual issued by the SGX-ST (the “Listing Manual”) and the principles and guidelines of the Code of Corporate Governance 2012 (the “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 Code and the relevant sections of the Listing Manual.

For the financial year ended 31 December 2015 (“FY2015”), the Group has complied in all material respects with the principles laid down by the Code, and where there is any material deviation, appropriate explanation has been provided within this Report. For easy reference, sections of the 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 of directors (the “Board”) comprises the following members:

| | |
|--------------------|--|
| Diao Weicheng | Executive Chairman |
| Sun Yan | Executive Director and Chief Executive Officer (“CEO”) |
| Li Meijin | Executive Director |
| Huang Guang | Non-Executive Director |
| Liu Aiyi | Non-Executive Director |
| Wang Mingchuan | Non-Executive Director |
| Zhong Sijun | Non-Executive Director |
| Teng Cheong Kwee | Lead Independent Director |
| Chong Teck Sin | Independent Director |
| Alice Lai Kuen Kan | Independent Director |
| 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.

REPORT ON CORPORATE GOVERNANCE

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 review 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 Listing Manual. 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 ("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 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") provide 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.

REPORT ON CORPORATE GOVERNANCE

The attendance of the Directors at the Board and Board Committee meetings held during FY2015 are set out as follows:

Total number of meetings held in FY2015

| | Board | Board Committees | | |
|-------------------------------|-------|---------------------|------------|---------------------|
| | | Audit | Nominating | Remuneration |
| | 4 | 4 | 1 | 1 |
| Number of meetings attended | | | | |
| Diao Weicheng | 4/4 | N/A | 1/1 | 1 ⁽¹⁾ /1 |
| Sun Yan | 4/4 | N/A | N/A | N/A |
| Li Meijin | 4/4 | 3 ⁽¹⁾ /4 | N/A | N/A |
| Huang Guang | 1/4 | N/A | N/A | N/A |
| Liu Aiyi | 2/4 | N/A | N/A | N/A |
| Wang Mingchuan | 1/4 | N/A | N/A | N/A |
| Zhong Sijun ⁽²⁾ | 0/2 | N/A | N/A | N/A |
| Teng Cheong Kwee | 4/4 | 4/4 | 1/1 | 1/1 |
| Chong Teck Sin | 4/4 | 4/4 | 1/1 | 1/1 |
| Alice Lai Kuen Kan | 4/4 | 4/4 | 1/1 | 1/1 |
| Wang Puqu | 3/4 | N/A | N/A | N/A |
| Huang Yongfeng ⁽³⁾ | 1/2 | N/A | N/A | N/A |

N/A.: Not applicable

(1) Attended the meetings as an invitee.

(2) Mr Zhong Sijun was appointed as an Non-Executive Director of the Company on 2 July 2015.

(3) Mr Huang Yongfeng resigned from his office as Non-Executive Director on 2 July 2015.

The Executive Committee

The EC comprises our Executive Chairman and the following Executive Directors:

| | |
|---------------|----------|
| 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 11 Directors, of whom four of the Directors are independent. The Independent Directors are Mr Teng Cheong Kwee, Mr Chong Teck Sin, Ms Alice Lai Kuen Kan and Mr Wang Puqu. Mr Teng Cheong Kwee, Mr Chong Teck Sin and Ms Alice Lai Kuen Kan, each serves as Chairman of the NC, AC and RC, respectively.

The criterion of independence is based on the definition set out in the 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 more than one third 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 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 Code.

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Guideline 2.2 of the 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. The Company is reviewing its Board composition so as to work towards complying with this requirement. In the interim, the four Independent Directors, which make up more than one-third of the Board, 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 without the presence of the Management.

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 Chief Executive Officer ("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

REPORT ON CORPORATE GOVERNANCE

agendas, and further ensures that adequate information and time are provided to the Board members to facilitate discussion and decision-making. 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.

To enhance the independence of the Board, Mr Teng Cheong Kwee is also appointed as the Lead Independent Director. As Lead Independent Director, Mr Teng serves as the leader of the Independent Directors in raising queries and takes up matters where circumstances required. Periodically, Mr Teng will convene meetings of the Independent Directors, without the presence of Executive Directors and the Management, and will provide feedback to the Executive Chairman after such meetings.

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 |
| Mr Chong Teck Sin | 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:

- conducting an annual review of the size, composition and core competencies of and skills required by the Board and the Board Committees;
- 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;
- 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);
- determining, on an annual basis and as and when circumstances require, if a Director is independent;
- reviewing and approving any new employment of related persons and the proposed terms of their employment;
- reviewing the Board succession plans for directors, in particular, the Chairman and CEO;

REPORT ON CORPORATE GOVERNANCE

- (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.

When an existing Director chooses to retire or the need for 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 identified by way of an engagement of 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.

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. Further, the NC, in considering the re-appointment of a Director, evaluates such director's contribution and performance, such as his attendance at meetings.

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, Mr Chong Teck Sin, Ms Alice Lai Kuen Kan and Mr Wang Puqu are "independent" in accordance with the Code.

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 every 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 Huang Guang, Mr Liu Aiyi, Mr Wang Mingchuan and Mr Wang Puqu, being amongst the longest serving directors since their last re-election, shall retire and stand for re-election; and

Pursuant to Article 97 of the Company's Constitution, all newly appointed Directors so appointed by way of the Directors' resolutions to the Board are required to retire at the next AGM following their appointment. The retiring Directors are eligible to offer themselves for re-election.

Accordingly, at this forthcoming AGM, the NC has recommended and the Board has approved that:

- Mr Zhong Sijun, who was appointed by way of Directors' resolutions, 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.

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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 2015) and held over the preceding 3 years (from 31 December 2012 to 31 December 2015), as well as other major appointments are as follows:

| Name | Directorships | Major Appointments (other than Directorships) |
|------------------|--|---|
| Dr Diao Weicheng | <p><i>Present</i></p> <p><u>Listed companies</u></p> <ul style="list-style-type: none"> FIYTA Holdings Ltd. Rainbow Department Store Co., Ltd. <p><u>Others</u></p> <ul style="list-style-type: none"> AVIC International Ship Development Pte. Ltd. Kaixin Industrial Pte. Ltd. AVIC International Ship Engineering Pte. Ltd. AVIC International Marine Engineering Pte. Ltd. AVIC International Marine Engineering (Lux), S.à.r.l Deltamarin Oy AVIC International Ship Development (Beijing) Co., Ltd. AVIC Weihai Shipyard Co., Ltd. AVIC Weihai Import and Export Co., Ltd. AVIC International Shanghai Company Limited Shennan Circuit Co., Ltd. Schneider Shanghai Low Voltage Terminal Apparatus Co., Ltd. | <p><i>Present</i></p> <ul style="list-style-type: none"> AVIC International Holding Corporation (Executive Vice President) |
| | <p><i>In the Past 3 Years</i></p> <p>Nil</p> | |

REPORT ON CORPORATE GOVERNANCE

| Name | Directorships | Major Appointments (other than Directorships) |
|------------|--|---|
| Mr Sun Yan | <p><i>Present</i></p> <p><u>Listed companies</u> Nil</p> <p><u>Others</u></p> <ul style="list-style-type: none"> • AVIC International Marine Engineering Pte. Ltd. • AVIC International Offshore Pte. Ltd. • AVIC Weihai Shipyard Co., Ltd. • AVIC International Ship Development (Guangzhou) Co., Ltd. • AVIC Ship (Xiamen) Co., Ltd. • AVIC International Ship Development (Beijing) Co., Ltd. • AVIC International Ship Development (China) Ltd. • AVIC Dingheng Shipbuilding Co. Ltd. • AVIC International Marine Engineering (Lux), S.à.r.l • Deltamarin Oy • China National Aero-Technology Corporation Shanghai Limited Liability Company • JETSKY Shipping Development Limited • EARLY SUN Shipping Development Limited • 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 | <p><i>Present</i></p> <p>AVIC International Maritime Holdings Limited (CEO)</p> |
| | <p><i>In the Past 3 Years</i> Nil</p> | |

REPORT ON CORPORATE GOVERNANCE

| Name | Directorships | Major Appointments (other than Directorships) |
|----------------|--|--|
| Mr Li Meijin | <i>Present</i> | <i>Present</i> |
| | <u>Listed companies</u> | Nil |
| | Nil | |
| | <u>Others</u> <ul style="list-style-type: none"> • AVIC International Ship Development Pte. Ltd. • Kaixin Industrial Pte. Ltd. • AVIC International Ship Engineering Pte. Ltd. • AVIC International Marine Engineering Pte. Ltd. • AVIC International Marine Engineering (Lux), S.à.r.l • Deltamarin Oy • Deltamarin Floating Construction Pte. Ltd. • AVIC International Offshore Pte. Ltd. • AVIC Tidestar Fast Offshore Pte. Ltd. • AVIC Zhengjiang Shipyard Marine Pte. Ltd. | |
| | <i>In the Past 3 Years</i> | |
| | Nil | |
| Mr Huang Guang | <i>Present</i> | <i>Present</i> |
| | <u>Listed companies</u> | <ul style="list-style-type: none"> • AVIC International Holding Corporation (Senior Vice President) |
| | Nil | |
| | <u>Others</u> <ul style="list-style-type: none"> • AVIC International Xiamen Co., Ltd. | |
| | <i>In the Past 3 Years</i> | |
| | <ul style="list-style-type: none"> • AVIC International Offshore Pte. Ltd. | |

REPORT ON CORPORATE GOVERNANCE

| Name | Directorships | Major Appointments (other than Directorships) |
|-------------------|---|---|
| Mr Liu Aiyi | <p><i>Present</i></p> <p><u>Listed companies</u></p> <ul style="list-style-type: none"> FIYTA Holdings Ltd. Tianma Microelectronics Co., Ltd. AVIC Real Estate Co., Ltd. Rainbow Department Store Co., Ltd. <p><u>Others</u></p> <ul style="list-style-type: none"> Shennan Circuit Co., Ltd. | <p><i>Present</i></p> <ul style="list-style-type: none"> AVIC International Holding Corporation (General Manager, Human Resource Department) |
| | <p><i>In the Past 3 Years</i></p> <p>Nil</p> | |
| Mr Wang Mingchuan | <p><i>Present</i></p> <p><u>Listed companies</u></p> <ul style="list-style-type: none"> FIYTA Holdings Ltd. Tianma Microelectronics Co., Ltd. AVIC Real Estate Co., Ltd. Rainbow Department Store Co., Ltd. <p><u>Others</u></p> <ul style="list-style-type: none"> Shennan Circuit Co., Ltd. | <p><i>Present</i></p> <ul style="list-style-type: none"> AVIC International Holding Corporation (Head of Finance Department and Vice Chief Accountant) AVIC International Shenzhen Co., Ltd. (Chief Accountant) |
| | <p><i>In the Past 3 Years</i></p> <p>Nil</p> | |
| Mr Zhong Sijun | <p><i>Present</i></p> <p><u>Listed companies</u></p> <ul style="list-style-type: none"> FIYTA Holdings Ltd. Tianma Microelectronics Co., Ltd. AVIC Real Estate Co., Ltd. Rainbow Department Store Co., Ltd. <p><u>Others</u></p> <ul style="list-style-type: none"> Shennan Circuits Co., Ltd. | <p><i>Present</i></p> <ul style="list-style-type: none"> AVIC International Holdings Limited (Company Secretary) |
| | <p><i>In the Past 3 Years</i></p> <p>Nil</p> | |

REPORT ON CORPORATE GOVERNANCE

| Name | Directorships | Major Appointments (other than Directorships) |
|---------------------|---|---|
| Mr Teng Cheong Kwee | <p><i>Present</i></p> <p><u>Listed companies</u></p> <ul style="list-style-type: none"> Techcomp (Holdings) Ltd Memtech International Ltd First Resources Ltd AEI Corporation Ltd <p><u>Others</u></p> <ul style="list-style-type: none"> Pheim Asset Management (Asia) Pte. Ltd. Pheim Sicav-SIF T3Z Advisory & Consultancy Pte. Ltd. Kaixin Industrial Pte. Ltd. <p><i>In the Past 3 Years</i></p> <ul style="list-style-type: none"> StatsChipPac Ltd | <p><i>Present</i></p> <p>Nil</p> |
| Mr Chong Teck Sin | <p><i>Present</i></p> <p><u>Listed companies</u></p> <ul style="list-style-type: none"> Changan Minsheng APLL Logistics Co., Ltd. Civmec Ltd. InnoTek Ltd. Accordia Golf Trust Management Pte. Ltd. (trustee-manager of Accordia Golf Trust) <p><u>Others</u></p> <ul style="list-style-type: none"> Civmec Construction & Engineering Singapore Pte Ltd. <p><i>In the Past 3 Years</i></p> <p>Nil</p> | <p><i>Present</i></p> <p>Nil</p> |
| Mr Wang Puqu | <p><i>Present</i></p> <p><u>Listed companies</u></p> <p>Nil</p> <p><u>Others</u></p> <p>Nil</p> <p><i>In the Past 3 Years</i></p> <p>Nil</p> | <p><i>Present</i></p> <ul style="list-style-type: none"> Peking University (Professor, School of Government) |

REPORT ON CORPORATE GOVERNANCE

| Name | Directorships | Major Appointments (other than Directorships) |
|-----------------------|---|--|
| Ms Alice Lai Kuen Kan | <i>Present</i> | <i>Present</i> |
| | <u>Listed companies</u> <ul style="list-style-type: none"> China Energine International (Holdings) Limited Cosmopolitan International Holdings Limited Regal Hotels International Holdings Limited Shimao Property Holdings Limited Shougang Concord International Enterprises Company Limited | Nil |
| | <u>Others</u> <ul style="list-style-type: none"> Asia Investment Management Limited Asia Investment Research Limited Asia Investment Corporate Management Limited Asia Investment Group International Holdings Limited Gladstone Investments Limited Van Hoff Limited | |
| | <i>In the Past 3 Years</i> | |
| | Nil | |

The 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 and during 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 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 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, 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.

REPORT ON CORPORATE GOVERNANCE

Board members (whether individually or as 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, Cap. 50, of Singapore ("Companies Act") and the Listing Manual. 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.

The Board in fulfilling its 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.

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 |
| Mr Chong Teck Sin | 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) review and recommend 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.

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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.

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 PRC laws. In setting remuneration packages, the Company takes into consideration the remuneration and employment conditions within the same industry and in comparable companies. 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, 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.

REPORT ON CORPORATE GOVERNANCE

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).

The remuneration paid or payable to the Directors and Executive Officers for services rendered for FY2015 by percentage is, as follows:

| Remuneration bands | Salary % | Performance Bonus % | Directors' Fees % | Allowances % | Other Benefits % | Total % |
|-------------------------------|-------------|---------------------------|-------------------------|-----------------|---------------------|------------|
| Directors | | | | | | |
| Below S\$250,000 | | | | | | |
| Diao Weicheng | N/A | N/A | N/A | N/A | N/A | N/A |
| Sun Yan | 50 | 50 | – | – | – | 100 |
| Li Meijin | 60 | 40 | – | – | – | 100 |
| Huang Guang | N/A | N/A | N/A | N/A | N/A | N/A |
| Huang Yongfeng ⁽¹⁾ | N/A | N/A | N/A | N/A | N/A | N/A |
| Liu Aiyi | N/A | N/A | N/A | N/A | N/A | N/A |
| Wang Mingchuan | N/A | N/A | N/A | N/A | N/A | N/A |
| Zhong Sijun ⁽²⁾ | N/A | N/A | N/A | N/A | N/A | N/A |
| Teng Cheong Kwee | – | – | 100 | – | – | 100 |
| Chong Teck Sin | – | – | 100 | – | – | 100 |
| Alice Lai Kuen Kan | – | – | 100 | – | – | 100 |
| Wang Puqu | – | – | 100 | – | – | 100 |
| Executive Officers | | | | | | |
| Below S\$250,000 | | | | | | |
| Liao Hongbing | 50 | 50 | – | – | – | 100 |

Notes:

(1) Mr Huang Yongfeng resigned as Non-Executive Director of the Company on 2 July 2015.

(2) Mr Zhong Sijun was appointed as Non-Executive Director of the Company with effect from 2 July 2015.

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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. 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 the 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 FY2015, 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\$180,000, as indicated in the table below:

| Directors | Fees(S\$)/year | Aggregate Fees Paid for FY2015 (S\$) | Total (%) |
|--------------------|----------------|---|--------------|
| Teng Cheong Kwee | 50,000 | 50,000 | 100 |
| Chong Teck Sin | 50,000 | 50,000 | 100 |
| Alice Lai Kuen Kan | 50,000 | 50,000 | 100 |
| Wang Puqu | 30,000 | 30,000 | 100 |

The aggregate amount of total remuneration paid by way of salaries to the Executive Directors in FY2015 is not more than S\$450,000. 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 FY2015 is not more than S\$200,000. 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 FY2015. "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.

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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 Listing Manual.

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 a review 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 FY2015, 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 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.

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The Board has received assurance from the CEO and CFO as well as the internal auditor 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 is 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-taking, 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 Chong Teck Sin | Chairman |
| Mr Teng Cheong Kwee | Member |
| Ms Alice Lai Kuen Kan | 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 Listing Manual and any other relevant statutory or regulatory requirements;

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- (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);
- (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 Listing Manual;
- (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 Listing Manual, 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 Listing Manual and other regulations which could have an impact on the Group's financial statements.

During the course of FY2015, 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;
- (e) reviewing the appointment of the independent external auditor;
- (f) reviewing the interested party transactions falling within the scope of Chapter 9 of the Listing Manual; and
- (g) reviewing the group's financial and operating results and accounting policies.

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External Auditors

On 5 February 2016, the Company 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 FY2015. Prior to PwC's appointment, Deloitte & Touche LLP were the external auditors of the Company.

For FY2015, the remunerations of audit services provided by PwC for the Group amounted to approximately RMB1.48 million. There is no non-audit service provided by PwC to the Group.

The AC has reviewed and is satisfied that PwC, the external auditors, have not provided any non-audit services to the Group during FY2015 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 FY2015 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 Listing Manual. None of the AC members is a former partner of the Group's existing external auditing firm.

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.

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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 by person or 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.

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 Listing Manual.

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 FY2015, management presented to various local and foreign investors and the media at more than six investor and/or publicity meetings. These meetings provide a forum for 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.

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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 FY2015 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.

The Directors try, as far as possible, 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 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 1207(19) of the Listing Manual, 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.

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18. MATERIAL CONTRACTS

Pursuant to Rule 1207(8) of the Listing Manual, 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 2015, or if not then subsisting, then entered into since the end of the previous financial year ended 31 December 2014:

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 shall grant the company a revolving credit facility at the floating interest rate of 2.0% per annum over SIBOR of a loan tenure of three years. The loan was drawn down directly from BOC in two tranches on 18 December 2014 and 26 December 2014. The loan is secured by a corporate guarantee from AVIC International Holding Limited, an immediate holding company of the Group, in favour of BOC.
- (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 is 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.
- (c) On 8 September 2015, AVIC International Offshore Pte. Ltd. (“AIO”), an indirect wholly-owned subsidiary of the Company, completed the acquisition of 60% of the issued and paid-up share capital of AVIC Zhenjiang Shipyard Marine Pte. Ltd (“AZM”) from Catco Investments Pte. Ltd. for an aggregate consideration of USD3,630,921.00 (equivalent to approximately SGD4,938,052.56), the details of which are disclosed in the circular to shareholders dated 21 July 2015. The remaining 40% of the issued and paid-up share capital of AZM is owned by an independent third party, Jiangsu Zhenjiang Shipyard (Group) Co., Ltd..

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 29 April 2014 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. The IPT Mandate was subsequently renewed at the last AGM on 29 April 2015. 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.

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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) |
| FY2015 | | |
| Transaction for Interest expenses | | |
| AVIC International Kairong Limited | – | 770 |
| Transaction for Management fee income | | |
| AVIC Dingheng Shipbuilding Co., Ltd | – | 1,850 |
| AVIC Zhenjiang Shipyard Marine Pte Ltd | – | 226 |
| Transaction for Service fee income | | |
| AVIC Weihai Shipyard Co., Ltd | – | 16,593 |
| AVIC Dingheng Shipbuilding Co., Ltd | – | 29,766 |
| Transaction for Shipbuilding contract cost | | |
| AVIC Weihai Shipyard Co., Ltd | – | 220,101 |
| Transaction for Shipbuilding contract income | | |
| CATIC Beijing Co., Ltd | – | 285,201 |
| Transaction for Ship-designing fee income | | |
| AVIC Weihai Shipyard Co., Ltd | – | 4,159 |
| Transaction for property management fees | | |
| AVIC Property Management Co., Ltd. | – | 894 |
| Transaction for Corporate guarantee fee | | |
| AVIC International Holdings Limited | – | 200 |
| Transaction for rental expenses | | |
| Avic International Kairong Limited | – | 505 |
| Acquisition fee for AZM | | |
| Catico Investments Pte. Ltd. ⁽¹⁾ | 23,526 | – |
| | 23,526 | 560,265 |

Note:

(1) Based on the exchange rate of USD1: RMB6.48. On 8 September 2015, AIO completed the acquisition of 60% of the issued and paid-up share capital of AZM. Please see section referred to as "Material Contracts" above for more information.

Save as disclosed in the table above, the Company did not enter into any IPTs which require disclosure or shareholders' approval under SGX-ST Listing Rules regulating IPTs during the financial year ended 31 December 2015.

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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 |

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AIMHL ANNUAL REPORT FY2015 – DISCLOSURE GUIDE

| Guideline | Questions | How has the Company complied? |
|-----------|---|---|
| General | (a) Has the Company complied with all the principles and guidelines of the 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 Code. | The Company has complied in all material respects with the principles and guidelines set out in the Code. |
| | (b) In what respect do these alternative corporate governance practices achieve the objectives of the principles and conform to the guidelines in the 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, and 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. |

REPORT ON CORPORATE GOVERNANCE

| 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. |
| | (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 at meetings. |
| 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 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 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 Listing Manual. |

REPORT ON CORPORATE GOVERNANCE

| Guideline | Questions | How has the Company complied? |
|---------------|--|--|
| | (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 4.4 | <p>(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?</p> <p>(b) If a maximum number has not been determined, what are the reasons?</p> <p>(c) What are the specific considerations in deciding on the capacity of directors?</p> | <p>The NC and the Board have not made a determination of the maximum number of board representations a director may hold.</p> <p>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.</p> <p>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 and during meetings of the Board and relevant Board Committee and his attendance at such meetings.</p> |

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 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. |
| 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 four Independent Directors, which make up more than one-third of the Board. The Company notes that Guideline 2.2 will take effect at the annual general meetings following the end of financial years commencing on or after 1 May 2016, and is reviewing its Board composition so as to work towards complying with the requirement. |
| 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 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. |

REPORT ON CORPORATE GOVERNANCE

| Guideline | Questions | How has the Company complied? |
|-----------------------------------|---|--|
| 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 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 the 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. |
| Guideline 9.3 | <p>(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?</p> <p>(b) Please disclose the aggregate remuneration paid to the top five key management personnel (who are not directors or the CEO).</p> | <p>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.</p> <p>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 FY2015 is not more than S\$200,000.</p> |
| 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 FY2015. |

REPORT ON CORPORATE GOVERNANCE

| Guideline | Questions | How has the Company complied? |
|---------------|---|---|
| Guideline 9.6 | <p>(a) Please describe how the remuneration received by executive directors and key management personnel has been determined by the performance criteria.</p> <p>(b) What were the performance conditions used to determine their entitlement under the short-term and long-term incentive schemes?</p> <p>(c) Were all of these performance conditions met? If not, what were the reasons?</p> | <p>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.</p> <p>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).</p> <p>Yes, the key Executive Officers and Executive Directors have met the performance targets for FY2015.</p> |

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. |

REPORT ON CORPORATE GOVERNANCE

| Guideline | Questions | How has the Company complied? |
|--|---|--|
| | <p>(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:</p> <p>(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</p> <p>(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?</p> | <p>Yes, the Board has received assurance from the CEO and CFO as well as the internal auditor that:</p> <p>(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</p> <p>(b) the Company's risk management and internal control systems in place are effective.</p> |
| Guideline 12.6 | <p>(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.</p> <p>(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.</p> | <p>For FY2015, the remunerations in respect of audit services and non-audit services provided by PwC for the Group amounted to approximately RMB1.48 million and RMB160,000, respectively, amounting to an aggregate remuneration of RMB1.64 million. The non-audit services provided were in relation to tax filing of the Company.</p> <p>The AC has reviewed and is satisfied that PwC, the external auditors, have not provided any non-audit services to the Group during FY2015 that will prejudice their independence and objectivity.</p> |
| Communication with Shareholders | | |
| Guideline 15.4 | <p>(a) Does the Company regularly communicate with shareholders and attend to their questions? How often does the Company meet with institutional and retail investors?</p> | <p>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.</p> <p>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 6 investor and/or publicity meetings during the course of FY2015.</p> |

REPORT ON CORPORATE GOVERNANCE

| Guideline | Questions | How has the Company complied? |
|----------------|---|--|
| | (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 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 FY2015 as the Company seeks to improve its cash position for operational requirements. |

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

The directors present their statement to the members together with the audited financial statements of the Group for the financial year ended 31 December 2015 and the balance sheet of the Company as at 31 December 2015.

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 68 to 132 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 2015 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
 Chong Teck Sin
 Alice Lai Kuen Kan
 Wang Puqu
 Huang Guang
 Sun Yan
 Li Meijin
 Zhong Sijun (appointed on 2 July 2015)
 Wang Mingchuan
 Liu Aiyi

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 2015

Audit Committee

The Audit Committee of the Company, consisting of all non-executive directors, is chaired by Mr Chong Teck Sin and includes Mr Teng Cheong Kwee and Ms Alice Lai Kuen Kan. 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
Director



Sun Yan
Director

1 April 2016

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF AVIC INTERNATIONAL MARITIME HOLDINGS LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of AVIC International Maritime Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 68 to 132, which comprise the consolidated balance sheet of the Group and balance sheet of the Company as at 31 December 2015, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2015, and of the financial performance, changes in equity and cash flows of the Group for the financial year ended on that date.

Report on other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company 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.

PricewaterhouseCoopers LLP
Public Accountants and Chartered Accountants

Singapore
1 April 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

| | Note | 2015 RMB'000 | 2014 RMB'000 |
|--|------|-----------------|-----------------|
| Revenue | 4 | 591,382 | 455,058 |
| Cost of sales | 5 | (389,521) | (289,205) |
| Gross profit | | 201,861 | 165,853 |
| Other income | 7 | 16,095 | 7,798 |
| Other (losses)/gains | 8 | (6,593) | 17,093 |
| Expenses | | | |
| – Distribution and marketing | 5 | (41,981) | (29,359) |
| – Administrative | 5 | (138,366) | (120,527) |
| – Finance | 9 | (17,159) | (15,951) |
| – Other | 5 | (6,489) | (315) |
| Share of profit/(loss) of associated companies | 16 | 1,524 | (378) |
| Profit before income tax | | 8,892 | 24,214 |
| Income tax expense | 10 | (17,382) | (7,018) |
| (Loss)/profit after tax | | (8,490) | 17,196 |
| Other comprehensive loss: | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Share of other comprehensive income/(loss) of associated companies | 16 | 3 | (62) |
| Currency translation differences arising from consolidation | | | |
| – Losses | | (9,141) | (16,482) |
| – Reclassification | | (1,456) | – |
| | | (10,594) | (16,544) |
| Total comprehensive (loss)/income | | (19,084) | 652 |
| (Loss)/profit attributable to: | | | |
| Equity holders of the Company | | (4,211) | 14,441 |
| Non-controlling interests | | (4,279) | 2,755 |
| | | (8,490) | 17,196 |
| Total comprehensive (loss)/income attributable to: | | | |
| Equity holders of the Company | | (13,456) | 4,083 |
| Non-controlling interests | | (5,628) | (3,431) |
| | | (19,084) | 652 |
| (Loss)/earnings per share attributable to equity holders of the Company (expressed in RMB cents per share) | | | |
| Basic and diluted (loss)/earnings per share | 11 | (1.47) | 5.06 |

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

BALANCE SHEETS

AS AT 31 DECEMBER 2015

| | | Group | | Company | |
|---|------|-----------------|-----------------|-----------------|-----------------|
| | Note | 2015 RMB'000 | 2014 RMB'000 | 2015 RMB'000 | 2014 RMB'000 |
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | 12 | 356,364 | 301,238 | 900 | 10,373 |
| Trade and other receivables | 13 | 285,434 | 300,308 | 7,565 | 2,424 |
| Inventories | 14 | 319,141 | 481 | – | – |
| | | 960,939 | 602,027 | 8,465 | 12,797 |
| Non-current assets | | | | | |
| Trade and other receivables | 13 | 26,837 | – | – | – |
| Investment in associated companies | 16 | 1,773 | 405 | – | – |
| Investment in subsidiaries | 17 | – | – | 388,394 | 393,143 |
| Property, plant and equipment | 18 | 8,648 | 8,094 | – | 10 |
| Intangible assets | 19 | 180,204 | 207,584 | – | – |
| Available-for-sale investments | | 11 | 49 | – | – |
| Deferred tax assets | 24 | 919 | 497 | – | – |
| | | 218,392 | 216,629 | 388,394 | 393,153 |
| Total assets | | 1,179,331 | 818,656 | 396,859 | 405,950 |
| LIABILITIES | | | | | |
| Current liabilities | | | | | |
| Trade and other payables | 20 | 151,378 | 173,850 | 3,029 | 20,071 |
| Amount due to subsidiaries | 21 | – | – | 154,476 | 3,103 |
| Borrowings | 22 | 174,514 | 145,319 | – | 136,030 |
| Finance lease liabilities | 23 | 935 | 967 | – | – |
| Current income tax liabilities | 10 | 12,787 | 1,377 | – | – |
| | | 339,614 | 321,513 | 157,505 | 159,204 |
| Non-current liabilities | | | | | |
| Borrowings | 22 | 583,471 | 228,239 | 206,483 | 209,007 |
| Finance lease liabilities | 23 | 831 | 806 | – | – |
| Deferred tax liabilities | 24 | 18,535 | 22,039 | – | – |
| Trade and other payables | 20 | 35 | 3,735 | – | – |
| | | 602,872 | 254,819 | 206,483 | 209,007 |
| Total liabilities | | 942,486 | 576,332 | 363,988 | 368,211 |
| NET ASSETS | | 236,845 | 242,324 | 32,871 | 37,739 |
| EQUITY | | | | | |
| Capital and reserves attributable to equity holders of the Company | | | | | |
| Share capital | 25 | 101,237 | 101,237 | 101,237 | 101,237 |
| Other reserves | 26 | 24,684 | 35,372 | 5,775 | 6,457 |
| Retained profits/(accumulated losses) | | 48,572 | 55,530 | (74,141) | (69,955) |
| | | 174,493 | 192,139 | 32,871 | 37,739 |
| Non-controlling interests | | 62,352 | 50,185 | – | – |
| Total equity | | 236,845 | 242,324 | 32,871 | 37,739 |

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

| Attributable to equity holders of the Company | | | | | | | | | |
|---|---------------|-----------------|----------------|-------------------|------------------------------|------------------|----------|---------------------------|--------------|
| | Share capital | Capital reserve | Merger reserve | Statutory reserve | Currency translation reserve | Retained profits | Total | Non-controlling interests | Total equity |
| Note | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 2015 | | | | | | | | | |
| Beginning of financial year | 101,237 | 12,470 | - | 11,988 | 10,914 | 55,530 | 192,139 | 50,185 | 242,324 |
| Loss for the year | - | - | - | - | - | (4,211) | (4,211) | (4,279) | (8,490) |
| Other comprehensive loss for the year | - | - | - | - | (9,245) | - | (9,245) | (1,349) | (10,594) |
| Total comprehensive loss for the year | - | - | - | - | (9,245) | (4,211) | (13,456) | (5,628) | (19,084) |
| Dividends to non-controlling interests | - | - | - | - | - | - | - | (1,526) | (1,526) |
| Acquisition of a subsidiary under common control | - | - | (3,664) | - | - | - | (3,664) | 12,839 | 9,175 |
| Issue of subsidiary's shares to non-controlling interests | - | - | - | - | - | - | - | 857 | 857 |
| Reversal of deemed contribution on shareholder's loan | - | (526) | - | - | - | - | (526) | - | (526) |
| Transaction with non-controlling interests | - | - | - | - | - | - | - | (250) | (250) |
| Disposal of a subsidiary | - | - | - | - | - | - | - | 5,875 | 5,875 |
| Total transactions with owners, recognised directly in equity | - | (526) | (3,664) | - | - | - | (4,190) | 17,795 | 13,605 |
| Transfer to statutory reserve | - | - | - | 2,747 | - | (2,747) | - | - | - |
| End of financial year | 101,237 | 11,944 | (3,664) | 14,735 | 1,669 | 48,572 | 174,493 | 62,352 | 236,845 |
| 2014 | | | | | | | | | |
| Beginning of financial year | 101,237 | 12,470 | - | 10,209 | 21,231 | 42,868 | 188,015 | 54,508 | 242,523 |
| Profit for the year | - | - | - | - | - | 14,441 | 14,441 | 2,755 | 17,196 |
| Other comprehensive loss for the year | - | - | - | - | (10,358) | - | (10,358) | (6,186) | (16,544) |
| Total comprehensive income for the year | - | - | - | - | (10,358) | 14,441 | 4,083 | (3,431) | 652 |
| Dividends to non-controlling interests | - | - | - | - | 41 | - | 41 | (892) | (851) |
| Total transactions with owners, recognised directly in equity | - | - | - | - | 41 | - | 41 | (892) | (851) |
| Transfer to statutory reserve | - | - | - | 1,779 | - | (1,779) | - | - | - |
| End of financial year | 101,237 | 12,470 | - | 11,988 | 10,914 | 55,530 | 192,139 | 50,185 | 242,324 |

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

| | Note | 2015 RMB'000 | 2014 RMB'000 |
|--|-------|-----------------|------------------|
| Cash flows from operating activities | | | |
| Profit before income tax | | 8,892 | 24,214 |
| Adjustments for: | | | |
| – Amortisation of intangible assets | | 7,773 | 5,619 |
| – Allowance for doubtful debts | | 1,912 | 313 |
| – Available-for-sale financial assets written off | | 34 | – |
| – Bad debts written off | | 4,570 | – |
| – Depreciation of property, plant and equipment | | 3,286 | 3,565 |
| – Impairment loss of an associated company | | 159 | – |
| – Interest expense | | 12,507 | 11,561 |
| – Interest income | | (3,905) | (3,086) |
| – Loss on disposal of a subsidiary | | 3,676 | – |
| – Loss on disposal of an associated company | | – | 213 |
| – Property, plant and equipment written off | | 5 | 57 |
| – Provision for foreseeable losses | | – | 5,457 |
| – Share of loss of associated companies | | (1,524) | 378 |
| – Unrealised currency translation losses | | 2,720 | (18,534) |
| | | 40,105 | 29,757 |
| Change in working capital, net of effects from acquisition and disposal of subsidiaries: | | | |
| – Inventories | | (103,963) | (481) |
| – Trade and other receivables | | 31,503 | (204,446) |
| – Trade and other payables | | (59,918) | 34,869 |
| Cash used in operations | | (92,273) | (140,301) |
| Interest received | | 3,905 | 3,086 |
| Income tax paid | | (8,928) | (14,322) |
| Net cash used in operating activities | | (97,296) | (151,537) |
| Cash flows from investing activities | | | |
| Acquisition of a subsidiary, net of cash acquired | 12(a) | (21,303) | – |
| Additions to property, plant and equipment (Note A) | | (2,848) | (3,380) |
| Additions to investment in an associated company | | – | (1) |
| Additions to intangible assets (Note B) | | (3,013) | (12,659) |
| Disposal of a subsidiary, net of cash disposed of | 12(b) | 1,115 | – |
| Net cash used in investing activities | | (26,049) | (16,040) |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | | 369,849 | 218,296 |
| Proceeds on issuance of subsidiary's shares to non-controlling interests | | 857 | – |
| Loan from non-controlling interests | | 19,315 | – |
| Repayment of borrowings | | (9,108) | (175,105) |
| Repayment of loan to previous immediate holding corporation | | (155,052) | (21,016) |
| Repayment of lease liabilities | | (1,192) | (1,629) |
| Repayment of related corporation's loan | | (31,169) | – |
| Decrease/(increase) in pledged cash placed with bank | | 53,074 | (42,935) |
| Interest paid | | (9,097) | (6,032) |
| Dividends paid to non-controlling interests | | (2,203) | – |
| Net cash provided by/(used in) financing activities | | 235,274 | (28,421) |
| Net increase/(decrease) in cash and cash equivalents | | 111,929 | (195,998) |
| Cash and cash equivalents | | | |
| Beginning of financial year | | 208,763 | 403,234 |
| Effects of currency translation on cash and cash equivalents | | (3,729) | 1,527 |
| End of financial year | 12 | 316,963 | 208,763 |

Note A:

During the financial year ended 31 December 2015, the Group acquired property, plant and equipment with an aggregate cost of RMB4,124,000 (2014: RMB4,857,000), of which RMB1,276,000 (2014: RMB1,477,000) was acquired by means of finance leases. Cash payments amounted to RMB2,848,000 (2014: RMB3,380,000) were made to purchase property, plant and equipment.

Note B:

During the financial year ended 31 December 2014, the Group acquired intangible assets with an aggregate cost of RMB18,262,000, of which RMB5,603,000 was to be paid between 2015 and 2017.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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 is 10 Collyer Quay, #27-00 Ocean Financial Centre, Singapore 049315. 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 the historical cost basis, except as disclosed in the accounting policies below, and are drawn up in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards ("FRS").

The preparation of financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Interpretations and amendments to published standards effective in 2015

On 1 January 2015, the Group adopted the new or amended FRS and Interpretations of FRS ("INT FRS") that are mandatory for application for the financial year. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

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

FRS 108 Operating segments

The Group has adopted the above amendment to FRS 108 on 1 January 2015. The amendment is applicable for annual periods beginning on or after 1 July 2014. It sets out the required disclosures on the judgements made by management in aggregating operating segments. This includes description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. The standard is further amended to require a reconciliation of segment assets to entity's assets when segment assets are reported.

The Group has included the additional required disclosures in Note 31 of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

2. Significant accounting policies (continued)

2.2 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for sale of goods and rendering of services provided in the normal course of business, net of discounts and sales related taxes.

The Group assess its role as an agent or principal for each transaction and in an agency arrangement the amounts collected on behalf of the principal are excluded from revenue. The Group recognises revenue when the amount of revenue and related cost can be reliably measured, it is probable that the collectability of the related receivables is reasonably assured and when the specific criteria for each of the Group's activities are met as follows:

(a) Shipbuilding revenue

Revenue from shipbuilding contracts is recognised based on the percentage of completion method. The percentage of completion is measured by reference to the percentage of the physical proportion of the contract work completed as determined by a qualified engineer's estimates.

(b) Service fee income

Service fee income generated from the provision of project management and consultancy services relating to shipbuilding, which cover ship design and construction (both of which are outsourced), procurement, new building management and marine finance is recognised by reference to the stage of completion. The percentage of completion is computed by using time proportion method.

(c) Management service fee

Management service fee is recognised when services are rendered which include management and services rendered with respect to marketing and consulting activities.

(d) 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 main kinds of contract types: fixed price contracts and cost plus contracts. Revenue from fixed price contracts is recognised by reference to the percentage of completion which is assessed on the basis of the actual working hours performed as a proportion of the total working hours to be performed. Revenue from cost plus contracts is recognised in the period the work is performed based on time and material used.

(e) Engineering, Procurement and Construction ("EPC") revenue

Revenue from EPC contracts is recognised based on the percentage of completion method. The percentage of completion is measured by the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

2. Significant accounting policies (continued)

2.2 Revenue recognition (continued)

(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.

2.3 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.

2.4 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 over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on that control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between Group entities are eliminated. Unrealised losses are also eliminated but are considered 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

2. Significant accounting policies (continued)

2.4 Group accounting (continued)

(a) Subsidiaries (continued)

(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.

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 2.6(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

2. Significant accounting policies (continued)

2.4 Group accounting (continued)

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

2. Significant accounting policies (continued)

2.4 Group accounting (continued)

(c) Associated companies (continued)

(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.

2.5 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 |
|------------------------|--------------|
| 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 at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

2. Significant accounting policies (continued)

2.5 Property, plant and equipment (continued)

(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.

2.6 Intangible assets

(a) Goodwill on acquisitions

Goodwill on acquisitions of subsidiaries, associated companies 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.

Amortisation is calculated using the straight-line method to allocate their amortised amounts over their estimated useful lives or contractual legal rights as follows:

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

2. Significant accounting policies (continued)

2.6 Intangible assets (continued)

(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. Prior to 1 January 2015, the brand was assessed to have an indefinite useful life.

On 1 January 2015, the Group revised its estimated useful life of the brand after management has conducted a review of its useful life. As a result, there was a change in the expected useful life of the brand from indefinite to 30 years. The change in accounting estimate has been applied prospectively subsequent to that date. Accordingly, the adoption of the change in accounting estimate has no effect on the prior years' financial statements. The carrying value of brand as at 31 December 2015 and the profit before income tax for the financial year ended 31 December 2015 decreased by approximately RMB1,575,000 due to an increase in amortisation charge for the financial year as a result of the change. The impact of the change in estimated useful lives for the future periods approximates that of the current financial year.

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.

2.7 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.

2.8 Construction contracts

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by reference to the physical proportion of the contract work completed as determined by a qualified engineer's estimates for ship building contracts, or by the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs for Engineering, Procurement and Construction ("EPC") contracts. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

2. Significant accounting policies (continued)

2.8 Construction contracts (continued)

When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet as a liability, as amounts due to construction contracts customers. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade and other receivables.

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.

(b) Intangible assets

Property, plant and equipment

Investments in subsidiaries and associated companies

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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 (continued)

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, 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

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

2. Significant accounting policies (continued)

2.11 Financial assets (continued)

(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.

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.

(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 debt securities (i.e. monetary items) denominated in foreign currencies are analysed into currency translation differences on the amortised cost of the securities and other changes; the currency translation differences are recognised in profit or loss and the other changes are recognised in other comprehensive income and accumulated in the fair value reserve. 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

2. Significant accounting policies (continued)

2.11 Financial assets (continued)

(e) Impairment (continued)

(i) Loans and receivables (continued)

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

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

(ii) Available-for-sale financial assets

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

If any evidence of impairment exists, the cumulative loss that was previously recognised in other comprehensive income is reclassified to profit or loss. The cumulative loss 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 an expense. The impairment losses recognised as an expense on equity securities are not reversed through profit or loss.

2.12 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when the Company and the Group has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.13 Borrowings

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

2. Significant accounting policies (continued)

2.14 Trade and other payables

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

Trade and other payables are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, using the effective interest method.

2.15 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.

2.16 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

2. Significant accounting policies (continued)

2.17 Inventories

Inventories relate to construction of vessels for sale and are stated 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. Raw material is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

2.18 Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

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

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

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

Deferred income tax is measured:

- (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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

2. Significant accounting policies (continued)

2.19 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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.

2.20 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

2. Significant accounting policies (continued)

2.20 Employee compensation (continued)

(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 end of the reporting period.

2.21 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").

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

2. Significant accounting policies (continued)

2.21 Currency translation (continued)

(c) Translation of Group entities' financial statements (continued)

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.

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.

2.22 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.

2.23 Cash and cash equivalents

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

2.24 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.

2.25 Dividends to Company's shareholders

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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) Revenue recognition

Service fee income

The Group recognises service fee income by reference to the stage of completion. The percentage of completion is computed by using time proportion method. Significant judgement is required in estimating the period of time from the date of contract being effective to the date of delivery of vessel which affects the service fee income recognised to-date based on the percentage of completion. In making its judgement, the Group relies on past experience and the work of specialists. Revenue from service contracts is disclosed in Note 4 to the financial statements.

Ship-design fee income

The Group uses the percentage of completion method in accounting for its fixed price contracts to deliver design services. Use of the percentage of completion method requires the Group to estimate the services performed to date as a proportion of the total services to be performed. Revenue from ship-design contracts is disclosed in Note 4 to the financial statements.

(b) 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. The carrying amount of the Group's income tax payable at 31 December 2015 is RMB12,787,000 (2014: RMB1,377,000).

Pursuant to a series of internal corporate restructuring to streamline the Group's operations based in the PRC during the financial year, Kaixin Industrial Pte. Ltd., ("Kaixin Industrial") the Group's wholly-owned Singapore-incorporated subsidiary recorded a gain of RMB119,416,000 as a result of the transfer of its wholly-owned subsidiary, Kaixin Beijing Co. Ltd., to AVIC International Ship Development (China) Co. Ltd. ("AISD China"), which is also a wholly-owned subsidiary of the Group. Under the tax laws and regulations in the PRC, AISD China is required to withhold tax from the gain made by Kaixin Industrial. As at the balance sheet date, management and its tax agent in China are still 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

3. Critical accounting estimates and assumptions

(c) 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 present value. The carrying amount of goodwill at the end of the reporting period was RMB103,497,000 (2014: RMB109,497,000) 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 (2014: nil) was recognised during the financial year.

(d) Estimated useful life of brand acquired in a business combination

Management assesses and determines the estimated useful life of the brand acquired in a business combination in 2013. Management estimates useful life of the brand by reference to the period over which the brand is expected to contribute to cash flow and the impact of anticipated changes in industry trends. The useful life and related amortisation expense could change significantly as a result of the changes in these factors.

Please refer to Note 2.6(c) "Intangible assets – Acquired brand in a business combination" for the change in accounting estimate for the useful life of the brand adopted by the Group with effect from 1 January 2015.

4. Revenue

| | Group | |
|------------------------|---------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Shipbuilding revenue | 285,201 | 90,853 |
| Service fee income | 64,921 | 24,990 |
| Management service fee | 4,282 | 17,876 |
| Ship-design fee income | 229,954 | 242,846 |
| EPC revenue | 7,024 | 78,159 |
| Others | – | 334 |
| Total revenue | 591,382 | 455,058 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

5. Expenses by nature

| | Group | |
|---|---------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Allowance for doubtful debts (Note 13) | 1,912 | 313 |
| Amortisation of intangible assets (Note 19) | 7,773 | 5,619 |
| Bad debts written off | 4,570 | – |
| Changes in construction contract work-in-progress | 220,707 | 75,003 |
| Contractor labour and sub-contract cost | 153,699 | 171,464 |
| Depreciation on property, plant and equipment (Note 18) | 3,286 | 3,565 |
| Employee compensation (Note 6) | 102,415 | 80,909 |
| Impairment loss of an associated company | 159 | – |
| Office expenses | 15,435 | 13,758 |
| Other expense | 10,650 | 8,123 |
| Professional fees | 13,317 | 13,135 |
| Rental expense on operating leases | 17,583 | 16,906 |
| Travelling expenses | 15,227 | 13,923 |
| Use of raw materials and consumables | 9,624 | 36,688 |
| Total cost of sales, distribution and marketing expenses, administrative expenses, and other operating expenses | 576,357 | 439,406 |

6. Employee compensation

| | Group | |
|---|---------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Wages and salaries | 92,103 | 71,325 |
| Employer's contribution to defined contribution plans | 7,909 | 6,826 |
| Other benefits | 2,403 | 2,758 |
| | 102,415 | 80,909 |

7. Other income

| | Group | |
|-------------------------------|---------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Interest income | 3,905 | 3,086 |
| Government grants – subsidies | 11,763 | 4,000 |
| Other income | 427 | 712 |
| | 16,095 | 7,798 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

8. Other (losses)/gains

| | Group | |
|--|----------------|---------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Loss on disposal of associated company | – | (213) |
| Loss on disposal of subsidiary (Note 12) | (3,676) | – |
| Foreign exchange (losses)/gains, net | (2,917) | 17,306 |
| | (6,593) | 17,093 |

9. Finance expenses

| | Group | |
|--|---------------|---------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Interest expense | | |
| – Bank borrowings | 14,909 | 6,079 |
| – Loan from previous immediate holding corporation | 3,196 | 5,414 |
| – Loan from non-controlling interests | 209 | – |
| – Finance lease liabilities | 61 | 68 |
| Less: Borrowing costs capitalised in inventories | (5,868) | – |
| | 12,507 | 11,561 |
| Bank charges | 2,899 | 2,056 |
| Withholding tax on interest | – | 1,025 |
| Corporate guarantee fee to related corporations | 1,708 | 1,236 |
| Others | 45 | 73 |
| | 17,159 | 15,951 |

Interest expenses of borrowings specifically for constructing inventories were fully capitalised in inventories.

10. Income taxes

(a) Income tax expense

| | Group | |
|---|---------------|---------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Tax expense attributable to profit is made up of: | | |
| – Profit for the financial year: | | |
| Current income tax | 20,177 | 8,843 |
| Deferred income tax (Note 24) | (2,773) | 2,491 |
| | 17,404 | 11,334 |
| – Overprovision in prior financial years: | | |
| Current income tax | (22) | (170) |
| – Effect of changes in tax rates | – | (4,146) |
| | 17,382 | 7,018 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

10. Income taxes (continued)

(a) Income tax expense (continued)

Singapore income tax is calculated at 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.

Pursuant to the new PRC Enterprise Income Tax Law promulgated on 16 March 2007, the enterprise income taxes for both domestic and foreign-invested enterprises are unified at 25% effective from 1 January 2008. Hence, the corporate income tax for all PRC subsidiaries is 25% for 2015 (2014: 25%).

The corporate income tax rate in Finland is 20% (2014: 20%).

The income tax expense varied from the amount of income tax expense determined by applying the above income tax rates to profit before tax as a result of the following differences:

| | Group | |
|--|-----------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Profit before tax | 8,892 | 24,214 |
| Share of (profit)/loss of associated companies net of tax | (1,524) | 378 |
| Profit before tax and share of (profit)/loss of associated companies | 7,368 | 24,592 |
| Tax calculated at tax rate of 17% (2014: 17%) | 1,253 | 4,181 |
| Effects of: | | |
| – Different tax rates in other countries | 2,865 | 2,559 |
| – Expenses not deductible for tax purposes | 6,147 | 5,666 |
| – Income not subject to tax | (2,473) | (3,895) |
| – Deferred tax assets not recognised | 1,300 | 2,651 |
| – Effect on deferred tax balances due to the change in income tax rate | – | (4,146) |
| – Over provision of tax in prior years | (22) | (170) |
| – Effect of tax rebate and exemption | (175) | – |
| – Overseas tax arising from intra-group restructuring [Note 3(b)] | 8,259 | – |
| – Others | 228 | 172 |
| Tax charge | 17,382 | 7,018 |

As at 31 December 2015, the Group has undistributed profits of subsidiaries of RMB133,103,000 (2014: RMB107,677,000). Dividends declared in respect of the undistributed profits will be subject to withholding tax of 5% for PRC subsidiaries. There is no withholding tax for the dividends declared in respect of the undistributed profits of the subsidiary in Finland. Deferred tax liability of approximately RMB6,655,000 (2014: RMB5,384,000) 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 RMB32,317,000 (2014: RMB16,800,000). No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

10. Income taxes (continued)

(b) Movement in current income tax liabilities

| | Group | |
|---|-----------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Beginning of financial year | 1,377 | 6,836 |
| Currency translation differences | (103) | (116) |
| Acquisition of subsidiary (Note 12) | 286 | – |
| Income tax paid | (8,928) | (14,322) |
| Tax expense | 20,177 | 8,843 |
| Over provision in prior financial years | (22) | (170) |
| Others | – | 306 |
| End of financial year | 12,787 | 1,377 |

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 | |
|--|---------|---------|
| | 2015 | 2014 |
| Net (loss)/profit attributable to equity holders of the Company (RMB'000) | (4,211) | 14,441 |
| Weighted average number of ordinary shares outstanding for basic earnings per share ('000) | 285,576 | 285,576 |
| (Loss)/earnings per share (expressed in RMB cents per share) | (1.47) | 5.06 |

Diluted earnings per share is equal to basic earnings per share for the financial years ended 31 December 2015 and 2014 as the Company has no potential dilutive ordinary shares.

12. Cash and cash equivalents

| | Group | | Company | |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 | 2015 RMB'000 | 2014 RMB'000 |
| Cash at bank and on hand | 234,839 | 197,763 | 900 | 10,373 |
| Fixed deposits | 82,124 | 11,000 | – | – |
| Pledged cash placed with bank | 39,401 | 92,475 | – | – |
| | 356,364 | 301,238 | 900 | 10,373 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

12. Cash and cash equivalents (continued)

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

| | Group | |
|--|----------|----------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Cash and bank balances (as above) | 356,364 | 301,238 |
| Less: Pledged cash placed with bank | (39,401) | (92,475) |
| Cash and cash equivalents per consolidated statement of cash flows | 316,963 | 208,763 |

Cash amounting to RMB39,401,000 (2014: RMB92,475,000) is pledged by the Group as collateral for letters of credit.

(a) Acquisition of a subsidiary under common control

On 8 September 2015, the Group's wholly-owned subsidiary, AVIC International Offshore Pte. Ltd ("AIO") completed the acquisition of 60% interest in AVIC Zhenjiang Shipyard Marine Pte. Ltd ("AZM") by way of a cash consideration of US\$3,630,921 (amounted to RMB21,903,000). AIO purchased the 60% interest in AZM from Catico Investments Pte. Ltd ("Vendor"). Both the Vendor and AIO are controlled by AVIC International Holdings Limited, the immediate holding corporation of the Company. The Group has applied predecessor accounting for this acquisition. The Group's accounting policy is to include the acquired entity's results from the date of business acquisition. The assets and liabilities of AZM are brought into the Group's books at the pre-combination carrying amounts from the highest level of common control without fair value uplift. The effects of the acquisition on the cash flows of the Group were:

| | Group 2015 RMB'000 |
|--|--------------------------|
| <u>Carrying amounts of assets and liabilities acquired</u> | |
| Cash and cash equivalents | 600 |
| Trade and other receivables | 56,350 |
| Inventories | 158,010 |
| Other assets | 18 |
| Total assets | 214,978 |
| Trade and other payables | (20,262) |
| Borrowings | (163,350) |
| Current income tax liabilities [Note 10(b)] | (286) |
| Deferred income tax liabilities | (2) |
| Total liabilities | (183,900) |
| Total identifiable net assets | 31,078 |
| Less: Non-controlling interests | (12,839) |
| Add: Merger reserve recognised [Note 26(b)(ii)] | 3,664 |
| Consideration transferred for the business | 21,903 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

12. Cash and cash equivalents (continued)

(a) Acquisition of a subsidiary under common control (continued)

The effect on cash flows of the Group is as follows:

| | Group 2015 RMB'000 |
|--|--------------------------|
| Cash paid (as above) | 21,903 |
| Less: Cash and cash equivalents in subsidiary acquired | (600) |
| Cash outflow on acquisition | <u>21,303</u> |

(b) Disposal of subsidiary

On 31 December 2015, Deltamarin Ltd., a subsidiary of the Group, disposed of its entire interest in DeltaLagh Ltd. for a cash consideration of RMB1,416,000 (EUR200,000). The effects of the disposal on the cash flows of the Group were:

| | Group 2015 RMB'000 |
|---|--------------------------|
| <u>Carrying amounts of assets and liabilities disposed of</u> | |
| Cash and cash equivalents | 301 |
| Trade and other receivables | 4,507 |
| Inventories | 3,654 |
| Intangible assets (Note 19(d)) | 9,913 |
| Total assets | <u>18,375</u> |
| Trade and other payables | <u>(17,702)</u> |
| Total liabilities | <u>(17,702)</u> |
| Net assets derecognised | 673 |
| Add: Non-controlling interests | 5,875 |
| Net assets disposed of | <u>6,548</u> |

The aggregate cash inflows arising from the disposal of DeltaLagh Ltd. were:

| | Group 2015 RMB'000 |
|---|--------------------------|
| Net assets disposed of (as above) | 6,548 |
| – Reclassification of currency translation reserve | (1,456) |
| | 5,092 |
| Loss on disposal (Note 8) | <u>(3,676)</u> |
| Cash proceeds from disposal | 1,416 |
| Less: Cash and cash equivalents in subsidiaries disposed of | (301) |
| Net cash inflow on disposal | <u>1,115</u> |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

13. Trade and other receivables

| | Group | | Company | |
|---|----------|---------|---------|---------|
| | 2015 | 2014 | 2015 | 2014 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Trade receivables | | | | |
| – Third parties | 88,493 | 49,692 | – | – |
| – Related corporations | 37,142 | 10,538 | – | – |
| Less: Allowance for impairment of receivables | | | | |
| – third parties | (428) | (313) | – | – |
| | 125,207 | 59,917 | – | – |
| Less: Non-current portion | (26,837) | – | – | – |
| Trade receivables – net | 98,370 | 59,917 | – | – |
| Construction contracts | | | | |
| – Due from customers on construction contract (Note 15) | 138,528 | 161,000 | – | – |
| Other receivables | | | | |
| – Subsidiaries | – | – | 7,296 | 2,089 |
| – Associated companies | – | 774 | – | – |
| – Related corporations | 4,509 | 10,336 | – | – |
| – Third parties | 26,835 | – | – | – |
| Less: Allowance for impairment of receivables | | | | |
| – third parties | (1,337) | – | – | – |
| | 30,007 | 11,110 | 7,296 | 2,089 |
| Deposits | 5,414 | 5,379 | – | – |
| Less: Allowance for impairment of deposits | (460) | – | – | – |
| | 4,954 | 5,379 | – | – |
| Prepayments | 10,951 | 14,316 | – | 22 |
| Staff advances | 1,074 | 550 | – | – |
| Value added tax/GST recoverable | 596 | 43,619 | 269 | 313 |
| Others | 954 | 4,417 | – | – |
| | 285,434 | 300,308 | 7,565 | 2,424 |

The other receivables due from subsidiaries, associated companies and related corporations are unsecured, interest-free and are repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

14. Inventories

| | Group | |
|------------------------------|-----------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Inventories work-in-progress | 319,141 | – |
| Raw materials | – | 481 |
| | 319,141 | 481 |

During the financial year, the Group entered into shipbuilding contracts with various parties 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. Subsequent to the year end, the Group decided to cancel one of the vessels under construction, amounting to RMB9,387,000, due to delay in delivery by the shipyard. Full amount of the advance paid and interest has been received by the Group in February 2016. There is no significant impact arising from the cancellation of the vessel under construction.

15. Construction contracts

| | Group | |
|--|-----------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Aggregate costs incurred and profits recognised (less losses recognised) to date on uncompleted construction contracts | 784,518 | 721,726 |
| Less: Progress billings | (647,948) | (566,469) |
| | 136,570 | 155,257 |
| Presented as: | | |
| Due from customers on construction contracts (Note 13) | 138,528 | 161,000 |
| Due to customers on construction contracts (Note 20) | (1,958) | (5,743) |
| | 136,570 | 155,257 |

16. Investments in associated companies

| | Group | |
|--|-----------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Beginning of financial year | 405 | 1,060 |
| Share of post-acquisition profit/(loss) | 1,524 | (378) |
| Disposal of an associated company | – | (215) |
| Impairment loss of an associated company | (159) | – |
| Share of other comprehensive income/(loss) | 3 | (62) |
| End of financial year | 1,773 | 405 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

16. Investments in associated companies (continued)

Details of the associated companies are as follows:

| Name of entity | Place of business/ country of incorporation | Proportion of effective interest | | Principal activity |
|---|--|-------------------------------------|-----------|--------------------|
| | | 2015 % | 2014 % | |
| GPS Deltamarin (M) Sdn. Bhd.* | Malaysia | 38.99 | 38.99 | Shipping |
| Shandong Deltamarin Marine Engineering Co., Ltd.* | People's Republic of China | 39.79 | 39.79 | Shipping |
| Brodoplan d.o.o.* | Croatia | 39.79 | 39.79 | Shipping |

* Audited by PricewaterhouseCoopers Finland for consolidation purposes

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

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):

| | 2015 RMB'000 | 2014 RMB'000 |
|----------------------------|-------------------------|-------------------------|
| Total assets | 6,396 | 18,785 |
| Total liabilities | (2,314) | (17,770) |
| Net assets | 4,082 | 1,015 |
| | 2015 RMB'000 | 2014 RMB'000 |
| Revenue | 15,687 | 11,432 |
| Profit/(loss) for the year | 3,273 | (1,045) |

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

17. Investments in subsidiaries

| | Company | |
|-----------------------------------|---------|----------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| <i>Equity investments at cost</i> | | |
| Beginning of financial year | 393,143 | 407,854 |
| Addition | – | – |
| Currency translation differences | (4,749) | (14,711) |
| End of financial year | 388,394 | 393,143 |

Details of the Company's subsidiaries are as follows:

| Name | Principal activities | Country of business/ incorporation | Proportion of ordinary shares directly held by Group | | Proportion of ordinary shares held by non-controlling interests | |
|--|--|------------------------------------|--|-------|---|-------|
| | | | 2015 | 2014 | 2015 | 2014 |
| | | | % | % | % | % |
| Kaixin Industrial Pte. Ltd. ⁽¹⁾ | Shipbuilding and ship-trading | Singapore | 100 | 100 | – | – |
| AVIC International Ship Development Pte. Ltd. ⁽¹⁾ | Investment holding | Singapore | 100 | 100 | – | – |
| AVIC Ship Investments Limited ⁽⁴⁾ | Investment holding | Hong Kong | 100 | 100 | – | – |
| AVIC International Ship Engineering Pte. Ltd. ⁽¹⁾ | Investment holding | Singapore | 100 | 100 | – | – |
| Held by Kaixin Industrial Pte. Ltd. | | | | | | |
| Deltamarin Floating Construction Pte. Ltd. ⁽¹⁾ | Providing engineering, procurement and construction services | Singapore | 89.99 | 89.79 | 10.01 | 10.21 |
| Held by AVIC International Ship Development Pte. Ltd. | | | | | | |
| AVIC International Offshore Pte. Ltd. ⁽¹⁾ | Ship-trading agency and import and export business | Singapore | 100 | 100 | – | – |
| AVIC International Ship Development (China) Co., Ltd. ⁽²⁾ | Ship-trading related businesses | PRC | 100 | 100 | – | – |
| AVIC International Ship Development (Guangzhou) Co., Ltd. ⁽²⁾ | Ship-trading, import and export business | PRC | 100 | 100 | – | – |
| AVIC International Ship Development (Beijing) Co., Ltd. ⁽²⁾ | Ship-trading agency and import and export business | PRC | 100 | 100 | – | – |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

17. Investments in subsidiaries (continued)

| Name | Principal activities | Country of business/ incorporation | Proportion of ordinary shares directly held by Group | | Proportion of ordinary shares held by non-controlling interests | |
|--|--|---------------------------------------|--|-----------|---|-----------|
| | | | 2015 % | 2014 % | 2015 % | 2014 % |
| 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 | – | – |
| Held by AVIC International Offshore Pte. Ltd. | | | | | | |
| AVIC Zhenjiang Shipyard Marine Pte. Ltd. ⁽¹⁾ | Trading, ship-trading agency and shipbuilding related businesses | Singapore | 60 | – | 40 | – |
| AVIC Tidestar Fast Offshore Pte. Ltd. ⁽¹⁾ | Ship trading agency and shipbuilding related businesses | Singapore | 65 | 65 | 35 | 35 |
| Held by AVIC International Ship Engineering Pte. Ltd. | | | | | | |
| AVIC International Marine Engineering Pte. Ltd. ⁽¹⁾ | Investment holding | Singapore | 79.57 | 79.57 | 20.43 | 20.43 |
| Held by AVIC International Marine Engineering Pte. Ltd. | | | | | | |
| AVIC International Marine Engineering (Lux), S.à.r.l. ⁽⁴⁾ | Investment holding | Luxembourg | 79.57 | 79.57 | 20.43 | 20.43 |
| Held by AVIC International Marine Engineering (Lux), S.à.r.l. | | | | | | |
| Deltamarin Ltd. ⁽³⁾ | Provision of design, engineering and contracting services for offshore, shipping, shipbuilding naval and marine industries | Finland | 79.57 | 79.57 | 20.43 | 20.43 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

17. Investments in subsidiaries (continued)

| Name | Principal activities | Country of business/ incorporation | Proportion of ordinary shares directly held by Group | | Proportion of ordinary shares held by non-controlling interests | |
|--|---|---------------------------------------|--|-------|---|-------|
| | | | 2015 | 2014 | 2015 | 2014 |
| | | | % | % | % | % |
| Held by Deltamarin Ltd. | | | | | | |
| Deltamarin-Eesti.OÜ ⁽³⁾ | Liquidated | Estonia | – | 79.57 | – | 20.43 |
| Deltamarin Brasil Consultoria e Projetos Ltda ⁽³⁾ | Liquidated | Brazil | – | 79.57 | – | 20.43 |
| Deltamarin Floating Construction Ltd. | Building, construction and financing of office premises, buying, selling, managing and renting of office premises and real estate | Finland | 89.38 | 79.57 | 10.62 | 20.43 |
| Deltamarin (China) Co., Ltd. ⁽³⁾ | Consulting services for ocean engineering/supply chain/environmental/energy/lifecycle management, investment information, consulting and technical services | PRC | 79.57 | 79.57 | 20.43 | 20.43 |
| Deltamarin Sp.z o.o. ⁽³⁾ | Design and marine engineering, project management and consultancy | Poland | 79.57 | 79.57 | 20.43 | 20.43 |
| DeltaLangh Ltd. ⁽⁵⁾ | Marketing, sales and production of exhaust gas clearing and water treatment systems | Finland | – | 44.21 | – | 55.79 |

(1) Audited by PricewaterhouseCoopers LLP, Singapore.

(2) Audited by PricewaterhouseCoopers Zhong Tian LLP for consolidation purpose.

(3) Audited by PricewaterhouseCoopers, Finland for consolidation purpose.

(4) Audited by PricewaterhouseCoopers LLP, Singapore for consolidation purpose.

(5) DeltaLangh Ltd. was regarded as a subsidiary in 2014 as the Group had control over the Board of Directors in DeltaLangh Ltd. This subsidiary was disposed of during the financial year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

17. Investments in subsidiaries (continued)

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

| Name | Country of business/ incorporation | Proportion of ownership interest and voting rights held by non-controlling interest | | Profit/(loss) allocated to non-controlling interests | | Accumulated non-controlling interests | |
|--|---------------------------------------|---|--------|--|---------|---------------------------------------|---------|
| | | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| | | | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| AVIC International Marine Engineering Pte. Ltd. ⁽ⁱ⁾ | Finland/ Singapore | 20.43% | 20.43% | (3,335) | 3,944 | 48,571 | 51,272 |
| AVIC Zhenjiang Shipyard Marine Pte. Ltd. ⁽ⁱⁱ⁾ | Singapore | 40.00% | – | (215) | – | 12,845 | – |
| | | | | (3,550) | 3,944 | 61,416 | 51,272 |

(i) Includes AVIC International Marine Engineering Pte. Ltd. and its subsidiaries.

(ii) This subsidiary was acquired by the Group during the financial year [Note 12(a)].

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

| | AVIC International Marine Engineering Pte. Ltd. | | AVIC Zhenjiang Shipyard Marine Pte. Ltd. | |
|--|---|----------------|--|----------|
| | 2015 | 2014 | 2015 | 2014 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Current | | | | |
| Assets | 133,471 | 171,661 | 303,512 | – |
| Liabilities | (51,165) | (85,335) | (271,406) | – |
| Total current net assets | 82,306 | 86,326 | 32,106 | – |
| Non-current | | | | |
| Assets | 195,377 | 214,229 | 10 | – |
| Liabilities | (19,398) | (30,373) | (3) | – |
| Total non-current net assets | 175,979 | 183,856 | 7 | – |
| Net assets | 258,285 | 270,182 | 32,113 | – |
| Equity attributable to equity holders of the Company | 209,714 | 218,910 | 19,268 | – |
| Non-controlling interests | 48,571 | 51,272 | 12,845 | – |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

17. Investments in subsidiaries (continued)

Summarised income statement

| | AVIC International Marine Engineering Pte. Ltd. | | AVIC Zhenjiang Shipyard Marine Pte. Ltd. | |
|---|---|-----------|--|---------|
| | 2015 | 2014 | 2015 | 2014 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Revenue | 236,543 | 242,846 | – | – |
| Expenses | (237,247) | (223,541) | (537) | – |
| (Loss)/profit for the year | (704) | 19,305 | (537) | – |
| Other comprehensive loss for the year | (13,855) | (30,776) | (1,067) | – |
| Total comprehensive loss for the year | (14,559) | (11,471) | (1,604) | – |
| (Loss)/profit attributable to: | | | | |
| – Equity holders of the Company | 2,631 | 15,361 | (322) | – |
| – Non-controlling interests | (3,335) | 3,944 | (215) | – |
| Total comprehensive loss attributable to: | | | | |
| – Equity holders of the Company | (11,705) | (9,127) | (962) | – |
| – Non-controlling interests | (2,854) | (2,344) | (642) | – |
| Dividends to non-controlling interest | 1,526 | 892 | – | – |

Summarised cash flows

| | AVIC International Marine Engineering Pte.Ltd. | AVIC Zhenjiang Shipyard Marine Pte. Ltd. |
|--|--|--|
| | 2015 | 2015 |
| | RMB'000 | RMB'000 |
| Net cash used in operating activities | (6,585) | (117,790) |
| Net cash used in investing activities | (10,390) | – |
| Net cash (used in)/generated from financing activities | (7,866) | 132,464 |
| Net (decrease)/increase in cash and cash equivalents | (24,841) | 14,674 |
| Cash and cash equivalents at beginning of year | 71,157 | 600 |
| Exchange (losses)/gains on cash and cash equivalents | (2,225) | 631 |
| Cash and cash equivalents at end of year | 44,091 | 15,905 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

18. Property, plant and equipment

| | Office equipment RMB'000 | Computer RMB'000 | Motor vehicles RMB'000 | Renovation RMB'000 | Furniture and fixtures RMB'000 | Total RMB'000 |
|-------------------------------------|--------------------------------|---------------------|------------------------------|-----------------------|---|------------------|
| <u>Group</u> | | | | | | |
| 2015 | | | | | | |
| <i>Cost</i> | | | | | | |
| Beginning of financial year | 4,945 | 7,712 | 2,127 | 3,819 | 15 | 18,618 |
| Currency translation differences | (197) | (354) | (12) | (81) | 1 | (643) |
| Additions | 940 | 2,222 | 816 | 146 | – | 4,124 |
| Write-off | (86) | (418) | – | (84) | – | (588) |
| Acquisition of subsidiary | – | 13 | – | – | – | 13 |
| End of financial year | 5,602 | 9,175 | 2,931 | 3,800 | 16 | 21,524 |
| <i>Accumulated depreciation</i> | | | | | | |
| Beginning of financial year | 2,332 | 4,697 | 1,137 | 2,347 | 11 | 10,524 |
| Currency translation differences | (152) | (161) | (2) | (36) | – | (351) |
| Depreciation charge | 602 | 1,938 | 253 | 488 | 5 | 3,286 |
| Write-off | (86) | (413) | – | (84) | – | (583) |
| End of financial year | 2,696 | 6,061 | 1,388 | 2,715 | 16 | 12,876 |
| Net book value | | | | | | |
| End of financial year | 2,906 | 3,114 | 1,543 | 1,085 | – | 8,648 |
| <u>Group</u> | | | | | | |
| 2014 | | | | | | |
| <i>Cost</i> | | | | | | |
| Beginning of financial year | 3,466 | 6,664 | 2,207 | 3,535 | 15 | 15,887 |
| Currency translation differences | (414) | (951) | (80) | (220) | – | (1,665) |
| Additions | 1,953 | 2,027 | – | 877 | – | 4,857 |
| Write-off | (60) | (28) | – | (373) | – | (461) |
| End of financial year | 4,945 | 7,712 | 2,127 | 3,819 | 15 | 18,618 |
| <i>Accumulated depreciation</i> | | | | | | |
| Beginning of financial year | 1,978 | 3,082 | 956 | 2,271 | 6 | 8,293 |
| Currency translation differences | (207) | (560) | (44) | (119) | – | (930) |
| Depreciation charge | 586 | 2,181 | 225 | 568 | 5 | 3,565 |
| Write-off | (25) | (6) | – | (373) | – | (404) |
| End of financial year | 2,332 | 4,697 | 1,137 | 2,347 | 11 | 10,524 |
| Net book value | | | | | | |
| End of financial year | 2,613 | 3,015 | 990 | 1,472 | 4 | 8,094 |

The carrying amount of the Group's property, plant and equipment includes an amount of RMB1,739,000 (2014: RMB1,744,000) secured in respect of assets held under finance leases.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

18. Property, plant and equipment (continued)

| | Computer RMB'000 | Total RMB'000 |
|----------------------------------|---------------------|------------------|
| <u>Company</u> | | |
| 2015 | | |
| <i>Cost</i> | | |
| Beginning of financial year | 122 | 122 |
| Currency translation differences | (1) | (1) |
| End of financial year | 121 | 121 |
| <i>Accumulated depreciation</i> | | |
| Beginning of financial year | 112 | 112 |
| Currency translation differences | (1) | (1) |
| Depreciation charge | 10 | 10 |
| End of financial year | 121 | 121 |
| Net book value | | |
| End of financial year | - | - |
| 2014 | | |
| <i>Cost</i> | | |
| Beginning of financial year | 126 | 126 |
| Currency translation differences | (4) | (4) |
| End of financial year | 122 | 122 |
| <i>Accumulated depreciation</i> | | |
| Beginning of financial year | 74 | 74 |
| Currency translation differences | (4) | (4) |
| Depreciation charge | 42 | 42 |
| End of financial year | 112 | 112 |
| Net book value | | |
| End of financial year | 10 | 10 |

19. Intangible assets

| | Group | |
|--|-----------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Composition: | | |
| Goodwill arising on consolidation [Note (a)] | 103,497 | 109,203 |
| Acquired brand [Note (b)] | 45,662 | 49,841 |
| Technical knowhow [Note (c)] | 27,842 | 31,825 |
| Ship design engineering software licences [Note (d)] | 3,203 | 16,715 |
| Total | 180,204 | 207,584 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

19. Intangible assets (continued)

(a) Goodwill arising on consolidation

| | Group | |
|----------------------------------|-----------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Beginning of financial year | 109,203 | 120,891 |
| Currency translation differences | (5,706) | (11,688) |
| End of financial year | 103,497 | 109,203 |

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

The goodwill has been allocated to Deltamarin Ltd. ("DM-CGU") which is in the business of ship-design service.

The recoverable amounts of the DM-CGU are determined from value-in-use calculations for operating assets and the net carrying amounts of non-operating assets and liabilities. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using post-tax rates that reflect current market assessments of the time value of money and the risks specific to the DM-CGU. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices 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 three years based on an estimated revenue compound annual growth rate of 5% (2014: 9.1%) and terminal growth rate of 3.5% (2014: 3.5%) for period beyond 3 years.

The rate used to discount the forecast cash flows from the DM-CGU is 12.43% (2014: 12.43%) per annum.

The impairment test carried out as at 31 December 2015 for DM-CGU, which includes 100% of the goodwill recognised on the balance sheet, has revealed that the recoverable amount of the CGU is RMB8,859,000 or 3.3% higher than its carrying amount. The headroom has decreased due to current challenges faced by maritime industry. A further decrease in the revenue compound annual growth rate by 0.98% or a decrease in operating margin by 0.4% would result in the recoverable amount of DM-CGU being equal to its carrying amount.

(b) Acquired brand

| | Group | |
|----------------------------------|-----------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| <i>Cost</i> | | |
| Beginning of financial year | 49,841 | 55,175 |
| Currency translation differences | (2,604) | (5,334) |
| End of financial year | 47,237 | 49,841 |
| <i>Accumulated amortisation</i> | | |
| Beginning of financial year | – | – |
| Amortisation charge | 1,538 | – |
| Currency translation differences | 37 | – |
| End of financial year | 1,575 | – |
| Net book value | 45,662 | 49,841 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

19. Intangible assets (continued)

(c) Technical knowhow

| | Group | |
|----------------------------------|---------------|---------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| <i>Cost</i> | | |
| Beginning of financial year | 36,721 | 40,651 |
| Currency translation differences | (1,919) | (3,930) |
| End of financial year | 34,802 | 36,721 |
| <i>Accumulated amortisation</i> | | |
| Beginning of financial year | 4,896 | 2,659 |
| Currency translation differences | (202) | (440) |
| Amortisation charge | 2,266 | 2,677 |
| End of financial year | 6,960 | 4,896 |
| Net book value | 27,842 | 31,825 |

(d) Ship design engineering software licences

| | Group | |
|----------------------------------|--------------|---------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| <i>Cost</i> | | |
| Beginning of financial year | 24,872 | 9,652 |
| Currency translation differences | (1,589) | (2,608) |
| Disposal of subsidiary (Note 12) | (13,830) | – |
| Write-off | (63) | (434) |
| Additions | 1,302 | 18,262 |
| End of financial year | 10,692 | 24,872 |
| <i>Accumulated amortisation</i> | | |
| Beginning of financial year | 8,157 | 6,655 |
| Currency translation differences | (657) | (1,006) |
| Amortisation charge | 3,969 | 2,942 |
| Disposal of subsidiary (Note 12) | (3,917) | – |
| Write-off | (63) | (434) |
| End of financial year | 7,489 | 8,157 |
| Net book value | 3,203 | 16,715 |

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

20. Trade and other payables

| | Group | | Company | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 | 2015 RMB'000 | 2014 RMB'000 |
| <i>Current</i> | | | | |
| Trade payables to third parties | 1,901 | 44,162 | – | – |
| Construction contracts | | | | |
| – Due to customers (Note 15) | 1,958 | 5,743 | – | – |
| Advances received | | | | |
| – Third parties | 633 | 4,571 | – | – |
| – Related corporations | 36,536 | 34,173 | – | – |
| | 37,169 | 38,744 | – | – |
| Accrued expenses | 51,789 | 46,138 | 2,940 | 6,410 |
| Accrued construction costs | 48,961 | – | – | – |
| Other payables | | | | |
| – Third parties | 35 | 3,735 | – | – |
| – Previous immediate holding corporation | – | 18,614 | – | 13,568 |
| – Related corporations | 4,796 | 13,351 | – | – |
| – Associated company | 81 | – | – | – |
| Interest payable to banks | 1,478 | 93 | 89 | 93 |
| Other tax payable | 1,055 | 1,021 | – | – |
| Dividend payable | – | 892 | – | – |
| Others | 2,190 | 5,092 | – | – |
| | 151,413 | 177,585 | 3,029 | 20,071 |
| Less: Other payables – non-current | (35) | (3,735) | – | – |
| | 151,378 | 173,850 | 3,029 | 20,071 |

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

21. Amount due to subsidiaries

Amount due to subsidiaries are unsecured, interest-free and are repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

22. Borrowings

| | Group | | Company | |
|---|---------|---------|---------|---------|
| | 2015 | 2014 | 2015 | 2014 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| <i>Current</i> | | | | |
| Bank borrowings (secured) | 107,113 | 9,289 | – | – |
| Loans from non-controlling interests | 54,547 | – | – | – |
| Loan from related corporation | 12,854 | – | – | – |
| Loans from previous immediate holding corporation | – | 136,030 | – | 136,030 |
| | 174,514 | 145,319 | – | 136,030 |
| <i>Non-current</i> | | | | |
| Bank borrowings (secured) | 583,471 | 209,007 | 206,483 | 209,007 |
| Loans from previous immediate holding corporation | – | 19,232 | – | – |
| | 583,471 | 228,239 | 206,483 | 209,007 |
| Total borrowings | 757,985 | 373,558 | 206,483 | 345,037 |

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 | |
|------------------|---------|---------|---------|---------|
| | 2015 | 2014 | 2015 | 2014 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 6 months or less | 656,821 | 218,296 | 206,483 | 209,007 |
| 6–12 months | – | 136,030 | – | 136,030 |
| 1–5 years | 39,420 | – | – | – |
| | 696,241 | 354,326 | 206,483 | 345,037 |

(a) Guarantee granted

Bank borrowings of the Group and the Company are guaranteed by immediate holding corporation and related corporations.

(b) Fair value of non-current borrowings

| | Group | | Company | |
|-----------------|---------|---------|---------|---------|
| | 2015 | 2014 | 2015 | 2014 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Bank borrowings | 583,471 | 209,007 | 206,483 | 209,007 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

22. Borrowings (continued)

(b) Fair value of non-current borrowings (continued)

The fair values above 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 | |
|-----------------|--------------|--------------|--------------|--------------|
| | 2015 | 2014 | 2015 | 2014 |
| Bank borrowings | <u>3.34%</u> | <u>2.46%</u> | <u>3.14%</u> | <u>2.46%</u> |

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

(c) Loans from non-controlling interests

RMB48,890,000 of the loans from non-controlling interests are unsecured, interest-free and are repayable on demand. RMB5,657,000 of the loans are unsecured and bear interest at 5% per annum, and are repayable on demand. These loans are denominated in United States Dollars ("USD") and their carrying amounts approximate their fair values.

(d) Loan from related corporation

The loan from related corporation is unsecured, interest-free and is repayable on demand. The loan is denominated in USD and its carrying amount approximates its fair value.

(e) Loans from previous immediate holding corporation

The loans from the previous immediate holding corporation, AVIC International Kairong Limited, have been fully repaid during the financial year ended 31 December 2015. The loans were carried at amortised cost using the effective interest method based on a market interest rate of 3.25% per annum as the nominal interest rates of the loans were below market rate of nil to 0.85% per annum.

The excess of the nominal value repaid over the amortised cost as at the date of repayment has been reversed from the capital reserve recorded in previous financial years as a decrease in deemed contribution on shareholder's loan.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

23. Finance lease liabilities

| | Group | |
|--|-----------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Minimum lease payments due | | |
| – Not later than one year | 962 | 1,001 |
| – Between one and five years | 888 | 866 |
| | 1,850 | 1,867 |
| Less: Future finance charges | (84) | (94) |
| Present value of finance lease liabilities | 1,766 | 1,773 |

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

| | Group | |
|----------------------------|-----------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Not later than one year | 935 | 967 |
| Between one and five years | 831 | 806 |
| | 1,766 | 1,773 |

The Group leases certain of its property, plant and equipment under finance leases. The average lease term is 4 years (2014: 4 years). For the financial year ended 31 December 2015, the average effective interest rate was 3.62% (2014: 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.

24. 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 | |
|---------------------------------|-----------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Deferred income tax liabilities | 18,535 | 22,039 |
| Deferred income tax assets | (919) | (497) |
| | 17,616 | 21,542 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

24. 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 |
|--------------------------------------|---|-------------------------------|------------------|
| 2015 | | | |
| Beginning of financial year | 16,348 | 5,691 | 22,039 |
| Currency translation differences | (872) | (311) | (1,183) |
| Acquisition of subsidiary | – | 2 | 2 |
| Credited to profit or loss | (770) | (1,553) | (2,323) |
| End of financial year | 14,706 | 3,829 | 18,535 |
| 2014 | | | |
| Beginning of financial year | 22,853 | 3,274 | 26,127 |
| Currency translation differences | (1,808) | (627) | (2,435) |
| Effect of change in tax rate | (4,146) | – | (4,146) |
| (Credited)/charged to profit or loss | (551) | 3,044 | 2,493 |
| End of financial year | 16,348 | 5,691 | 22,039 |

Deferred income tax assets

| | Provisions RMB'000 | Total RMB'000 |
|----------------------------------|-----------------------|------------------|
| 2015 | | |
| Beginning of financial year | (497) | (497) |
| Currency translation differences | 28 | 28 |
| Credited to profit or loss | (450) | (450) |
| End of financial year | (919) | (919) |
| 2014 | | |
| Beginning of financial year | (557) | (557) |
| Currency translation differences | 62 | 62 |
| Credited to profit or loss | (2) | (2) |
| End of financial year | (497) | (497) |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

25. Share capital

| | No. of ordinary shares | Amount RMB'000 |
|-------------------------------------|---------------------------|-------------------|
| Group and Company | | |
| 2015 and 2014 | | |
| 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.

26. Other reserves

(a) Composition:

| | Group | | Company | |
|------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 | 2015 RMB'000 | 2014 RMB'000 |
| Capital reserve | 11,944 | 12,470 | 10,429 | 10,603 |
| Merger reserve | (3,664) | – | – | – |
| Statutory reserve | 14,735 | 11,988 | – | – |
| Currency translation reserve | 1,669 | 10,914 | (4,654) | (4,146) |
| | 24,684 | 35,372 | 5,775 | 6,457 |

(b) Movements:

(i) Capital reserve

| | Group | | Company | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 | 2015 RMB'000 | 2014 RMB'000 |
| Beginning of financial year | 12,470 | 12,470 | 10,603 | 10,603 |
| Reversal of deemed contribution on shareholder's loan | (526) | – | (174) | – |
| End of financial year | 11,944 | 12,470 | 10,429 | 10,603 |

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

26. Other reserves (continued)

(b) Movements: (continued)

(ii) Merger reserve

| | Group | |
|-----------------------------|---------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Beginning of financial year | – | – |
| Addition (Note 12) | (3,664) | – |
| End of financial year | (3,664) | – |

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.

(iii) Statutory reserve

| | Group | |
|--------------------------------|---------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Beginning of financial year | 11,988 | 10,209 |
| Transfer from retained profits | 2,747 | 1,779 |
| End of financial year | 14,735 | 11,988 |

The 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

26. Other reserves (continued)

(b) Movements: (continued)

(iv) Currency translation reserve

| | Group | | Company | |
|--|---------|----------|---------|---------|
| | 2015 | 2014 | 2015 | 2014 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Beginning of financial year | 10,914 | 21,231 | (4,146) | (2,782) |
| Reclassification on disposal of a subsidiary | (1,456) | – | – | – |
| Net currency translation differences of financial statements of foreign subsidiaries and associated companies | (9,138) | (16,544) | (508) | (1,364) |
| Less: Non-controlling interests | 1,349 | 6,227 | – | – |
| End of financial year | 1,669 | 10,914 | (4,654) | (4,146) |

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.

Other reserves are non-distributable.

27. Commitments

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 | |
|----------------------------|---------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Not later than one year | 10,630 | 14,761 |
| Between one and five years | 30,318 | 47,085 |
| Later than five years | 18,738 | 13,014 |
| | 59,686 | 74,860 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

28. 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.

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 | Others RMB'000 | Total RMB'000 |
|---|------------------|--------------------|-----------------|-----------------|-------------------|--------------------|
| At 31 December 2015 | | | | | | |
| Financial assets | | | | | | |
| Cash and cash equivalents | 1,812 | 143,485 | 124,673 | 86,257 | 137 | 356,364 |
| Trade and other receivables | 1,320 | 154,116 | 51,254 | 94,630 | – | 301,320 |
| Receivables from subsidiaries | 15,792 | 493,046 | 27,848 | 55,222 | – | 591,908 |
| Available-for-sale investments | – | – | – | 11 | – | 11 |
| | <u>18,924</u> | <u>790,647</u> | <u>203,775</u> | <u>236,120</u> | <u>137</u> | <u>1,249,603</u> |
| Financial liabilities | | | | | | |
| Trade and other payables | (3,652) | (51,717) | (19,385) | (37,532) | – | (112,286) |
| Borrowings | (206,483) | (512,082) | (39,420) | – | – | (757,985) |
| Payables to subsidiaries | (15,792) | (493,046) | (27,848) | (55,222) | – | (591,908) |
| Finance lease liabilities | – | – | – | (1,766) | – | (1,766) |
| | <u>(225,927)</u> | <u>(1,056,845)</u> | <u>(86,653)</u> | <u>(94,520)</u> | <u>–</u> | <u>(1,463,945)</u> |
| Net financial (liabilities)/ assets | <u>(207,003)</u> | <u>(266,198)</u> | <u>117,122</u> | <u>141,600</u> | <u>137</u> | <u>(214,342)</u> |
| Currency exposure of financial assets net of those denominated in the respective entities' functional currency | | | | | | |
| | <u>1,544</u> | <u>206,056</u> | <u>722</u> | <u>36,034</u> | <u>137</u> | <u>244,493</u> |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

28. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

| | SGD RMB'000 | USD RMB'000 | RMB RMB'000 | EUR RMB'000 | Others RMB'000 | Total RMB'000 |
|--|------------------|-----------------|------------------|------------------|-------------------|------------------|
| At 31 December 2014 | | | | | | |
| Financial assets | | | | | | |
| Cash and cash equivalents | 12,233 | 40,882 | 181,651 | 65,937 | 535 | 301,238 |
| Trade and other receivables | 1,391 | 72,575 | 69,866 | 142,109 | 51 | 285,992 |
| Receivables from subsidiaries | 10,770 | 62,102 | 68,500 | 65,230 | – | 206,602 |
| Available-for-sale investments | – | – | – | 49 | – | 49 |
| | <u>24,394</u> | <u>175,559</u> | <u>320,017</u> | <u>273,325</u> | <u>586</u> | <u>793,881</u> |
| Financial liabilities | | | | | | |
| Trade and other payables | (22,775) | (168) | (32,998) | (77,157) | – | (133,098) |
| Borrowings | (354,326) | (19,232) | – | – | – | (373,558) |
| Payables to subsidiaries | (10,770) | (62,102) | (68,500) | (65,230) | – | (206,602) |
| Finance lease liabilities | – | – | – | (1,773) | – | (1,773) |
| | <u>(387,871)</u> | <u>(81,502)</u> | <u>(101,498)</u> | <u>(144,160)</u> | <u>–</u> | <u>(715,031)</u> |
| Net financial (liabilities)/ assets | <u>(363,477)</u> | <u>94,057</u> | <u>218,519</u> | <u>129,165</u> | <u>586</u> | <u>78,850</u> |
| Currency exposure of financial (liabilities)/ assets net of those denominated in the respective entities' functional currency | <u>1,410</u> | <u>92,533</u> | <u>1,963</u> | <u>477</u> | <u>586</u> | <u>96,969</u> |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

28. 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 | Total RMB'000 |
|--|------------------|----------------|----------------|----------------|------------------|
| At 31 December 2015 | | | | | |
| Financial assets | | | | | |
| Cash and cash equivalents | 143 | 481 | 13 | 263 | 900 |
| Trade and other receivables | 7,296 | – | – | – | 7,296 |
| | <u>7,439</u> | <u>481</u> | <u>13</u> | <u>263</u> | <u>8,196</u> |
| Financial liabilities | | | | | |
| Trade and other payables | (3,029) | – | – | – | (3,029) |
| Amount due to subsidiaries | (154,476) | – | – | – | (154,476) |
| Borrowings | (206,483) | – | – | – | (206,483) |
| | <u>(363,988)</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>(363,988)</u> |
| Net financial (liabilities)/assets | <u>(356,549)</u> | <u>481</u> | <u>13</u> | <u>263</u> | <u>(355,792)</u> |
| Currency exposure of financial (liabilities)/assets net of those denominated in the Company's functional currency | <u>–</u> | <u>481</u> | <u>13</u> | <u>263</u> | <u>757</u> |
| At 31 December 2014 | | | | | |
| Financial assets | | | | | |
| Cash and cash equivalents | 8,942 | 629 | 13 | 789 | 10,373 |
| Trade and other receivables | 2,089 | – | – | – | 2,089 |
| | <u>11,031</u> | <u>629</u> | <u>13</u> | <u>789</u> | <u>12,462</u> |
| Financial liabilities | | | | | |
| Trade and other payables | (20,071) | – | – | – | (20,071) |
| Amount due to subsidiaries | (3,103) | – | – | – | (3,103) |
| Borrowings | (345,037) | – | – | – | (345,037) |
| | <u>(368,211)</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>(368,211)</u> |
| Net financial (liabilities)/asset | <u>(357,180)</u> | <u>629</u> | <u>13</u> | <u>789</u> | <u>(355,749)</u> |
| Currency exposure of financial (liabilities)/assets net of those denominated in the Company's functional currency | <u>–</u> | <u>629</u> | <u>13</u> | <u>789</u> | <u>1,431</u> |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

28. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

If the SGD, USD and EUR change against the RMB by 10% (2014: 10%) and 10% (2014: 10%) respectively with all other variables including tax rate being held constant, the effects arising from the net financial liability/asset position will be as follows:

| | ← Increase/(Decrease) → | | | |
|-----------------|-------------------------|---------|------------------|---------|
| | Group | | Company | |
| | Profit after tax | | Profit after tax | |
| | 2015 | 2014 | 2015 | 2014 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| SGD against RMB | | | | |
| – Strengthened | 128 | 117 | – | – |
| – Weakened | (128) | (117) | – | – |
| USD against RMB | | | | |
| – Strengthened | 17,103 | 7,680 | 40 | 52 |
| – Weakened | (17,103) | (7,680) | (40) | (52) |
| EUR against RMB | | | | |
| – Strengthened | 2,991 | 40 | 22 | 65 |
| – Weakened | (2,991) | (40) | (22) | (65) |

(ii) Interest rate risk

The Group's exposure to changes in interest rates relates primarily to the Group's fixed deposits with banks and debt obligations. 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 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 2015 would decrease/increase by RMB2,917,355 (2014: RMB1,045,035) and RMB1,032,415 (2014: RMB1,045,035) respectively. This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings. The Group's sensitivity to interest rates has increased during the current period mainly due to a variable rate bank loan raised.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

28. Financial risk management (continued)

(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 and trade receivables. For trade receivables, the Group adopts the policy of dealing only with 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 credit risk for trade receivables based on the information provided to key management is as follows:

| | Group | |
|-----------------------|-----------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| By geographical areas | | |
| Singapore | 43,623 | — |
| China | 41,159 | 20,501 |
| Europe | 40,425 | 39,416 |
| | 125,207 | 59,917 |

(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 that are neither past due nor impaired are substantially companies with a good collection track record with the Group.

(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 receivables.

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

| | Group | |
|------------------------|-----------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Past due < 1 months | 9,157 | 14,184 |
| Past due 1 to 3 months | 12,784 | 13,247 |
| Past due over 3 months | 13,306 | 13,401 |
| | 35,247 | 40,832 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

28. Financial risk management (continued)

(b) Credit risk (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 | |
|---------------------------------|-----------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Past due over 6 months | 428 | 313 |
| Less: Allowance for impairment | (428) | (313) |
| | <u>-</u> | <u>-</u> |
| Beginning of financial year | 313 | - |
| Currency translation difference | - | - |
| Allowance made | 428 | 313 |
| Allowance utilised | (313) | - |
| End of financial year | <u>428</u> | <u>313</u> |

(c) Liquidity risk

The Group maintains sufficient cash and cash equivalents, and internally generated cash flows to finance their 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.

The following tables detail the remaining contractual maturity for non-derivative 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 company can be required to pay. The table includes both interest and principal cash flows. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis which is not included in the carrying amount of the financial liabilities on the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

28. Financial risk management (continued)

(c) Liquidity risk (continued)

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

| | Weighted average effective interest rate % | On demand or within 1 year RMB'000 | Within RMB'000 | Total RMB'000 |
|--------------------------------------|--|---|-------------------|------------------|
| <u>Group</u> | | | | |
| At 31 December 2015 | | | | |
| Trade and other payables | – | 112,251 | 35 | 112,286 |
| Interest-free borrowings | – | 61,744 | – | 61,744 |
| Fixed interest rate borrowings | 5.40 | 5,940 | 43,184 | 49,124 |
| Variable interest rate borrowings | 3.58 | 113,124 | 589,138 | 702,262 |
| Finance lease liability (fixed rate) | 3.62 | 962 | 888 | 1,850 |
| | | 294,021 | 633,245 | 927,266 |
| At 31 December 2014 | | | | |
| Trade and other payables | – | 129,363 | 3,735 | 133,098 |
| Interest-free borrowings | – | – | 19,232 | 19,232 |
| Fixed interest rate borrowings | 0.85 | 136,897 | – | 136,897 |
| Variable interest rate borrowings | 2.43 | 9,443 | 224,432 | 233,875 |
| Finance lease liability (fixed rate) | 3.62 | 1,001 | 866 | 1,867 |
| | | 276,704 | 248,265 | 524,969 |
| <u>Company</u> | | | | |
| At 31 December 2015 | | | | |
| Trade and other payables | – | 3,029 | – | 3,029 |
| Variable interest rate borrowings | 3.14 | – | 219,431 | 219,431 |
| | | 3,029 | 219,431 | 222,460 |
| At 31 December 2014 | | | | |
| Trade and other payables | – | 20,071 | – | 20,071 |
| Fixed interest rate borrowings | 0.85 | 136,897 | – | 136,897 |
| Variable interest rate borrowings | 2.46 | – | 224,432 | 224,432 |
| | | 156,968 | 224,432 | 381,400 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

28. 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 less cash and cash equivalents. Total capital is calculated as total equity plus net debt. Certain subsidiaries of the company 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 26). The statutory reserves may only be distributed to shareholders upon liquidation of the subsidiary.

The Group's overall strategy remains unchanged from 2014.

| | Group | | Company | |
|---------------|----------------|---------|----------------|---------|
| | 2015 | 2014 | 2015 | 2014 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Net debt | 553,034 | 249,905 | 363,088 | 357,838 |
| Total equity | 236,845 | 242,324 | 32,871 | 37,739 |
| Total capital | 789,879 | 492,229 | 395,959 | 395,577 |

The Group and the Company are in compliance with all external financial ratios and covenants imposed on the immediate holding corporation for the loans extended to the Group and the Company for the financial years ended 31 December 2015 and 2014. 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

There are no financial assets or liabilities which are measured and carried at fair value as at year ended 31 December 2015 and 2014.

(f) Financial instruments by category

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

| | Group | | Company | |
|---|----------------|---------|----------------|---------|
| | 2015 | 2014 | 2015 | 2014 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Loans and receivables | 657,684 | 587,230 | 8,196 | 12,462 |
| Available-for-sale investments | 11 | 49 | — | — |
| Financial liabilities at amortised cost | 870,271 | 506,657 | 363,988 | 368,211 |

(g) Financial instruments subject to offsetting

The Group and company do not have any financial instruments which are subject to enforceable master netting arrangement and similar arrangements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

29. Immediate and ultimate holding corporations

During the financial year, the Company's immediate holding corporation has changed from AVIC International Kairong Limited to AVIC International Holdings Limited, both companies are incorporated in Hong Kong. The ultimate holding corporation is Aviation Industry Corporation of China, incorporated in the People's Republic of China.

30. 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 | |
|---|-----------|----------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Shipbuilding contract revenue from related corporations | 285,201 | 107,027 |
| Shipbuilding contract costs to related corporations | (220,101) | (80,764) |
| Service fee income from related corporations | 46,359 | 19,527 |
| Management fee income from related corporations | 2,076 | 13,142 |
| Ship-design fee income from related corporations | 4,159 | 2,077 |
| Other income from related corporations | – | 147 |
| Ship-design fee expense to related corporations | – | (2,410) |
| Property management fees to related corporations | (894) | – |
| Rental expense to related corporations | (505) | – |

Related corporations refer to subsidiaries of the immediate holding corporation.

Outstanding balances at 31 December 2015 and 31 December 2014, arising from sale/purchase of goods and services, are unsecured and receivable/payable within 12 months from balance sheet date and disclosed in Note 13 and 20.

(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 | |
|--------------------------|---------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Short-term benefits | 3,495 | 4,971 |
| Post-employment benefits | 349 | 309 |
| | 3,844 | 5,280 |

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

31. Segment information

For the purpose of the resource allocation and assessment of segment performance, the Group's chief operating decision makers have 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 FRS 108 – Operating Segments.

The Group's reportable operating segments under FRS 108 are as follows:

- (a) Shipbuilding project management service – provision of shipbuilding project management and consultancy services.
- (b) Shipbuilding construction service – provision of shipbuilding construction services.
- (c) Marketing and consulting service – services rendered in respect to marketing and consulting activities.
- (d) Ship-design service – provision of ship-design services.
- (e) EPC service – provision of engineering, procurement and construction services.

The Group has not aggregated any operating segment in the segment information.

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 chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

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

Goodwill has been allocated to reportable segments 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

31. Segment information (continued)

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

| | Shipbuilding project management service RMB'000 | Shipbuilding construction service RMB'000 | Marketing and consulting service RMB'000 | Ship-design service RMB'000 | EPC service RMB'000 | Total RMB'000 |
|--|---|--|--|-----------------------------------|------------------------|------------------|
| <u>2015</u> | | | | | | |
| Sales | | | | | | |
| Third parties | 18,562 | – | 2,206 | 213,981 | 18,838 | 253,587 |
| Related companies | 46,359 | 285,201 | 2,076 | 9,781 | – | 343,417 |
| | 64,921 | 285,201 | 4,282 | 223,762 | 18,838 | 597,004 |
| Inter-segment sales | – | – | – | (5,622) | – | (5,622) |
| | 64,921 | 285,201 | 4,282 | 218,140 | 18,838 | 591,382 |
| Results | | | | | | |
| Segment results | 29,657 | 13,955 | 1,956 | 20,751 | (29,189) | 37,130 |
| Assets | | | | | | |
| Segment assets | 416,995 | 564,587 | 23,990 | 131,517 | 39,539 | 1,176,628 |
| Unallocated assets | | | | | | 2,703 |
| Total assets | | | | | | 1,179,331 |
| Liabilities | | | | | | |
| Segment liabilities | 43,573 | 64,150 | 409 | 43,871 | 1,176 | 153,179 |
| Unallocated liabilities | | | | | | 789,307 |
| Total liabilities | | | | | | 942,486 |
| Other information | | | | | | |
| Depreciation | 525 | 292 | 34 | 2,435 | – | 3,286 |
| Amortisation | – | – | – | 5,006 | 2,767 | 7,773 |
| Share of profit of associated companies | – | – | – | 1,524 | – | 1,524 |
| Additions to property, plant and equipment | 1,160 | – | – | 2,964 | – | 4,124 |
| Bad debts written off | – | – | – | 4,570 | – | 4,570 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

31. Segment information (continued)

| | Shipbuilding project management service RMB'000 | Shipbuilding construction service RMB'000 | Marketing and consulting service RMB'000 | Ship-design service RMB'000 | EPC service RMB'000 | All other segments RMB'000 | Total for continuing operations RMB'000 |
|---|---|--|--|-----------------------------------|------------------------|----------------------------------|--|
| <u>2014</u> | | | | | | | |
| Sales | | | | | | | |
| Third parties | 5,463 | (16,174) | 4,733 | 240,769 | 78,159 | 188 | 313,138 |
| Related companies | 19,527 | 107,027 | 13,142 | 53,999 | – | 147 | 193,842 |
| | 24,990 | 90,853 | 17,875 | 294,768 | 78,159 | 335 | 506,980 |
| Inter-segment sales | – | – | – | (51,922) | – | – | (51,922) |
| | 24,990 | 90,853 | 17,875 | 242,846 | 78,159 | 335 | 455,058 |
| Results | | | | | | | |
| Segment results | 9,394 | 425 | 6,720 | 33,526 | (15,658) | 335 | 34,742 |
| Assets | | | | | | | |
| Segment assets | 277,231 | 78,589 | 216,341 | 158,020 | 83,003 | 4,521 | 817,705 |
| Unallocated assets | | | | | | | 951 |
| Total assets | | | | | | | 818,656 |
| Liabilities | | | | | | | |
| Segment liabilities | 45,271 | 6,572 | 36,621 | 58,592 | 32,302 | – | 179,358 |
| Unallocated liabilities | | | | | | | 396,974 |
| Total liabilities | | | | | | | 576,332 |
| Other information | | | | | | | |
| Depreciation | 170 | 561 | 123 | 2,711 | – | – | 3,565 |
| Amortisation | – | – | – | 3,985 | 1,634 | – | 5,619 |
| Share of losses of associated companies | – | – | – | 378 | – | – | 378 |
| Allowance for doubtful debts | 183 | – | 131 | – | – | – | 314 |
| Additions to property, plant and equipment | 1,219 | – | – | 3,638 | – | – | 4,857 |

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 chief operating decision maker for the purpose of resource allocation and the assessment of segment performance.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

31. Segment information (continued)

(a) Reconciliations

(i) Segment profits

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

| | 2015 RMB'000 | 2014 RMB'000 |
|--|-----------------|-----------------|
| Segment results | 37,130 | 34,742 |
| Other income | 1,048 | 18,479 |
| Marketing, distribution and administrative expense | (14,034) | (13,359) |
| Finance cost | (15,252) | (15,648) |
| | 8,892 | 24,214 |

(ii) Segment assets

The amounts reported to the Board of Directors 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, short-term bank deposits, and available-for-sale financial assets.

Segment assets are reconciled to total assets as follows:

| | 2015 RMB'000 | 2014 RMB'000 |
|--|------------------|-----------------|
| Segment assets for reportable segments | 1,176,628 | 817,705 |
| Unallocated: | | |
| Deferred income tax assets | 919 | 497 |
| Available-for-sale investments | 11 | 49 |
| Investment in associated companies | 1,773 | 405 |
| | 1,179,331 | 818,656 |

(iii) Segment liabilities

The amounts provided to the Board of Directors 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 and borrowings.

Segment liabilities are reconciled to total liabilities as follows:

| | 2015 RMB'000 | 2014 RMB'000 |
|---|-----------------|-----------------|
| Segment liabilities for reportable segments | 153,179 | 179,358 |
| Unallocated: | | |
| Current income tax liabilities | 12,787 | 1,377 |
| Deferred tax liabilities | 18,535 | 22,039 |
| Borrowings | 757,985 | 373,558 |
| | 942,486 | 576,332 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

31. Segment information (continued)

(a) Reconciliations (continued)

(iii) Segment liabilities (continued)

Revenue from major products and services

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

| | Shipbuilding Project management service RMB'000 | Shipbuilding construction service RMB'000 | Marketing and consulting service RMB'000 | Ship- design service RMB'000 | EPC service RMB'000 | All other segments RMB'000 |
|-------------|---|--|--|---------------------------------------|---------------------------|----------------------------------|
| 2015 | | | | | | |
| Customer 1 | 29,766 | – | 1,850 | – | – | – |
| Customer 2 | 16,593 | – | – | – | – | – |
| Customer 3 | – | 285,201 | – | – | – | – |
| Customer 4 | – | – | – | 50,038 | – | – |
| Customer 5 | – | – | – | 15,908 | – | – |
| Customer 6 | – | – | – | 15,363 | – | – |
| Customer 7 | – | – | – | 15,159 | – | – |
| Total | 46,359 | 285,201 | 1,850 | 96,468 | – | – |
| | | | | | | |
| | Shipbuilding Project management service RMB'000 | Shipbuilding construction service RMB'000 | Marketing and consulting service RMB'000 | Ship- design service RMB'000 | EPC service RMB'000 | All other segments RMB'000 |
| 2014 | | | | | | |
| Customer 1 | 6,424 | – | 5,520 | – | – | – |
| Customer 2 | 8,962 | – | 7,080 | – | – | 147 |
| Customer 3 | – | 107,027 | – | – | – | – |
| Customer 4 | – | – | – | 37,286 | – | – |
| Customer 5 | – | – | – | 22,152 | – | – |
| Customer 6 | – | – | – | 15,457 | – | – |
| Customer 7 | – | – | – | – | 58,479 | – |
| Total | 15,386 | 107,027 | 12,600 | 74,895 | 58,479 | 147 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

31. Segment information (continued)

(a) Reconciliations (continued)

(iii) Segment liabilities (continued)

Geographical information

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

| | Revenue | |
|-----------------|-----------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| PRC | 414,615 | 257,792 |
| Finland | 77,915 | 126,704 |
| Malaysia | – | 22,152 |
| United Kingdom | 51,400 | – |
| United States | 27,240 | – |
| Other countries | 20,212 | 48,410 |
| | 591,382 | 455,058 |

Revenue from major products and services

| | Non-current assets | |
|-----------|--------------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| PRC | 1,489 | 1,042 |
| Finland | 214,765 | 213,688 |
| Germany | 164 | – |
| Singapore | 1,044 | 1,353 |
| | 217,462 | 216,083 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

32. New or revised accounting standards and interpretations

The Group has not early adopted any mandatory standards, amendments and interpretations to existing standards that have been published but are only effective for the Group's accounting periods beginning on or after 1 January 2016. However, management anticipates that the adoption of these standards, amendments and interpretations will not have a material impact on the financial statements of the Group in the period of their initial adoption, except for the following:

- FRS 115 *Revenue from contracts with customers* (effective for annual periods beginning on or after 1 January 2018)

This is the converged standard on revenue recognition. It replaces FRS 11 Construction contracts, FRS 18 Revenue, and related interpretations. Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. The core principle of FRS 115 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

FRS 115 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The standard may have an impact on the financial statements when it becomes effective. The Group is in the process of evaluating the impact of this standard on the financial statements.

33. 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 1 April 2016.

STATISTICS OF SHAREHOLDINGS

AS AT 22 MARCH 2016

Class of shares : Ordinary shares
 No. of Shares (excluding treasury shares) : 285,576,000
 Voting Rights : One vote per share

As at 22 March 2016, the Company did not hold any treasury shares.

DISTRIBUTION OF SHAREHOLDINGS

| SIZE OF SHAREHOLDINGS | NO. OF SHAREHOLDERS | % | NO. OF SHARES | % |
|-----------------------|---------------------|---------------|--------------------|---------------|
| 1 – 99 | 1,837 | 43.88 | 77,753 | 0.03 |
| 100 – 1,000 | 1,984 | 47.40 | 639,346 | 0.22 |
| 1,001 – 10,000 | 284 | 6.78 | 703,189 | 0.25 |
| 10,001 – 1,000,000 | 74 | 1.77 | 9,176,525 | 3.21 |
| 1,000,001 AND ABOVE | 7 | 0.17 | 274,979,187 | 96.29 |
| TOTAL | 4,186 | 100.00 | 285,576,000 | 100.00 |

TWENTY LARGEST SHAREHOLDERS

| NO. | NAME | NO. OF SHARES | % |
|--------------|---|--------------------|--------------|
| 1 | UOB KAY HIAN PRIVATE LIMITED | 211,041,046 | 73.90 |
| 2 | DBS VICKERS SECURITIES (SINGAPORE) PTE LTD | 25,943,336 | 9.08 |
| 3 | RHB SECURITIES SINGAPORE PTE. LTD. | 19,019,547 | 6.66 |
| 4 | CITIBANK NOMINEES SINGAPORE PTE LTD | 8,238,263 | 2.88 |
| 5 | HSBC (SINGAPORE) NOMINEES PTE LTD | 7,029,915 | 2.46 |
| 6 | RAFFLES NOMINEES (PTE) LIMITED | 2,192,812 | 0.77 |
| 7 | DBS NOMINEES PRIVATE LIMITED | 1,514,268 | 0.53 |
| 8 | PHILLIP SECURITIES PTE LTD | 873,139 | 0.31 |
| 9 | LIM TECK CHAY | 800,000 | 0.28 |
| 10 | DB NOMINEES (SINGAPORE) PTE LTD | 679,720 | 0.24 |
| 11 | LEUNG TAI KEUNG | 584,000 | 0.20 |
| 12 | YUEN SUK CHING | 584,000 | 0.20 |
| 13 | OCBC SECURITIES PRIVATE LIMITED | 492,415 | 0.17 |
| 14 | PEH HOCK CHOON | 381,140 | 0.13 |
| 15 | PHUA GIM CHUAN | 291,000 | 0.10 |
| 16 | CHUA BOCK ENG | 270,000 | 0.09 |
| 17 | CHENG BING | 240,000 | 0.08 |
| 18 | CHICKEN DELIGHT PRIVATE LIMITED | 202,300 | 0.07 |
| 19 | FONG KWOK KWONG | 200,000 | 0.07 |
| 20 | UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED | 182,293 | 0.06 |
| TOTAL | | 280,759,194 | 98.28 |

STATISTICS OF SHAREHOLDINGS

AS AT 22 MARCH 2016

Substantial Shareholders as at 22 March 2016

(as recorded in the Register of Substantial Shareholders)

| Name of Substantial Shareholder | Direct Interest | | Deemed Interest | |
|---|-----------------|-------|-----------------|-------|
| | No. of Shares | % | No. of Shares | % |
| 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 | – | – |

Notes:

(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 immediately 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 2016. Accordingly, the Company has complied with Rule 723 of the Listing Manual 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 Singapore on 11 November 2010)

(Registration No. 201024137N)

NOTICE IS HEREBY GIVEN that the Annual General Meeting of AVIC International Maritime Holdings Limited (the “**Company**”) will be held at 3:00 p.m. on 28 April 2016 at Anson IV, Level 2, M Hotel Singapore, 81 Anson Road, Singapore 079908 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 2015 (“**FY2015**”), together with the Directors’ Statement and Report of the Auditors thereon. **(Resolution 1)**
2. To approve the Directors’ Fees of S\$180,000 for FY2015. **(Resolution 2)**
3. To re-elect Mr Huang Guang, a Director who retires 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 Mr Liu Aiyi, a Director who retires 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-elect Mr Wang Mingchuan, a Director who retires pursuant to Article 91 of the Constitution of the Company, and who, being eligible, is offering himself for re-election. **(Resolution 5)**
[Explanatory Note (iii)]
6. To re-elect Mr Wang Puqu, a Director who retires pursuant to Article 91 of the Constitution of the Company, and who, being eligible, is offering himself for re-election. **(Resolution 6)**
[Explanatory Note (iv)]
7. To re-elect Mr Zhong Sijun, a Director who retires pursuant to Article 97 of the Constitution of the Company, and who, being eligible, is offering himself for re-election. **(Resolution 7)**
[Explanatory Note (v)]
8. To re-appoint Messrs PricewaterhouseCoopers LLP as Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 8)**

NOTICE OF THE ANNUAL GENERAL MEETING

As Special Business:

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

9. SHARE ISSUE MANDATE

THAT pursuant to Section 161 of the Companies Act, Chapter 50 of Singapore and Rule 806 of the Listing Manual of Singapore Exchange Securities Trading Limited (“SGX-ST”), authority be and is hereby given to the Directors of the Company to allot and issue whether by way of bonus or otherwise, (i) shares; (ii) convertible securities; (iii) additional convertible securities (where an adjustment, to the number of convertible securities to which a holder is originally entitled to, is necessary as a result of any rights, bonus or other capitalization issues by the Company), notwithstanding that such authority may have ceased to be in force at the time such additional convertible securities are issued, provided that the adjustment does not give the holder of the convertible securities a benefit that a shareholder does not receive; and/or (iv) shares arising from the conversion of securities in (ii) and additional convertible securities in (iii) above, notwithstanding that such authority may have ceased to be in force at the time the shares are to be issued, and any such issue may be made at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company may in their absolute discretion deem fit,

PROVIDED THAT:

- (i) the aggregate number of shares and convertible securities to be issued pursuant to this Resolution shall not exceed 50% of the total number of the issued shares (excluding treasury shares) of the Company, of which the aggregate number of shares and convertible securities issued other than on a pro rata basis to existing shareholders of the Company shall not exceed 20% of the total number of the issued shares (excluding treasury shares) of the Company;
- (ii) subject to such manner of calculation as may be prescribed by the SGX-ST, for the purpose of this Resolution, the percentage of the issued share capital shall be based on the Company’s total number of the issued shares (excluding treasury shares, if any) at the time this Resolution is passed, after adjusting for:
 - (a) new shares arising from the conversion or exercise of any convertible securities;
 - (b) new shares arising from exercise of share options or vesting of share awards outstanding or subsisting at the time of the passing of this Resolution, provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual of the SGX-ST; and
 - (c) any subsequent bonus issue, consolidation or subdivision of shares;
- (iii) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Constitution for the time being of the Company; and
- (iv) unless revoked or varied by the Company in a general meeting, 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 the earlier.

[Explanatory Note (vi)]

(Resolution 9)

NOTICE OF THE ANNUAL GENERAL MEETING

10. To transact any other ordinary business that may properly be transacted at an Annual General Meeting.

By Order of the Board

Yap Lian Seng

Company Secretary

Singapore, 13 April 2016

Explanatory Notes:

- (i) **Resolution 3:** Pursuant to Article 91 of the Constitution of the Company, Mr Huang Guang 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 a Non-Executive Director of the Company.
- (ii) **Resolution 4:** Pursuant to Article 91 of the Constitution of the Company, Mr Liu Aiyi 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 a Non-Executive Director of the Company.
- (iii) **Resolution 5:** Pursuant to Article 91 of the Constitution of the Company, Mr Wang Mingchuan 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 a Non-Executive Director of the Company.
- (iv) **Resolution 6:** Pursuant to Article 91 of the Constitution of the Company, Mr 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.
- (v) **Resolution 7:** Pursuant to Article 97 of the Constitution of the Company, Mr Zhong Sijun 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 a Non-Executive Director of the Company.
- (vi) **Resolution 9:** 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 offers, agreements or options (collectively, “**Instruments**”) convertible into shares and to issue shares pursuant to such Instruments, up to a number not exceeding in total 50% of the issued share capital of the Company (excluding treasury shares, if any), of which up to 20% may be issued other than on a pro-rata basis to shareholders.

For determining the aggregate number of shares that may be issued, the total number of issued shares will be calculated based on the total number of issued shares in the capital of the Company (excluding treasury shares, if any) at the time this Resolution is passed, after adjusting for:

- (a) new shares arising from the conversion or exercise of any convertible securities;
- (b) new shares arising from the exercise of share options or vesting of share awards outstanding or subsisting at the time of the passing of this Resolution, provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual of the SGX-ST; and
- (c) any subsequent bonus issue, consolidation or subdivision of shares.

NOTICE OF THE ANNUAL GENERAL MEETING

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, Chapter 50.
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 10 Collyer Quay, #27-00 Ocean Financial Centre, Singapore 049315 not later than 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 10 Collyer Quay, #27-00 Ocean Financial Centre, Singapore 049315, 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.
 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.

AVIC INTERNATIONAL MARITIME HOLDINGS LIMITED

(Incorporated in the Republic of Singapore)
(Registration No. 201024137N)

PROXY FORM – ANNUAL GENERAL MEETING

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.

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 Anson IV, Level 2, M Hotel Singapore, 81 Anson Road, Singapore 079908 on 28 April 2016 at 3:00 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 2015 (“FY2015”), together with the Directors’ Statement and Report of the Auditors thereon. | | |
| Resolution 2 | To approve the Directors’ Fees of S\$180,000 for FY2015. | | |
| Resolution 3 | To re-elect Mr Huang Guang, a Director who retires pursuant to Article 91 of the Constitution of the Company. | | |
| Resolution 4 | To re-elect Mr Liu Aiyi, a Director who retires pursuant to Article 91 of the Constitution of the Company. | | |
| Resolution 5 | To re-elect Mr Wang Mingchuan, a Director who retires pursuant to Article 91 of the Constitution of the Company. | | |
| Resolution 6 | To re-elect Mr Wang Puqu, a Director who retires pursuant to Article 91 of the Constitution of the Company. | | |
| Resolution 7 | To re-elect Mr Zhong Sijun, a Director who retires pursuant to Article 97 of the Constitution of the Company. | | |
| Resolution 8 | 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 | | |
| Resolution 9 | To approve and adopt the Share Issue Mandate. | | |

Date this _____ day of _____ 2016

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

Signature(s) of member(s) or Common Seal

* Delete where applicable

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, Cap. 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, Cap. 50, of Singapore.
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 abstained 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, Cap. 50, of Singapore.
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 10 Collyer Quay, #27-00 Ocean Financial Centre, Singapore 049315, not less than 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.