



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



Illustrated vessel designed by Deltamarin

**GOING  
THE  
DISTANCE**

ANNUAL REPORT  
2016



# OUR VISION

TO BE A LEADING  
PROVIDER OF INTEGRATED  
MARITIME SERVICES

## Sponsor Statement

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





# OUR **MISSION**

GO BEYOND COMMERCE  
FOR A BETTER WORLD

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AVIC International Maritime Holdings Limited ("AVIC Maritime") (中航国际船舶控股有限公司), together with its subsidiaries, (the "Group"), is a member of the Aviation Industry Corporation of China ("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 143rd among Fortune Global Top 500 corporations in 2016\*, 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://beta.fortune.com/global500/aviation-industry-corp-of-china-143/>

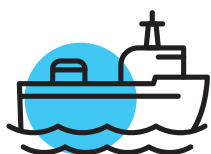
# OUR BUSINESS AND STRATEGY

## SHIPBUILDING PROJECT M&C



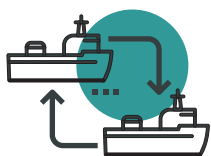
- Services include ship design, construction (outsourced), procurement, newbuilding management and marine finance arrangement
- Providing design and engineering services through Deltamarin and other leading design institutes in China
- Providing marketing and consultancy services to shipyards such as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

## SHIPBUILDING



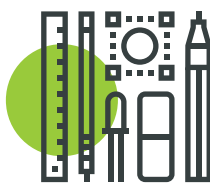
- Our Group's indirect major shareholder, AVIC International Holding Corporation, through its subsidiaries, owns substantial stakes in two shipyards in the Shandong and Jiangsu province in China
- The two shipyards are capable of producing a wide variety of vessels and marine-related products
- Our Group also works with other established and reputable shipyards around the world

## SHIP TRADING



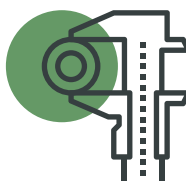
- Offer an integrated procurement service which extends from market analysis to acquisition of goods and delivery to the door
- Leveraging on our Group's strengths and in-depth product knowledge, we are able to provide specialist technical support efficiently and our strong network allows us to source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

## 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

## ENGINEERING, PROCUREMENT AND CONSTRUCTION



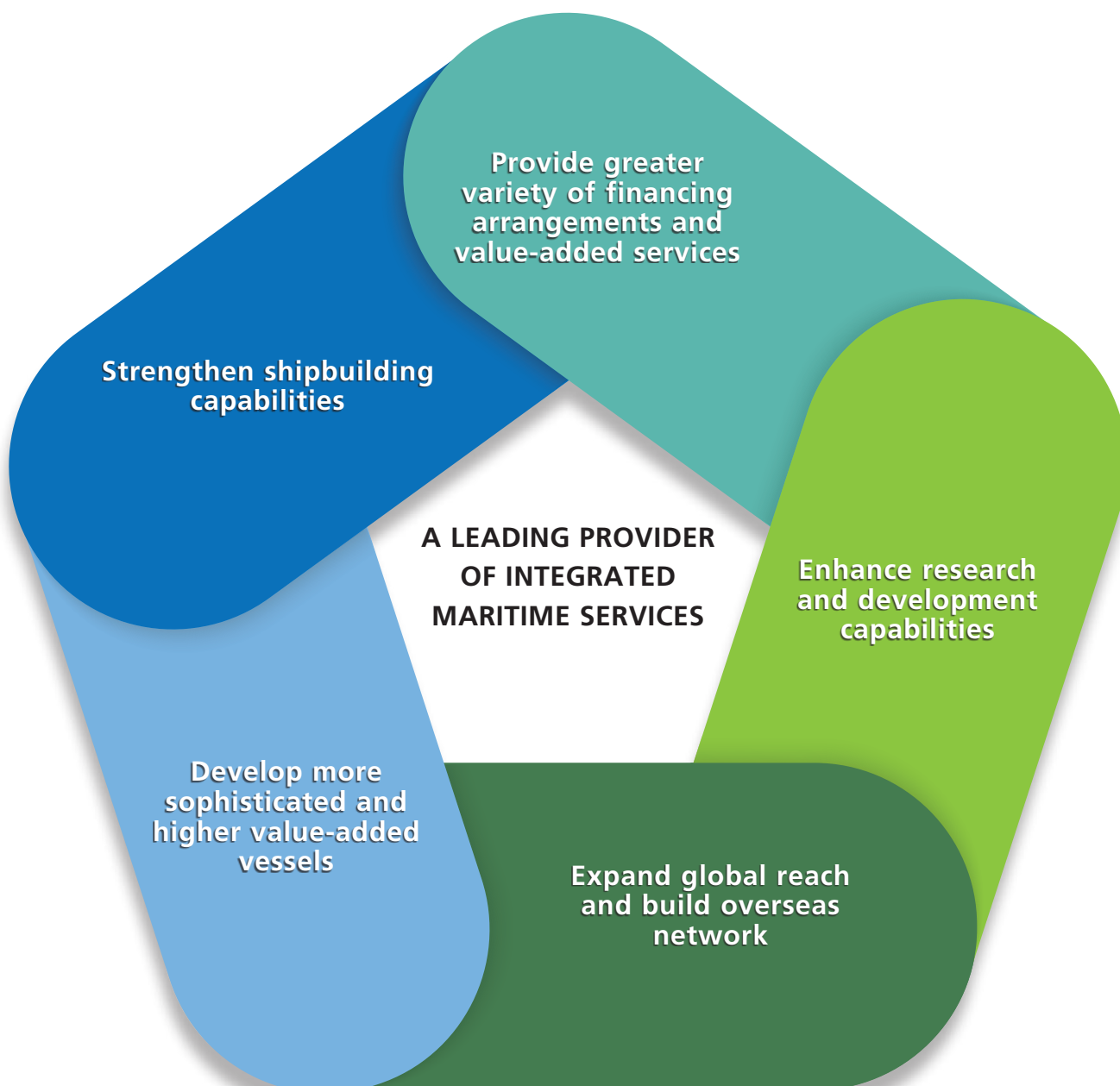
- Focus on governmental ship and relevant engineering projects in developing countries
- Work with shipyards to organize, negotiate and sign the subcontract of projects
- Provide services in financing, monitoring, coordination, customer service, on-site support, purchasing of giant facilities, problem 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 enhance our professional capabilities along with “Global Marketing, Research & Development (“R&D”), Supplies Purchasing” value chain, with a view to becoming a leading provider of integrated maritime services, to further upgrade the commercial value and ultimately enhance our shareholders’ value.



# CHAIRMAN'S MESSAGE



## DEAR SHAREHOLDERS,

The weak market conditions for the shipping and shipbuilding industries continued in 2016. Against the challenges, AVIC International Maritime Holdings Limited (the "Company" and together with its subsidiaries, the "Group") made significant progresses on multiple fronts. These included the enhancement of synergies between business segments, strengthened sales and marketing capabilities, securing of new orders, demonstration of capabilities in R&D and ship design, establishment of the AVIC brand, streamlining of operations, and improvement on operational quality and efficiency. Our consistent effort has led us through the thickness of the market downturn and borne fruit in terms of product upgrading, and we made our historical record in vessel delivery. I'm proud of the achievements that we made, and on behalf of the board of directors, I would like to extend my sincere gratitude to all employees of the Group.

## REVIEW ON 2016

In 2016, we made substantial effort in the expansion and penetration of the overseas market, with Europe, countries along the "One Belt, One Road", and other developing countries as a focus. Through providing comprehensive and integrated services from presales to post sales, the Group secured a total of 15 effective orders, with a total contract value of USD524 million. New orders included the 3100 lane meter and 2160 lane meter Ro-pax vessels, and 2500 lane meter Ro-Ro vessels that the Group obtained jointly with AVIC Weihai Shipyard Co., Ltd ("AVIC Weihai"), and two units of 16,300 DWT dual-fuel chemical tankers and two units of 7,999 DWT dual-fuel chemical tankers that the Group obtained jointly with AVIC Dingheng Shipyard Co., Ltd ("AVIC Dingheng"). With the chemical tanker orders, AVIC Dingheng further strengthened its leading position in the niche area in the market, ranked No.1 in China and No.3 in the world with its outstanding orderbook for small-medium size chemical tankers, and No. 1 in the world with its outstanding



orders for dual-fuel propelled vessel orders. Deltamarin, at the same time, furthered its track record in order taking with the vessel design contract for the largest mega passenger vessel in Germany in history. The order will keep Deltamarin's capacity highly utilized for the next two years.

Amid prolonged weak market sentiment for the shipping industry and heightened competition in the shipbuilding industry, the Group, together with the associate shipyards, delivered a total of 25 vessels of various types in its shipbuilding project management business in 2016.

We accelerated technological upgrading and the promotion of 3D vessel design in 2016, and assisted the associate yards in setting up the first design team for the innovative "authentic 3D" smart manufacturing of vessels. At the same time, we strengthened the capabilities in integrated research in 'smart manufacturing' and 'internet + coordinated manufacturing', and enhanced our leading position in vessel design.

We also assisted the associate shipyards in their upgrading towards 'high-technology, high-value added' products, so as to build up a solid foundation for sustained profitability in future. For AVIC Dingheng, it focused on small-medium size, high-end stainless chemical tankers and LNG carriers. It has constantly improved the environmental-friendly features, and reinforced its reputation in the market. For AVIC Weihai, it has achieved the breakthrough in the transition towards specialized vessels, such as Ro-pax.

We introduced innovative management framework and consolidated global resources. In order to improve operational quality and efficiency, we further streamlined our operations through removing redundant shareholding layers; through stringent cost control, we reduced management cost for various levels, and enhanced automation-supported efficiency and synergies between business segments. With the new project management committee for the RO-PAX project, the associate shipyards drew resources and expertise from industry veterans, and instated systematic control over key procedures, including planning, supply chain, design and synergy, safety and quality, and created a strong safeguard for the successful execution of projects.

## OUTLOOK

2016 was a year of challenges, which we faced with proactiveness and strength, and we are well-positioned to embrace the growth opportunities in 2017 and beyond.

In view of the uncertainties in geopolitics, global economy and the market conditions for the shipbuilding industry, we could still face some testing times in 2017. However, we remain committed to our vision and mission, and determined to tackle the challenges and move forward.

We aspire to become an integrated provider for the supply chain of the shipbuilding industry with strong competitive edge globally, and we will work hard to achieve this vision in 2017. We will put increased effort in global sales and marketing, R&D and procurement through product upgrading and quality/efficiency improvement, and provide clients with quality products with good value for money. In addition, we will create value with the extension of our technology and management expertise to external supply chain, and enhance our brand value.

We will further play out our strength in international trade, and continue to expand and penetrate China and overseas markets. Through improving the capabilities in technological services, we will focus on the R&D of energy-efficient, environmental friendly, highly-specialized and high-value-added vessels, introduce innovative vessel types that cater to the evolving requirement from customers and adhere to the product upgrading strategy. Stainless steel chemical tankers and Ro-Ro passenger vessels will be the flagship products for our promotion on the global market, and we will seek to maximize our order book.

We will improve on capital management and consider innovative financing options, and in turn improve capital efficiency and lower the financing cost. We will also achieve value creation through enhanced supply chain related services.

On behalf of the board of directors, I would like to express my sincere appreciation to the management team and employees for their dedication and commitment to the Group. Thank you, our business partners and customers, for your unwavering support, and I look forward to closer collaboration with you in the years to come. With continued effort, we strive to optimize our operational and financial performance in 2017 to return to shareholders. As the market has shown some signs of recovery, we are confident that the Group is well positioned to tap on increased business opportunities, and the future will only be brighter for the Group.

**DR. DIAO WEICHENG**

Executive Chairman

# 董事长致辞

2016年，尽管船舶航运业依然低潮不尽，但我们中航国际船舶在加强内部协同，增强市场开拓能力，接获新订单，展现技术开发和设计能力，创建公司品牌，瘦身健体，提质增效等方面都取得了亮丽的成绩。在不经意中，我们正穿越着重重雾霾，承接高端制造，打破交付记录。为此，我感到非常自豪。在此，我代表董事会，向公司全体员工的努力付出表示感谢。

2016年，我们奋力开拓国际市场，主攻欧洲、“一带一路”国家及第三世界国家船舶市场，提供从售前至售后的全方位综合服务，全年生效订单15艘，金额达5.24亿美元。其中，与合作船厂中航威海船厂有限公司一起相继斩获了3100米车道高端客滚船、2160米高端客滚船和2500米车道滚装船订单；与中航鼎衡造船有限公司一起承接了2艘16300吨双燃料化学品船和2艘7999吨化学品船订单，协助中航鼎衡在细分市场中站稳脚跟，中小型化学品船订单跃居“全国第一、全球第三”，双燃料推进项目订单更是“登顶全球”；德他马林也频传喜讯，屡获新订单，一举拿下了迄今为止德国最大的超大型客船设计合同，为今后两年提供了充足的设计工作量。

2016年，我们在航运市场持续疲软、新造船行业竞争激烈的严峻形势下，协助船厂向船东交付我们承接代理的各类船舶25艘。

2016年，我们快速推进技术升级，推广3D设计系统，协助合作船厂在中国首批组建了创新造船“真3D”智能制造的设计团队。同时，加强对船舶“智能制造”及“互联网+协同制造”的统一研究，以提升我们的设计领先能力。

2016年，我们尽力协助合作船厂，全力向“高技术、高附加值”产品转型，为公司未来长久的盈利能力夯实基础。中航鼎衡聚焦中小型高端不锈钢化学品船和液货船，不断提升产品的节能环保性能，进一步在业界树立良好口碑。中航威海在向客滚船、滚装船等特种船型转型方面已取得突破。

2016年，我们创新管理模式，整合国际资源。实施“瘦身健体、提质增效”，减少不必要的股权层级；控制并压缩公司各级管理成本；提升协同办公自动化水平，提高工作效率；协同合作船厂成立了RO-PAX项目的SC项目管理委员会、PMT项目管理小组，延揽中外业界经验丰富的专家，从计划管理、供应链管理、设计协同、安全管理、质量管理等多个关键流程进行严格把控，为项目的圆满完成创建强有力的管理后盾。

2016年，我们主动迎接市场挑战，为2017年乃至未来的发展积蓄了能量。

2017年，国际经济、船舶市场依然波谲云诡、风雨如磐，我们的发展仍然会经受考验。在这个时刻，我们满怀豪情，绝不彷徨，“不忘初心，继续前行”。

2017年，我们以“打造具有国际竞争力的船舶行业供应链服务商”为发展愿景，强化全球营销、研发设计及物资采购，通过产品转型升级和提质增效，为客户提供性能品质优良、价格合理的产品；通过技术输出和管理输出，提供外部供应链服务，提升公司商业价值。



2017年，我们以国际贸易为牵引发挥国际贸易优势，奋力开拓国际与国内市场。大力提升技术服务能力，研发设计节能、环保、高性能及高附加值船型，推进重点船型的研发、设计，持续开发适应客户需求和产品转型提升战略的新船型，加大不锈钢化学品船、客滚船等重点船型市场推广力度，促进重大项目签约生效。

2017年，我们要强化资金管理与创新融资方式，以提高资金使用效率和降低融资成本。我们还要提升供应链服务水平，开拓供应链服务，获取增值收益。

2017年，我们将通过艰苦不断的努力，力求获得良好的经营业绩，以回报股东。

春潮已然萌动，凤必起于中航船舶！我们期待下一季风雪激荡、流光溢彩！

董事长：刁伟程

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



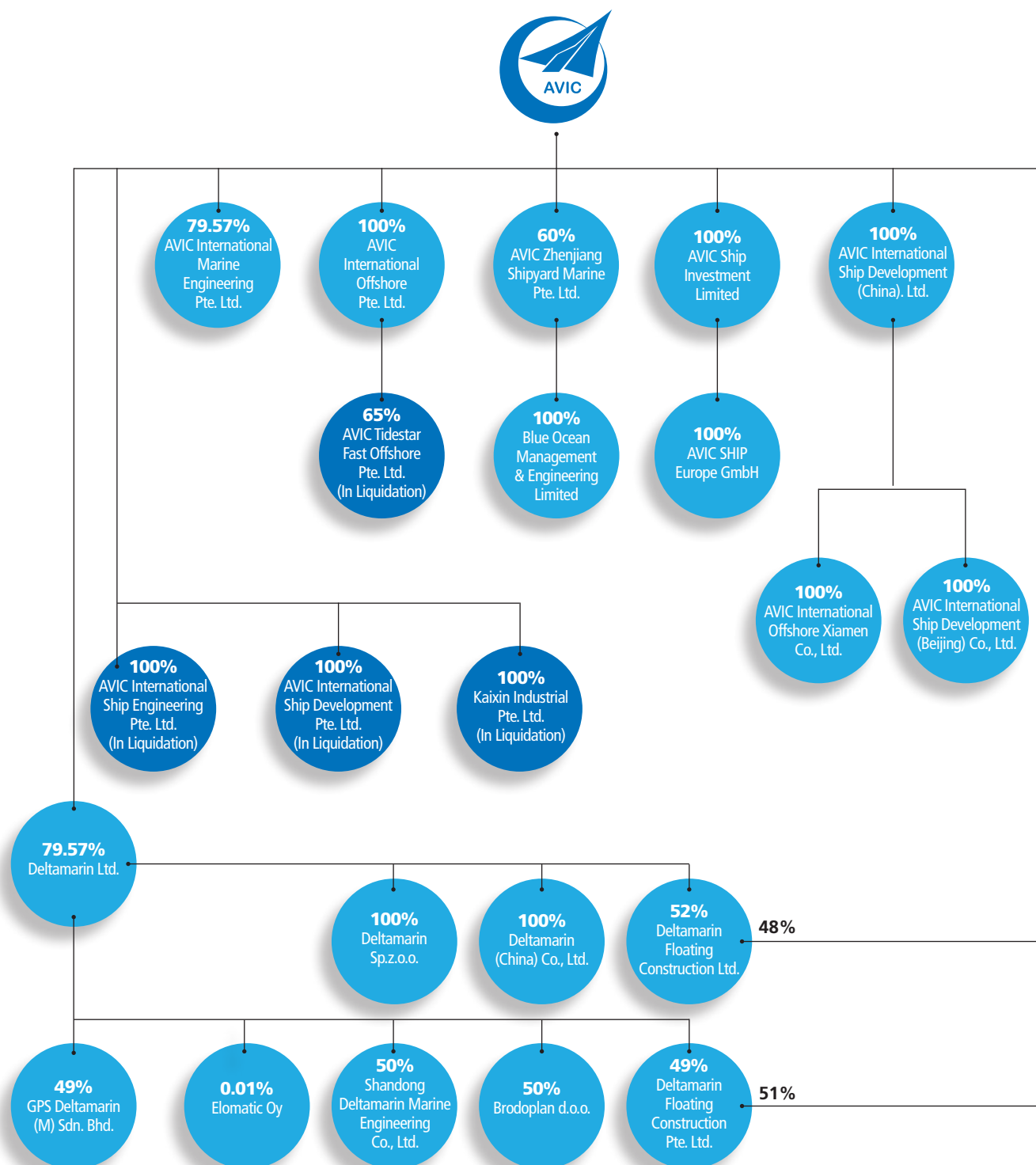




KEEPING  
**FOCUS**

STAYING  
**RESILIENT**

# CORPORATE STRUCTURE

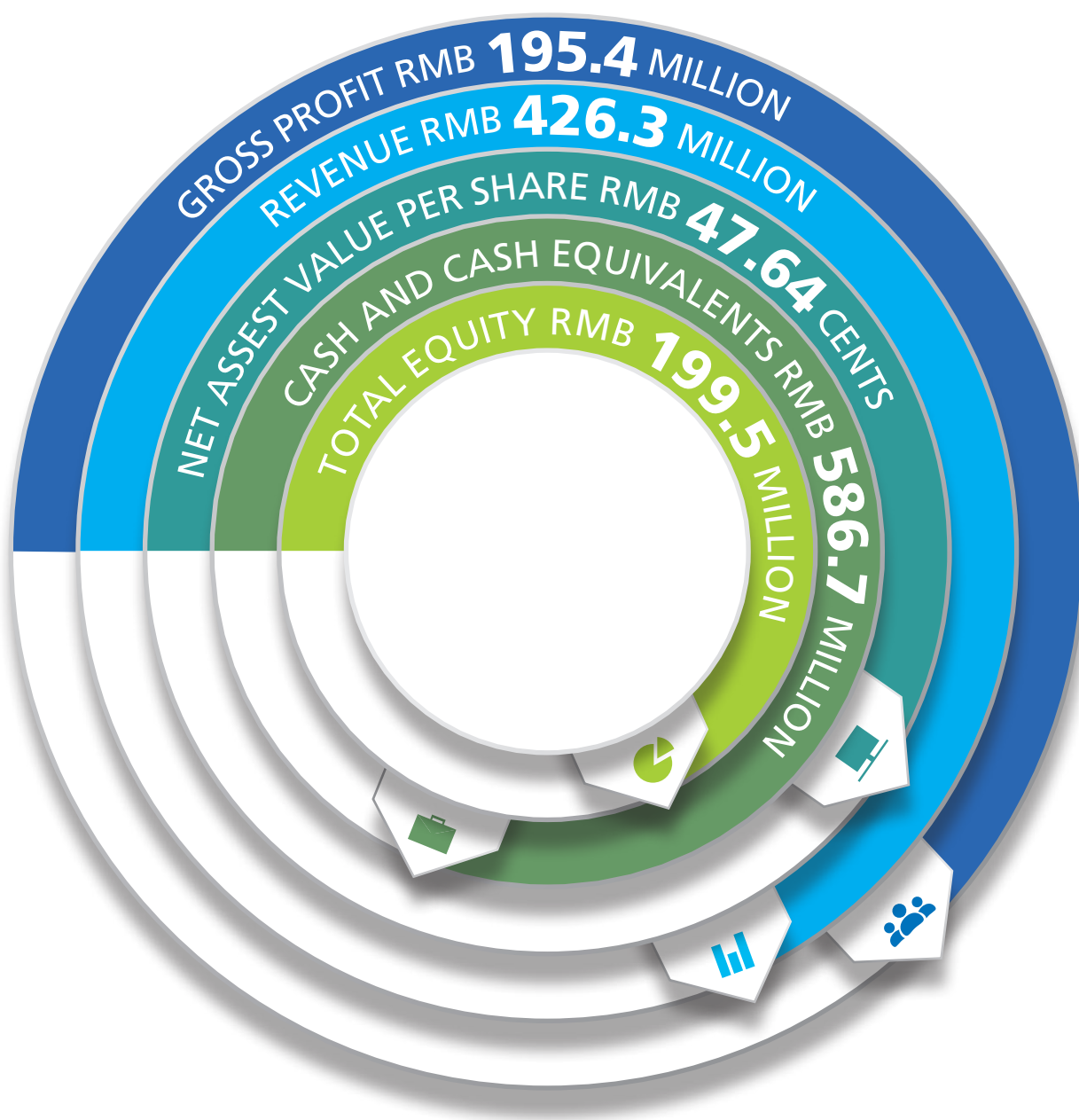


**Notes:**

In liquidation



# KEY HIGHLIGHTS IN FY2016



# OPERATIONAL & FINANCIAL REVIEW

## FINANCIAL SUMMARY

For the year (RMB'million)	FY2016	FY2015
Revenue	426.3	591.4
(Loss)/profit before income tax	(13.2)	8.9
(Loss)/profit for the year	(27.1)	(8.5)
At year end (RMB'million)		
Current assets	1,742.5	960.9
Non-current assets	254.6	218.4
Total assets	1,997.1	1,179.3
Current liabilities	1,287.6	339.6
Non-current liabilities	509.9	602.9
Total liabilities	1,797.6	942.5
Total equity	199.5	236.8
Cash and cash equivalents	586.7	356.4
Per Share Information (RMB cents)		
Basic earnings per share <sup>1</sup>	(10.01)	(1.47)
Net asset value per share <sup>1</sup>	47.64	61.10
Key Ratios		
Current ratio <sup>2</sup> (times)	1.4	2.8
Return on shareholders' equity <sup>3</sup> (%)	(13.6)	(3.6)
Return on assets <sup>4</sup> (%)	(1.4)	(0.7)

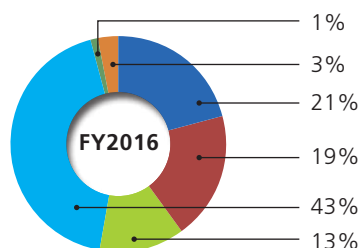
### Notes:

- 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 year/total equity
- 4 Defined as profit for the year/total assets

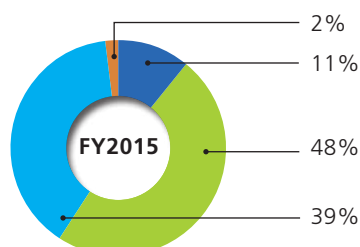
Revenue by type of services (RMB' million)	FY2016	FY2015
Ship-design fee income	184.8	230.0
Shipbuilding revenue	55.2	285.2
Service fee income	89.1	64.9
Sales of vessels	79.8	–
Finance lease income	4.0	–
Others	13.4	11.3
<b>Total revenue</b>	<b>426.3</b>	<b>591.4</b>



### REVENUE BY TYPE OF SERVICES

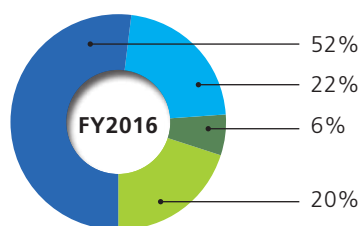


- Service fee income
- Sales of vessels
- Shipbuilding revenue
- Ship-design fee income
- Finance lease income
- Others

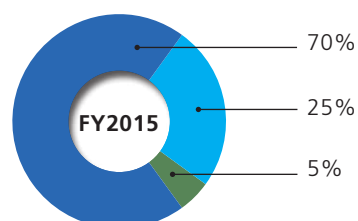


- Service fee income
- Shipbuilding revenue
- Ship-design fee income
- Others

### REVENUE BREAKDOWN BY GEOGRAPHICAL SEGMENT



- Asia
- Europe
- America
- Middle East



- Asia
- Europe
- America

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Group			
	FY2016	FY2015	Change
	(RMB'000)	(RMB'000)	(%)
Revenue	426,272	591,382	-28%
Cost of sales	(230,858)	(389,521)	-41%
Gross profit	195,414	201,861	-3%
Other income	7,073	16,095	-56%
Other losses – net	(11,428)	(6,593)	73%
Expenses			
– Distribution and marketing	(48,854)	(41,981)	16%
– Administrative	(127,741)	(138,366)	-8%
– Finance	(23,325)	(17,159)	36%
– Other	(4,972)	(6,489)	-23%
Share of profit of associated companies	679	1,524	-55%
<b>(Loss)/profit before income tax</b>	<b>(13,154)</b>	<b>8,892</b>	<b>-248%</b>
Income tax expense	(13,898)	(17,382)	-20%
<b>Loss after tax</b>	<b>(27,052)</b>	<b>(8,490)</b>	<b>219%</b>

#### REVENUE

The Group's revenue for the financial year ended 31 December 2016 ("FY2016") decreased 28% to RMB426.3 million. Asia remained as the Group's largest market, contributing 52% of the Group's revenue. This was supplemented by revenue from Europe, Middle East and America. The main drivers of the decreased in revenue was due to the shipbuilding construction service.

#### COST OF SALES & GROSS PROFIT

Cost of sales decreased 41% to RMB230.9 million in line with the decreased in revenue. Gross margin increased to 46% in FY2016 compared to 34% in FY2015 due to greater contribution from higher margin shipbuilding project management service and finance lease income.

#### OTHER INCOME

Other income consist of interest income and government grants. The decreased in other income from RMB16 million to RMB7 million in FY2016 was mainly due to decrease in government grants.

#### OTHER LOSSES – NET

The increase in other losses was due to foreign exchange losses from receivables denominated in SGD which had weakened against USD during the financial year.

#### DISTRIBUTION AND MARKETING EXPENSES

Distribution and marketing expenses increased 16% to RMB48.8 million and this was mainly due to the hiring of additional technical staffs for the Stena project and expansion of marketing service department.

#### ADMINISTRATIVE EXPENSES

Administrative expenses decreased RMB10.6 million to RMB127.7 million in FY2016. The decrease was mainly due to lower consultancy and office expenses incurred during the financial year.

#### OTHER OPERATING EXPENSES

Other operating expenses decreased from RMB6.5 million in FY2015 to RMB5.0 million in FY2016. This was mainly due to the decrease in the allowance for doubtful debts and bad debts written off during the financial year.

# OPERATIONAL & FINANCIAL REVIEW

## FINANCE EXPENSES

Finance expenses increased RMB6.2 million or 36% to RMB23.3 million in FY2016. This was mainly due to higher interest rates and increased in borrowings during the financial year.

## SHARE OF PROFIT OF ASSOCIATED COMPANIES

In FY2016, the Group recorded a share of profit from associated companies of RMB0.7 million compared to RMB1.5 million in FY2015.

## INCOME TAX EXPENSE

Included in the income tax expense of RMB13.9 million in FY2016 was RMB6.6 million of tax on gains arising from the restructuring of subsidiaries under common control within the group.

## CURRENT ASSETS

As at 31 December 2016, the Group's cash and cash at bank balances amounted to RMB495.2 million, representing an increase of RMB178.2 million from RMB317.0 million as at 31 December 2015, as more borrowings were secured to finance working capital requirements. Pledged bank deposits increased RMB52.2 million to RMB91.6 million to fund business activities arising from more shipbuilding project management contracts secured.

Trade receivables decreased RMB122.1 million to RMB114.8 million as at 31 December 2016. This amount consist of RMB25.3 million due from customers on construction contracts, RMB57.6 million arising from ship-design and project consultancy services, and RMB31.8 million arising from shipbuilding project management services.

Other receivables was RMB748.1 million as at 31 December 2016. The increased in other receivables was mainly due to RMB602.0 million receivables from related party shipyards, being amounts extended to the shipyards to finance the construction of vessels pending receipt of the final payments from the ship-owners, and prepayment of RMB34.7 million for the purchase of shipbuilding material.

Inventories has decreased to RMB279.0 million as at 31 December 2016 from RMB319.1 million as at 31 December 2015. The decrease was mainly due to the cancellation of two vessels under construction at a shipyard and the sale of two completed tug boats delivered to a buyer under a finance lease agreement.

Finance lease receivables as at 31 December 2016 amounted to RMB13.8 million and were due to the sale of two tug boats under a finance lease agreement.

## NON-CURRENT ASSETS

Property, plant and equipment comprised motor vehicles, computers and software, furniture and fixtures, and office equipment.

Investment in associated companies represented the total amount of investment in non-controlling entities held by the Deltamarin Group.

Intangible assets comprised software licenses, brand name and technical knowhow. Intangible assets amounted to RMB75.0 million as at 31 December 2016, a decrease of RMB1.7 million from FY2015. The decrease was due to the amortisation of RMB5.2 million, partially offset by the addition of intangible assets amounting to RMB1.0 million and a translation gain of RMB2.5 million arising from the appreciation of the Euro against RMB.

The Group's goodwill had arisen from the acquisition of the Deltamarin Group and the amount was recognised based on the purchase price allocation exercise. The goodwill amount was RMB106.8 million as at 31 December 2016. The amount was RMB3.3 million higher than the RMB103.5 million as at 31 December 2015. The increase was due to a translation gain arising from the appreciation of Euro against the RMB.

Deferred tax assets represented the timing differences between accounting and tax bases, and were mainly derived from the operating subsidiaries in China.

## BALANCE SHEETS

	Group	
	FY2016	FY2015
	(RMB'000)	(RMB'000)
Current assets		
Cash and cash equivalents	586,737	356,364
Trade and other receivables	862,932	285,434
Finance lease receivables	13,832	–
Inventories	278,962	319,141
Non-current assets		
Trade and other receivables	11,167	26,837
Finance lease receivables	50,551	–
Investment in associated companies	2,504	1,773
Property, plant and equipment	7,006	8,648
Intangible assets	181,817	180,204
Available-for-sale financial assets	11	11
Deferred tax assets	1,545	919
<b>Total assets</b>	<b>1,997,064</b>	<b>1,179,331</b>
Current liabilities		
Trade and other payables	563,831	151,378
Borrowings	703,520	174,514
Finance lease liabilities	1,042	935
Current income tax liabilities	19,241	12,787
Non – current liabilities		
Borrowings	492,240	583,471
Finance lease liabilities	755	831
Deferred tax liabilities	16,928	18,535
Trade and other payables	–	35
<b>Total liabilities</b>	<b>1,797,557</b>	<b>942,486</b>
Capital and reserves attributable to equity holders of the Company		
Share capital	101,237	101,237
Other reserves	16,783	24,684
Retained profits	18,020	48,572
Non-controlling interest	63,467	62,352
<b>Total equity</b>	<b>199,507</b>	<b>236,845</b>

Non-current portion of finance lease receivables as at 31 December 2016 amounted to RMB50.6 million which arose from the sale of two tug boats under a finance lease agreement.

#### CURRENT LIABILITIES

Short term loans increased by RMB529.0 million in FY2016 as more bank loans were obtained to finance working capital requirements.

Trade payables amounted to RMB67.5 million as at 31 December 2016 compared to RMB3.9 million as at 31 December 2015. The increase was mainly attributed to RMB55.5 million from ship-design business, and RMB10.5 million from procurement of shipbuilding equipment.

Advances received represented amounts received on behalf of shipyards for the purpose of acquiring tools and equipment, which amounted to RMB253.3 million as compared to RMB37.2 million as at 31 December 2015.

Other payables and accruals consisted of VAT taxes payable, sales tax and surcharges payable, accrued operating and office expenses, and amount due to related parties. Other payables and accruals increased by RMB132.6 million, attributed mainly to RMB62.0 million received on behalf of shipyard under shipbuilding management project, and accrual of ship building cost amounting to RMB67.9 million.

Income tax payable increased by RMB6.4 million from RMB12.8 million to RMB19.2 million as at 31 December 2016 mainly due to a provision of RMB6.6 million tax on gains arising from the restructuring of subsidiaries under common control within the group and partially offset by payment of business tax during the year.

#### NON-CURRENT LIABILITIES

Long-term portion of loan represented that portion of the loans raised that were repayable after 12 months as at 31 December 2016. Long-term borrowings decreased by RMB91.2 million to RMB492.2 million as at 31 December 2016.

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 the Deltamarin Group's assets.

#### CAPITAL RESERVE

The amount of capital reserve as at 31 December 2016 comprised a deemed contribution from the former immediate holding company as a result of initial recognition of shareholder's loan at fair value during the financial year ended 31 December 2012. There was no movement in capital reserve during the financial year ended 31 December 2016.

#### NET CASH USED IN OPERATING ACTIVITIES

Cash used in operating activities amounted to RMB169.3 million in FY2016 compared to RMB97.3 million used in FY2015. The cash outflow from operating activities was attributed mainly to the increase in inventories and trade and other payables. This was partially offset by the decrease in trade and other receivables.

#### NET CASH USED IN INVESTING ACTIVITIES

Cash outflow used in investing activities amounted to RMB1.7 million in FY2016, compared to cash outflow of RMB26.0 million in FY2015. The decrease in cash outflow was mainly due to net cash paid for acquisition of AVIC Zhenjiang Shipyard Marine Pte. Ltd ("AZM") in FY2015 and there was no acquisition of subsidiary in FY2016.

#### NET CASH PROVIDED BY FINANCING ACTIVITIES

Net cash inflow generated from financing activities was RMB334.7 million in FY2016, compared to RMB235.3 million in FY2015. This was a result of new bank loans raised amounting to RMB586.9 million, and loans from non-controlling interest and related corporation of RMB54.9 million and RMB21.9 million respectively. The cash inflow was partially offset by the repayment of borrowings of RMB251.2 million, and increased in cash pledged with bank of RMB52.12million.

### CONSOLIDATED STATEMENT OF CASH FLOWS

	Group	
	FY2016 (RMB'000)	FY2015 (RMB'000)
Net cash used in operating activities	(169,317)	(97,296)
Net used in investing activities	(1,718)	(26,049)
Net cash provided by financing activities	334,685	235,274
Net increase in cash and cash equivalents	163,650	111,929
<b>Cash and cash equivalents at end of the financial year</b>	<b>495,184</b>	<b>316,963</b>









# PROSPECTS

# IN INNOVATION



# 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.

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

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

Dr Diao is a certified Senior Engineer accredited by the Shenzhen city government. He graduated from 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. 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. (In Liquidation), AVIC International Ship Development Pte. Ltd. (In Liquidation), Kaixin Industrial Pte. Ltd. (In Liquidation), Deltamarin Floating Construction Pte. Ltd., AVIC Tidestar Fast Offshore Pte. Ltd. (In Liquidation), AVIC Zhenjiang Shipyard Marine Pte. Ltd. and Deltamarin Ltd.

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

From 2001 to 2004, Mr Li first served as Deputy Manager, Manager, and thereafter as Assistant to General Manager of AVIC INT'L Xiamen.

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

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



**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 28 April 2016.

Mr Wang is currently the Deputy General Manager and Chief Accountant of AVIC International Shenzhen Co., Ltd. ("**AVIC INT'L Shenzhen**"). 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

# BOARD OF DIRECTORS

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 and was last re-elected to our Board as Non-Executive Director on 28 April 2016.

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 KWE** 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 the following unlisted companies: Pheim Asset Management (Asia) Pte Ltd., Pheim Sicav-SIF, T3Z Advisory & Consultancy Pte. Ltd. and Kaixin Industrial Pte. Ltd. (In Liquidation).

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 in Bachelor of Engineering (Industrial) (First Class Honours) and in 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 Cimec Ltd. and InnoTek Limited. 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 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 28 April 2016.

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, which is a corporation licensed by the Securities and Futures Commission of Hong Kong ("**SFC**"). She is also serving as an independent director of several listed companies on the Hong Kong Stock Exchange, namely, China Engene International (Holdings) Limited, Cosmopolitan International Holdings Limited,

Regal Hotels International Holdings Limited, Shimao Property Holdings Limited and Shougang Concord International Enterprises Company Limited.



# BOARD OF DIRECTORS

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

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

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



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

In 2016, the Group continued to provide financial support to Xianghua Village in Shanghai. The funding effectively alleviated the financial constraints of the village and assisted the village in improvement of its infrastructure.

We encourage our employees to enroll in volunteer works, and give back to community by serving local needs. The events we organize and participate in include offering Anti-Fraud training to aged people of the local community, volunteer work as traffic coordinator and participation in the "Race Against Cancer" charity run organized by the Singapore Cancer Society in support of its fund-raising efforts for cancer patients.

## ENVIRONMENTAL AWARENESS

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





## BOARD OF DIRECTORS

### DIAO WEICHENG

(Executive Chairman)

### SUN YAN

(Executive Director and  
Chief Executive Officer)

### LI MEIJIN

(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

8 Robinson Road  
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Singapore 048544  
Tel: (65) 6443 4920  
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## PRINCIPAL PLACE OF BUSINESS

26-28th Floor, Catic Mansion  
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 financial manipulation, and helps to protect our stakeholders’ interests and contribute to the long term sustainability of the Company. This also helps the Company create long-term value and returns for our shareholders.

## Corporate Governance Report

The Company is guided in its corporate governance practices by the applicable laws, rules and regulations, the Listing Manual Section B: Rules of Catalist issued by the SGX-ST (the “**Catalist Rules**”) 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 Catalist Rules.

For the financial year ended 31 December 2016 (“**FY2016**”), 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 (“ <b>CEO</b> ”)
Li Meijin	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 Catalist Rules. All newly appointed directors also undergo an orientation programme to familiarise them with the Group's businesses strategies, operations and corporate governance practices. Directors have the opportunity to visit the Group's operational facilities and meet with the Group's management (the "**Management**") to gain a better understanding of the Group's business operations.

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

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

## ***Directors' Access to Information and Decision-making***

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

Our Directors actively discuss, deliberate and appraise matters requiring their attention during regular meetings held in the financial year. If required, time is set aside before or after scheduled Board meetings for discussion amongst the Directors without the presence of 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 FY2016 are set out as follows:

	Board	Board Committees		
		Audit	Nominating	Remuneration
<b>Total number of meetings held in FY2016</b>	4	4	1	1
<b>Number of meetings attended</b>				
Diao Weicheng	4/4	N/A	1/1	1 <sup>(1)</sup> /1
Sun Yan	4/4	N/A	N/A	N/A
Li Meijin	4/4	4 <sup>(1)</sup> /4	N/A	N/A
Huang Guang <sup>(2)</sup>	1/4	N/A	N/A	N/A
Liu Aiyi <sup>(3)</sup>	1/4	N/A	N/A	N/A
Wang Mingchuan	1/4	N/A	N/A	N/A
Zhong Sijun	1/4	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	2/4	N/A	1 <sup>(1)</sup> /1	1 <sup>(1)</sup> /1

N/A: Not applicable

(1) Attended the meetings as an invitee.

(2) Mr Huang Guang resigned from his office as a Non-Executive Director on 19 December 2016.

(3) Mr Liu Aiyi resigned from his office as a Non-Executive Director on 19 December 2016.

## ***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.

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 operations;
- (b) managing acquisitions, disposals and transfers 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;



# REPORT ON CORPORATE GOVERNANCE

- (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 nine (9) Directors, of whom four (4) 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 the Management with a diverse, professional and objective perspective on issues. The independence of each Director is reviewed annually by the NC. Each Independent Director is required to complete a Confirmation of Independence annually to confirm his independence based on the guidelines as set out in the Code.

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.

# REPORT ON CORPORATE GOVERNANCE

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 function 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 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.

# REPORT ON CORPORATE GOVERNANCE

As the Chairman, Dr Diao, is not an independent director, Mr Teng Cheong Kwee is appointed as the Lead Independent Director to enhance the independence of the Board. As Lead Independent Director, Mr Teng 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:

- (a) conducting an annual review of the size, composition and core competencies of and skills required by the Board and the Board Committees;
- (b) making recommendations to the Board on the appointment of new Executive and Non-Executive Directors, including making recommendations on the composition of the Board generally and the balance between Executive and Non-Executive Directors appointed to the Board;
- (c) reviewing, assessing and recommending nominee(s) or candidate(s) for appointment or election to the Board, having regard to his/her qualifications, competency and whether or not he/she is independent and in the case of a re-nomination, to his/her contribution and performance (e.g. attendance, preparedness, participation and candour);
- (d) determining, on an annual basis and as and when circumstances require, if a Director is independent;
- (e) reviewing and approving any new employment of related persons and the proposed terms of their employment;
- (f) reviewing the Board succession plans for directors, in particular, the Chairman and CEO;
- (g) assessing the effectiveness of the Board as a whole and the contribution of each individual Director to the effectiveness of the Board, and to decide how the Board's performance may be evaluated and propose objective performance criteria;
- (h) deciding whether or not a Director is able to and has been adequately carrying out his/her duties as a Director of the Company, particularly when he/she has multiple board representations and other principal commitments; and
- (i) reviewing training and professional development programs for the Board on an annual basis.



# REPORT ON CORPORATE GOVERNANCE

When 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 sourced through external professional search firms. The NC will meet or conduct telephone interviews with the proposed candidates to assess suitability and ensure that the candidates are suitable before nominating them to the Board for approval and appointment as Directors.

There are no alternate directors appointed to the Board.

New Directors are only appointed on Board after the NC has reviewed and considered the skills, qualifications and experience of the nominated Director. The NC further considers factors such as the ability of the prospective candidate to contribute to the discussions of the Board and the Board Committees, taking into consideration the composition of the Board and the mix of expertise, skills and attributes of existing Directors. 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 Sun Yan, Mr Teng Cheong Kwee and Mr Li Meijin, being amongst the longest serving directors since their last re-election, shall retire and stand for re-election.

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

# REPORT ON CORPORATE GOVERNANCE

## 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 2016) and held over the preceding 3 years (from 31 December 2013 to 31 December 2016), 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> <p>Nil</p> <p><u>Others</u></p> <ul style="list-style-type: none"> <li>• AVIC International Ship Development Pte. Ltd. (In Liquidation)*</li> <li>• Kaixin Industrial Pte. Ltd. (In Liquidation)*</li> <li>• AVIC International Ship Engineering Pte. Ltd. (In Liquidation)*</li> <li>• AVIC International Marine Engineering Pte. Ltd.</li> <li>• Deltamarin Oy</li> <li>• AVIC International Ship Development (Beijing) Co., Ltd.</li> <li>• AVIC Weihai Shipyard Co., Ltd.</li> <li>• AVIC Weihai Import and Export Co., Ltd.</li> <li>• AVIC International Shanghai Company Limited</li> <li>• Schneider Shanghai Low Voltage Terminal Apparatus Co., Ltd.</li> </ul> <p><u>Note:</u></p> <p>* The companies are in the process of being liquidated pursuant to the proposed intragroup restructuring exercise and the proposed intragroup restructuring exercise in relation to the Deltamarin Group announced by the Company on 12 August 2016 and 20 October 2016, respectively.</p>	<p><i>Present</i></p> <ul style="list-style-type: none"> <li>• AVIC International Holding Corporation (Executive Vice President)</li> </ul>
<i>In the Past 3 Years</i>		
	<p><u>Listed Companies</u></p> <ul style="list-style-type: none"> <li>• FIYTA Holdings Ltd.</li> <li>• Rainbow Department Store Co., Ltd.</li> </ul> <p><u>Others</u></p> <ul style="list-style-type: none"> <li>• AVIC International Marine Engineering (Lux), S.à.r.l.**</li> <li>• Shennan Circuit Co., Ltd.</li> </ul> <p><u>Note:</u></p> <p>** As announced on 6 January 2017, the company was dissolved pursuant to the proposed intragroup restructuring exercise in relation to the Deltamarin Group announced by the Company on 20 October 2016.</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"> <li>• AVIC International Marine Engineering Pte. Ltd.</li> <li>• AVIC International Offshore Pte. Ltd.</li> <li>• AVIC Weihai Shipyard Co., Ltd.</li> <li>• AVIC Ship (Xiamen) Co., Ltd.</li> <li>• AVIC International Ship Development (Beijing) Co., Ltd.</li> <li>• AVIC International Ship Development (China). Ltd.</li> <li>• AVIC Dingheng Shipbuilding Co., Ltd.</li> <li>• Deltamarin Oy</li> <li>• China National Aero-Technology Corporation Shanghai Limited Liability Company</li> <li>• Hong Kong AVIC International Shanghai Company Limited</li> <li>• AVIC International Shanghai Co., Ltd.</li> <li>• JETSKY Shipping Development Limited</li> <li>• EARLY SUN Shipping Development Limited</li> <li>• ARTIS Shipping Development Limited</li> <li>• ARROW Shipping Development Limited</li> <li>• ANVIC Shipping Development Limited</li> <li>• Porkgo Investment Limited</li> <li>• Polytek Investment Limited</li> <li>• Polyvision Investment Limited</li> <li>• Huayu Enterprises Limited</li> <li>• Henkin Investment Limited</li> </ul>	<p><i>Present</i></p> <ul style="list-style-type: none"> <li>• AVIC International Maritime Holdings Limited (CEO)</li> <li>• AVIC International Ship Development (China). Ltd. (General Manager)</li> </ul>
	<p><i>In the Past 3 Years</i></p> <p><u>Listed Companies</u> Nil</p> <p><u>Others</u></p> <ul style="list-style-type: none"> <li>• AVIC International Ship Development (Guangzhou) Co., Ltd.**</li> </ul>	
	<p><u>Note:</u></p> <p>** As announced on 9 November 2016, the company was deregistered as it has become inactive since 2014.</p>	



# REPORT ON CORPORATE GOVERNANCE

Name	Directorships	Major Appointments (other than Directorships)
Mr Li Meijin	<p><i>Present</i></p> <p><u>Listed companies</u> Nil</p> <p><u>Others</u></p> <ul style="list-style-type: none"> <li>• AVIC International Ship Development Pte. Ltd. (In Liquidation)*</li> <li>• Kaixin Industrial Pte. Ltd. (In Liquidation)*</li> <li>• AVIC International Ship Engineering Pte. Ltd. (In Liquidation)*</li> <li>• AVIC International Marine Engineering Pte. Ltd.</li> <li>• Deltamarin Oy</li> <li>• Deltamarin Floating Construction Pte. Ltd.</li> <li>• AVIC International Offshore Pte. Ltd.</li> <li>• AVIC Tidestar Fast Offshore Pte. Ltd. (In Liquidation)*</li> <li>• AVIC Zhengjiang Shipyard Marine Pte. Ltd.</li> <li>• AVIC International Offshore Xiamen Co., Ltd.</li> <li>• Blue Ocean Ship Management &amp; Engineering Limited</li> </ul> <p><u>Note:</u> * The companies are in the process of being liquidated pursuant to the proposed intragroup restructuring exercise and the proposed intragroup restructuring exercise in relation to the Deltamarin Group announced by the Company on 12 August 2016 and 20 October 2016, respectively.</p>	<p><i>Present</i></p> <ul style="list-style-type: none"> <li>• AVIC International Offshore Pte. Ltd. (General Manager)</li> <li>• AVIC International Offshore Xiamen Co., Ltd. (General Manager)</li> </ul>
<i>In the Past 3 Years</i>		
	<p><u>Listed Companies</u> Nil</p> <p><u>Others</u></p> <ul style="list-style-type: none"> <li>• AVIC International Marine Engineering (Lux), S.à.r.l.**</li> </ul> <p><u>Note:</u> ** As announced on 6 January 2017, the company was dissolved pursuant to the proposed intragroup restructuring exercise in relation to the Deltamarin Group announced by the Company on 20 October 2016.</p>	

# REPORT ON CORPORATE GOVERNANCE

Name	Directorships	Major Appointments (other than Directorships)
Mr Wang Mingchuan	<p><i>Present</i></p> <p><u>Listed companies</u></p> <ul style="list-style-type: none"> <li>• FIYTA Holdings Ltd.</li> <li>• Tianma Microelectronics Co., Ltd.</li> <li>• AVIC Real Estate Co., Ltd.</li> <li>• Rainbow Department Store Co., Ltd.</li> </ul> <p><u>Others</u></p> <ul style="list-style-type: none"> <li>• Shennan Circuit Co., Ltd.</li> </ul> <p><i>In the Past 3 Years</i></p> <p>Nil</p>	<p><i>Present</i></p> <ul style="list-style-type: none"> <li>• AVIC International Shenzhen Co., Ltd. (Deputy General Manager and Chief Accountant)</li> </ul>
Mr Zhong Sijun	<p><i>Present</i></p> <p><u>Listed companies</u></p> <ul style="list-style-type: none"> <li>• FIYTA Holdings Ltd.</li> <li>• Tianma Microelectronics Co., Ltd.</li> <li>• AVIC Real Estate Co., Ltd.</li> <li>• Rainbow Department Store Co., Ltd.</li> </ul> <p><u>Others</u></p> <ul style="list-style-type: none"> <li>• Shennan Circuits Co., Ltd.</li> </ul> <p><i>In the Past 3 Years</i></p> <p>Nil</p>	<p><i>Present</i></p> <ul style="list-style-type: none"> <li>• AVIC International Holdings Limited (Company Secretary)</li> </ul>
Mr Teng Cheong Kwee	<p><i>Present</i></p> <p><u>Listed companies</u></p> <ul style="list-style-type: none"> <li>• Techcomp (Holdings) Ltd</li> <li>• Memtech International Ltd</li> <li>• First Resources Ltd</li> <li>• AEI Corporation Ltd</li> </ul> <p><u>Others</u></p> <ul style="list-style-type: none"> <li>• Pheim Asset Management (Asia) Pte Ltd.</li> <li>• Pheim Sicav-SIF</li> <li>• T3Z Advisory &amp; Consultancy Pte. Ltd.</li> <li>• Kaixin Industrial Pte. Ltd. (In Liquidation)*</li> </ul> <p><u>Note:</u></p> <p>* The company is in the process of being liquidated pursuant to the proposed intragroup restructuring exercise announced by the Company on 12 August 2016.</p> <p><i>In the Past 3 Years</i></p> <p><u>Listed Companies</u></p> <p>Nil</p> <p><u>Others</u></p> <ul style="list-style-type: none"> <li>• StatsChipPac Ltd</li> <li>• Junma Tyre Cord Company Ltd</li> </ul>	<p><i>Present</i></p> <p>Nil</p>

# REPORT ON CORPORATE GOVERNANCE

Name	Directorships	Major Appointments (other than Directorships)
Mr Chong Teck Sin	<p><i>Present</i></p> <p><u>Listed companies</u></p> <ul style="list-style-type: none"> <li>• Changan Minsheng APLL Logistics Co., Ltd.</li> <li>• Cimec Ltd.</li> <li>• InnoTek Limited</li> <li>• Accordia Golf Trust Management Pte. Ltd. (trustee-manager of Accordia Golf Trust)</li> </ul> <p><u>Others</u></p> <p>Cimec Construction &amp; Engineering Singapore Pte Ltd.</p>	<p><i>Present</i></p> <p>Nil</p>
	<p><i>In the Past 3 Years</i></p> <p>Nil</p>	
Mr Wang Puqu	<p><i>Present</i></p> <p>Nil</p>	<p><i>Present</i></p> <ul style="list-style-type: none"> <li>• Peking University (Professor, School of Government)</li> </ul>
	<p><i>In the Past 3 Years</i></p> <p>Nil</p>	
Ms Alice Lai Kuen Kan	<p><i>Present</i></p> <p><u>Listed companies</u></p> <ul style="list-style-type: none"> <li>• China Engerine International (Holdings) Limited</li> <li>• Cosmopolitan International Holdings Limited</li> <li>• Regal Hotels International Holdings Limited</li> <li>• Shimao Property Holdings Limited</li> <li>• Shougang Concord International Enterprises Company Limited</li> </ul> <p><u>Others</u></p> <ul style="list-style-type: none"> <li>• Asia Investment Management Limited</li> <li>• Asia Investment Corporate Management Limited</li> <li>• Asia Investment Group International Holdings Limited</li> <li>• Gladstone Investments Limited</li> <li>• Van Hoff Limited</li> </ul>	<p><i>Present</i></p> <p>Nil</p>
	<p><i>In the Past 3 Years</i></p> <p><u>Listed Companies</u></p> <p>Nil</p> <p><u>Others</u></p> <ul style="list-style-type: none"> <li>• Asia Investment Research Limited</li> </ul>	



# REPORT ON CORPORATE GOVERNANCE

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 the Director's participation in the Company, including his contributions at and outside meetings of the Board and relevant Board Committee and his attendance at such meetings. 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.

## 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 Board discussed the findings, including issues pertaining to board size and composition and succession planning. The primary objective of the board evaluation exercise is to provide a platform for the Board and the Board Committees members to provide constructive feedback on the board processes and procedures and the effectiveness of the Board and the Board Committees.

Based on the NC's review, 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.

# REPORT ON CORPORATE GOVERNANCE

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

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

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

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

## 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.

# REPORT ON CORPORATE GOVERNANCE

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, and taking into account remuneration policies applicable to companies under the parent group. Executive Directors do not receive any directors' fees but are remunerated as members of the Management. The RC reviews the compensation annually and ensures that the remuneration of the Executive Directors and key management personnel is commensurate with their performance and that of the Company, giving due regard to the financial and commercial health and business needs of the Group.

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

The Independent Directors receive directors' fees, 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 FY2016 by percentage is, as follows:

Remuneration bands	Performance		Directors’		Other Benefits	Total
	Salary	Bonus	Fees	Allowances		
	%	%	%	%	%	%
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 <sup>(1)</sup>	N/A	N/A	N/A	N/A	N/A	N/A
Liu Aiyi <sup>(2)</sup>	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	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

Note:

(1) Mr Huang Guang resigned as Non-Executive Director of the Company on 19 December 2016.

(2) Mr Liu Aiyi resigned as Non-Executive Director of the Company on 19 December 2016.

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.

# REPORT ON CORPORATE GOVERNANCE

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

For FY2016, 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 FY2016 (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 FY2016 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 FY2016 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 FY2016. "Immediate family member" means the spouse, child, adopted child, stepchild, brother, sister and parent.

## 10. ACCOUNTABILITY AND AUDIT

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

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

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

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

## 11. RISK MANAGEMENT AND INTERNAL CONTROLS

Principle 11: The Board is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

The Group's internal controls and systems are designed to provide reasonable assurance as to the integrity and reliability of the financial information and to safeguard and maintain accountability of assets. Procedures are in place to identify major business risks and evaluate potential financial effects, as well as for the authorisation of capital expenditure and investments.

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

In addition, the external auditors of the Company, as part of their annual audit of the Group's financial statements, considered the Group's system of internal controls, including accounting procedures, internal controls and other aspects of the Group's business covered by their audit procedures. Any material weaknesses in internal controls, together with recommendations for improvement, are reported to the AC. In connection with the external audit of the financial statements of the Group for FY2016, 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.

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.



# REPORT ON CORPORATE GOVERNANCE

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

The Board notes that, despite their best efforts to implement risk management systems, no cost-effective system of internal control can provide absolute assurance against the occurrence of material errors, poor judgment in decision-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 Catalist Rules and any other relevant statutory or regulatory requirements;
- (c) reviewing and reporting to the Board at least annually on the adequacy and effectiveness of the internal control procedures implemented by the Group, determining the scope of internal audit examinations and ensuring co-ordination between the internal/external auditors and the Management, and reviewing the assistance given by the Management to the auditors, and discussing problems and concerns, if any, arising from audits, and any matters which the auditors may wish to discuss (in the absence of the Management, where necessary);

# REPORT ON CORPORATE GOVERNANCE

- (d) reviewing and discussing with the external auditors any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on our Group's operating results or financial position, and the Management's response;
- (e) considering and recommending to the Board on the proposals to the shareholders on the appointment, re-appointment and removal of the external auditors, matters relating to the resignation or dismissal of the auditors and approving the remuneration and terms of engagement of the external auditors;
- (f) reviewing interested person transactions (if any) falling within the scope of Chapter 9 of the Catalist Rules;
- (g) reviewing potential conflicts of interests, if any;
- (h) undertaking such other reviews and projects as may be requested by the Board, and reporting to the Board its findings from time to time on matters arising and requiring the attention of the AC;
- (i) generally undertaking such other functions and duties as may be required by statute or the Catalist Rules, or by such amendments as may be made thereto from time to time;
- (j) reviewing and approving all hedging policies and instruments to be implemented by our Group, if any; and
- (k) reviewing and approving the appointment of the Chief Financial Officer and Financial Controller to the extent that the finance and accounting function is appropriately resourced.

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

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

During the course of FY2016, the AC's activities included:

- (a) reviewing the quarterly, half yearly and annual results announcements before submission to the Board for approval;
- (b) reviewing the internal control procedures implemented by the Group;
- (c) reviewing the annual audit plan, approving any changes as necessary;
- (d) reviewing the appointment of the independent internal auditor, and the findings of internal audits carried out;
- (e) reviewing the appointment of the independent external auditor, and the results of audit carried out;
- (f) reviewing the interested party transactions falling within the scope of Chapter 9 of the Catalist Rules; and
- (g) reviewing the group's financial and operating results and accounting policies.

# REPORT ON CORPORATE GOVERNANCE

## 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 FY2016. Prior to PwC’s appointment, Deloitte & Touche LLP were the external auditors of the Company.

For FY2016, the remunerations of audit services and non-audit services provided by PwC for the Group amounted to approximately RMB1.53 million and RMB130,000, respectively. The non-audit services provided were in relation to tax consultation to the Company.

The AC has reviewed and is satisfied that PwC, the external auditors, have not provided any non-audit services to the Group during FY2016 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 FY2016 and as at the date of this report.

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

Significant matters	How the AC reviewed these matters and what decisions were made
Impairment assessment on goodwill	<p>The AC considered the assessment on goodwill impairment. It reviewed the reasonableness of the assumptions used by the Management in the assessment.</p> <p>The impairment review was an area of focus for the external auditor. The external auditor has included this as a key audit matter for the financial year ended 31 December 2016. Please refer to page 66 of this Annual Report.</p>
Revenue recognition using the percentage-of-completion method	<p>The AC considered the assessment on revenue recognition, in particular, for ship-design fee income and the process for estimating expected total manhours and cost, including the system for recording of project hours and the cost-incurred.</p> <p>The review of revenue recognition was also an area of focus for the external auditor. The external auditor has included this as a key audit matter for the financial year ended 31 December 2016. Please refer to page 66 of this Annual Report.</p>

## 13. INTERNAL AUDIT

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

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

## 14. SHAREHOLDER RIGHTS

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

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

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

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

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

The Company respects the equal information rights of all shareholders and is committed to the practice of fair, transparent and timely disclosure. All material information and changes in the company or its business which would be likely to materially affect the price or value of the Company's shares are disclosed in a timely manner via SGXNET announcements.

## 15. COMMUNICATIONS WITH SHAREHOLDERS

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

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

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



# REPORT ON CORPORATE GOVERNANCE

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 FY2016, the Management presented to various local and foreign investors and the media at more than three (3) investor and/or publicity meetings. These meetings provide a forum for management to explain the Group's strategy and financial performance. The Management also uses meetings with investors and analysts to solicit their perceptions of the Group.

The Company does not have a fixed dividend policy, and the payment of dividends shall be assessed by the Board from year to year. The form, frequency and amount of dividends declared each year will take into account the Group's profit, growth, cash position, positive cash flow generated from operations, projected capital requirements of the Group and other factors as the Board may deem appropriate. No dividends were paid out during FY2016 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' meetings 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 endeavour to attend all AGMs. The Chairman of each of the EC, AC, RC and NC will attend the Company's AGM to address shareholders' questions relating to the work of these Committees. The Company's external auditors, PricewaterhouseCoopers LLP, will also be invited to attend the AGM and are available to assist the Directors in addressing any relevant queries by the shareholders relating to the conduct of the audit and the preparation and content of their auditors' report.

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

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

## 17. DEALINGS IN SECURITIES

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

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

## 18. MATERIAL CONTRACTS

Pursuant to Rule 1204(8) of the Catalist Rules, and save as disclosed in this section and in the section referred to as “Interested Person Transactions” below, neither the Company nor any of its subsidiaries have entered into any material contract involving the interests of the CEO, each Director or controlling shareholder, which is subsisting as at 31 December 2016, or if not then subsisting, then entered into since the end of the previous financial year ended 31 December 2015:

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 of SGD45,000,000 at the floating interest rate of 2.0% per annum over SIBOR of a loan tenure of three years. The loan was drawn down in two tranches on 18 December 2014 and 26 December 2014. The 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 1 September 2016, the Group entered into a short-term loan facility arrangement with The Export-Import Bank of China for a limit of RMB366,000,000 and secured by the corporate guarantee of AVIC International Holding Limited, an immediate holding company of the Group. As at 31 December 2016, the Group had drawn down an aggregate of RMB154,000,000. The principal of the loan is to be repaid on 22 November 2017. The loan carries a floating interest rate of 1.85% and is adjusted quarterly based on the interest rate given by The People’s Bank of China and Bank of China.

## 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 28 April 2016 obtained its shareholders’ approval for the adoption of the IPT Mandate in respect of certain categories of transactions that the Group may, in the ordinary course of business, enter into with any member of the AVIC Group. Save as disclosed below, the following agreements have been entered into pursuant to the authority conferred under the IPT Mandate in accordance with the guidelines and review procedures for interested person transactions as disclosed in the IPT Mandate.

# REPORT ON CORPORATE GOVERNANCE

	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)
<b>FY2016</b>		
<b>Transaction for Management fee income</b>		
AVIC Dingheng Shipbuilding Co., Ltd.	–	100
<b>Transaction for Service fee income</b>		
AVIC Weihai Shipyard Co., Ltd.	–	35,568
AVIC Dingheng Shipbuilding Co., Ltd.	–	23,377
<b>Transaction for Financial service income</b>		
AVIC Dingheng Shipbuilding Co., Ltd.	–	19,768
AVIC Weihai Shipyard Co., Ltd.	–	1,303
<b>Transaction for Sales of good</b>		
AVIC Dingheng Shipbuilding Co., Ltd.	–	2,139
<b>Transaction for Shipbuilding contract cost</b>		
AVIC Weihai Shipyard Co., Ltd.	–	37,185
<b>Transaction for Shipbuilding contract income</b>		
CATIC Beijing Co., Ltd.	–	55,211
<b>Transaction for Rental expense</b>		
AVIC International Kairong Limited	–	544
<b>Transaction for Ship-designing fee income</b>		
AVIC Weihai Shipyard Co., Ltd.	–	38,690
AVIC Dingheng Shipbuilding Co., Ltd.	–	437
<b>Transaction for Property management fees</b>		
AVIC Property Management Co., Ltd.	–	1,042
<b>Transaction for Project consultancy income</b>		
AVIC Weihai Shipyard Co., Ltd.	–	8,548
<b>Transaction for Corporate guarantee fees</b>		
AVIC International Holding Ltd	–	2,244
AVIC International Holding Corporation	–	564
<b>Balance for Provision of financial assistance</b>		
AVIC Dingheng Shipbuilding Co., Ltd.	–	346,757
AVIC Weihai Shipyard Co., Ltd.	–	154,000

Save as disclosed in the table above, the Company did not enter into any IPTs which require disclosure or shareholders' approval under the Catalist Rules regulating IPTs during the financial year ended 31 December 2016.

# REPORT ON CORPORATE GOVERNANCE

## 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



# REPORT ON CORPORATE GOVERNANCE

## AIMHL ANNUAL REPORT FY2016 – DISCLOSURE GUIDE

Guideline	Questions	How has the Company complied?
General	<p>(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.</p> <p>(b) In what respect do these alternative corporate governance practices achieve the objectives of the principles and conform to the guidelines in the Code?</p>	<p>The Company has complied in all material respects with the principles and guidelines set out in the Code.</p> <p>Not applicable.</p>
<b>Board Responsibility</b>		
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.
<b>Members of the Board</b>		
Guideline 2.6	<p>(a) What is the Board's policy with regard to diversity in identifying director nominees?</p> <p>(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.</p> <p>(c) What steps has the Board taken to achieve the balance and diversity necessary to maximize its effectiveness?</p>	<p>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.</p> <p>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.</p> <p>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.</p>

# REPORT ON CORPORATE GOVERNANCE

Guideline	Questions	How has the Company complied?
Guideline 4.6	<p>Please describe the board nomination process for the Company in the last financial year for</p> <p>(i) selecting and appointing new directors; and</p> <p>(ii) re-electing incumbent directors.</p>	<p>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.</p> <p>The NC, in considering the re-appointment of a Director, evaluates such director's contribution and performance, such as his attendance at meetings</p>
Guideline 1.6	<p>(a) Are new directors given formal training? If not, please explain why.</p> <p>(b) What are the types of information and training provided to</p> <p>(i) new directors and</p> <p>(ii) existing directors to keep them up-to-date?</p>	<p>Yes.</p> <p>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 Catalist Rules.</p> <p>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.</p>

# REPORT ON CORPORATE GOVERNANCE

Guideline	Questions	How has the Company complied?
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 at and outside meetings of the Board and relevant Board Committee and his attendance at such meetings.</p>

## Board Evaluation

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

Guideline	Questions	How has the Company complied?
<b>Independence of Directors</b>		
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.
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.
<b>Disclosure on Remuneration</b>		
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 their remuneration, having regard to the highly competitive human resource environment, the confidential nature of staff remuneration matters and so as not to hamper the Company's efforts to retain and nurture its talent pool.
Guideline 9.3	(a) Has the Company disclosed each key management personnel's remuneration, in bands of S\$250,000 or in more detail, as well as a breakdown (in percentage or dollar terms) into base/fixed salary, variable or performance-related income/bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives? If not, what are the reasons for not disclosing so?	Yes. The remuneration of Mr Liao Hongbing, being the only key management personnel (not being a Director), has been disclosed in bands of S\$250,000 and the remuneration breakdown in percentage terms.



# REPORT ON CORPORATE GOVERNANCE

Guideline	Questions	How has the Company complied?
	(b) Please disclose the aggregate remuneration paid to the top five key management personnel (who are not directors or the CEO).	The Company's current key Executive Officers are its Executive Directors (Dr Diao Weicheng, Mr Sun Yan and Mr Li Meijin), and its Chief Financial Officer, Mr Liao Hongbing. Accordingly, Mr Liao Hongbing is the only key management personnel who is not a Director of the Company. The aggregate amount of the total remuneration paid to Mr Liao Hongbing for FY2016 is not more than S\$200,000.
Guideline 9.4	Is there any employee who is an immediate family member of a director or the CEO, and whose remuneration exceeds S\$50,000 during the year? If so, please identify the employee and specify the relationship with the relevant director or the CEO.	There were no employees of the Group who are immediate family members of a Director or the CEO of the Company, and whose remuneration exceeded S\$50,000 during FY2016.
Guideline 9.6	(a) Please describe how the remuneration received by executive directors and key management personnel has been determined by the performance criteria.  (b) What were the performance conditions used to determine their entitlement under the short-term and long-term incentive schemes?  (c) Were all of these performance conditions met? If not, what were the reasons?	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.  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).  Yes, the key Executive Officers and Executive Directors have met the performance targets for FY2016.
<b>Risk Management and Internal Controls</b>		
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 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.
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.

# REPORT ON CORPORATE GOVERNANCE

Guideline	Questions	How has the Company complied?
Guideline 11.3	<p>(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.</p> <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>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.</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 FY2016, the remunerations in respect of audit services and non-audit services provided by PwC for the Group amounted to approximately RMB1.53 million and RMB130,000, respectively, amounting to an aggregate remuneration of RMB1.66 million. The non-audit services provided were in relation to tax consultation to 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 FY2016 that will prejudice their independence and objectivity.</p>

# REPORT ON CORPORATE GOVERNANCE

Guideline	Questions	How has the Company complied?
<b>Communication with Shareholders</b>		
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>(b) Is this done by a dedicated investor relations team (or equivalent)? If not, who performs this role?</p> <p>(c) How does the Company keep shareholders informed of corporate developments, apart from SGXNET announcements and the annual report?</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 (<a href="http://avicintl.listedcompany.com/home.html">http://avicintl.listedcompany.com/home.html</a>) 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 three (3) investor and/or publicity meetings during the course of FY2016.</p> <p>Yes, the Company has a dedicated investor relations team.</p> <p>Apart from SGXNET announcements and the annual report, the Management conducts investor and/or publicity meetings which provide a platform for the Management to explain the Group's strategy and financial performance.</p>
Guideline 15.5	If the Company is not paying any dividends for the financial year, please explain why.	No dividends were paid out during FY2016 as the Company seeks to improve its cash position for operational requirements.

# DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

The directors present their statement to the members together with the audited financial statements of the Group for the financial year ended 31 December 2016 and the balance sheet of the Company as at 31 December 2016.

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 70 to 134 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 2016 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  
Sun Yan  
Li Meijin  
Zhong Sijun  
Wang Mingchuan

## 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 2016

## 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.

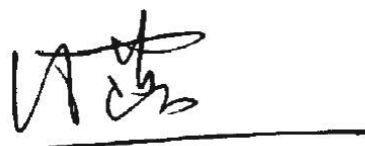
## Independent auditor

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

On behalf of the directors



Diao Weicheng  
Director



Sun Yan  
Director

31 March 2017



# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF AVIC INTERNATIONAL MARITIME HOLDINGS LIMITED

## Report on the Audit of the Financial Statements

### Our opinion

In our opinion, the accompanying consolidated financial statements of AVIC International Maritime Holdings Limited (the "Company") and its subsidiaries (the "Group") and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2016 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date.

#### *What we have audited*

The financial statements of the Company and the Group comprise:

- the consolidated balance sheet of the Group as at 31 December 2016;
- the balance sheet of the Company as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows of the Group for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

### Basis for Opinion

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

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

#### *Independence*

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

### Our Audit Approach

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

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF AVIC INTERNATIONAL MARITIME HOLDINGS LIMITED

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year ended 31 December 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>Impairment assessment on goodwill</b>  <i>Refer to Note 3(c) (Critical accounting estimates and assumptions) and Note 20(a) (Intangible assets) to the financial statements.</i></p> <p>As at 31 December 2016, goodwill arising on consolidation amounted to RMB106.8 million. The goodwill amount was attributed to the acquisition of Deltamarin Ltd. and its subsidiaries (the "Deltamarin Group") in 2013.</p> <p>We focused on goodwill impairment assessment performed by management because of the significant judgements required in estimating the operating margin, revenue compound annual growth rate, terminal growth rate and discount rate, in computing the recoverable amount of the Deltamarin Group cash-generating unit ("CGU").</p>	<p>We evaluated the reasonableness of management's estimate of the revenue compound annual growth rate and operating margin by taking into consideration the Deltamarin Group CGU's past performance, management's expectations of market developments and the industry trends for the shipping industry.</p> <p>We involved valuation specialists to assist in the assessment of the terminal growth rate and the discount rate applied by management. There were no significant issues noted.</p> <p>We evaluated management's sensitivity analysis to assess the impact on the recoverable amount of the Deltamarin Group CGU by reasonable possible changes to the revenue compound annual growth rate, the operating margin, the terminal growth rate and discount rate. We found the sensitivity analysis to be appropriate.</p>
<p><b>Revenue recognition using the percentage-of-completion method</b>  <i>Refer to Note 3(a) (Critical accounting estimates and assumptions) to the financial statements.</i></p> <p>The percentage-of-completion ("POC") method has been used to account for ship-design fee income. Ship-design fee income amounted to RMB185 million and represented approximately 44% of the Group's total revenue for the financial year ended 31 December 2016.</p> <p>Ship-design fee income is derived from ship-design services to the marine and offshore industries. The stage of completion is assessed on the basis of the actual manhours performed as a proportion of the expected total manhours to be performed.</p> <p>When it is probable that the contract costs for ship-design contracts will exceed the total ship-design fee income, a provision for foreseeable losses is recognised as expense immediately. No provision for foreseeable losses was deemed necessary for the financial year ended 31 December 2016.</p>	<p>We obtained an understanding of on-going ship-design contracts through discussions with management and examination of contract documentation and correspondences with customers.</p> <p>In relation to the ship-design projects, we:</p> <ul style="list-style-type: none"> <li>• obtained an understanding of management's timesheet system on how actual manhours are recorded;</li> <li>• validated key controls over the timesheet system and payroll process;</li> <li>• assessed the accuracy of management's estimates over the total manhours required to complete the ship-design contracts;</li> <li>• performed tests of detail over subcontract costs and in-house payroll expenses;</li> <li>• recomputed the ship-design fee income recognised for the current financial year in relation to the stage of completion and agreed to the accounting records;</li> <li>• validated management's assessment of the cost-to-complete amount of ship-design contracts; and</li> <li>• verified the cost incurred to-date plus the estimated cost-to-complete and compared to the total contract value for each project to validate management's assessment of foreseeable losses.</li> </ul> <p>There were no exceptions noted.</p>

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF AVIC INTERNATIONAL MARITIME HOLDINGS LIMITED

## Other Information

Management is responsible for the other information. The other information refers to the "Directors' Statement" section on pages 63 to 64 of the annual report but does not include the financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the remaining sections of the annual report which are expected to be made available to us after that date.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

## Responsibilities of Management and Directors for the Financial Statements

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

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

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

## Auditor's Responsibilities for the Audit of the Financial Statements

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

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF AVIC INTERNATIONAL MARITIME HOLDINGS LIMITED

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF AVIC INTERNATIONAL MARITIME HOLDINGS LIMITED

## Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Soh Kok Leong.

PricewaterhouseCoopers LLP  
Public Accountants and Chartered Accountants

Singapore, 31 March 2017



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	2016 RMB'000	2015 RMB'000
Revenue	4	426,272	591,382
Cost of sales	5	(230,858)	(389,521)
Gross profit		195,414	201,861
Other income	7	7,073	16,095
Other losses – net	8	(11,428)	(6,593)
Expenses			
– Distribution and marketing	5	(48,854)	(41,981)
– Administrative	5	(127,741)	(138,366)
– Finance	9	(23,325)	(17,159)
– Other	5	(4,972)	(6,489)
Share of profit of associated companies	17	679	1,524
(Loss)/profit before income tax		(13,154)	8,892
Income tax expense	10	(13,898)	(17,382)
<b>Loss after tax</b>		<b>(27,052)</b>	<b>(8,490)</b>
<b>Other comprehensive loss:</b>			
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income of associated companies	17	52	3
Currency translation differences arising from consolidation			
– Losses		(7,569)	(9,141)
– Reclassification		–	(1,456)
		(7,517)	(10,594)
<b>Total comprehensive loss</b>		<b>(34,569)</b>	<b>(19,084)</b>
<b>Loss attributable to:</b>			
Equity holders of the Company		(28,575)	(4,211)
Non-controlling interests		1,523	(4,279)
		(27,052)	(8,490)
<b>Total comprehensive loss attributable to:</b>			
Equity holders of the Company		(38,453)	(13,456)
Non-controlling interests		3,884	(5,628)
		(34,569)	(19,084)
<b>Loss per share attributable to equity holders of the Company</b> (expressed in RMB cents per share)			
<b>Basic and diluted loss per share</b>	11	(10.01)	(1.47)

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

		Group		Company	
	Note	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	12	586,737	356,364	24,479	900
Trade and other receivables	13	862,932	285,434	104,806	7,565
Finance lease receivables	14	13,832	–	–	–
Inventories	16	278,962	319,141	–	–
		1,742,463	960,939	129,285	8,465
<b>Non-current assets</b>					
Trade and other receivables	13	11,167	26,837	11,198	–
Finance lease receivables	14	50,551	–	–	–
Investment in associated companies	17	2,504	1,773	–	–
Investment in subsidiaries	18	–	–	575,124	388,394
Property, plant and equipment	19	7,006	8,648	136	–
Intangible assets	20	181,817	180,204	–	–
Available-for-sale financial assets		11	11	–	–
Deferred tax assets	25	1,545	919	–	–
		254,601	218,392	586,458	388,394
<b>Total assets</b>		1,997,064	1,179,331	715,743	396,859
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	21	563,831	151,378	118,924	3,029
Due to subsidiaries (non-trade)	22	–	–	283,934	154,476
Borrowings	23	703,520	174,514	215,996	–
Finance lease liabilities	24	1,042	935	–	–
Current income tax liabilities	10	19,241	12,787	–	–
		1,287,634	339,614	618,854	157,505
<b>Non-current liabilities</b>					
Borrowings	23	492,240	583,471	–	206,483
Finance lease liabilities	24	755	831	–	–
Deferred tax liabilities	25	16,928	18,535	–	–
Trade and other payables	21	–	35	–	–
Due to subsidiaries (non-trade)	22	–	–	8,767	–
		509,923	602,872	8,767	206,483
<b>Total liabilities</b>		1,797,557	942,486	627,621	363,988
<b>NET ASSETS</b>		199,507	236,845	88,122	32,871
<b>EQUITY</b>					
<b>Capital and reserves attributable to equity holders of the Company</b>					
Share capital	26	101,237	101,237	101,237	101,237
Other reserves	27	16,783	24,684	7,152	5,775
Retained profits/(accumulated losses)		18,020	48,572	(20,267)	(74,141)
		136,040	174,493	88,122	32,871
<b>Non-controlling interests</b>	18	63,467	62,352	–	–
<b>Total equity</b>		199,507	236,845	88,122	32,871

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Attributable to equity holders of the Company							Non-	
	Currency							controlling	
	Share capital	Capital reserve	Merger reserve	Statutory reserve	translation reserve	Retained profits	Total	interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>2016</b>									
<b>Beginning of financial year</b>	101,237	11,944	(3,664)	14,735	1,669	48,572	174,493	62,352	236,845
Loss for the year	-	-	-	-	-	(28,575)	(28,575)	1,523	(27,052)
Other comprehensive loss for the year	-	-	-	-	(9,878)	-	(9,878)	2,361	(7,517)
<b>Total comprehensive loss for the year</b>	-	-	-	-	(9,878)	(28,575)	(38,453)	3,884	(34,569)
Distributions to non-controlling interests on liquidation of subsidiaries	-	-	-	-	-	-	-	(2,769)	(2,769)
<b>Total transactions with owners, recognised directly in equity</b>	-	-	-	-	-	-	-	(2,769)	(2,769)
Transfer to statutory reserve	-	-	-	1,977	-	(1,977)	-	-	-
<b>End of financial year</b>	101,237	11,944	(3,664)	16,712	(8,209)	18,020	136,040	63,467	199,507
<b>2015</b>									
<b>Beginning of financial year</b>	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)
<b>Total comprehensive loss for the year</b>	-	-	-	-	(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
<b>Total transactions with owners, recognised directly in equity</b>	-	(526)	(3,664)	-	-	-	(4,190)	17,795	13,605
Transfer to statutory reserve	-	-	-	2,747	-	(2,747)	-	-	-
<b>End of financial year</b>	101,237	11,944	(3,664)	14,735	1,669	48,572	174,493	62,352	236,845

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	2016 RMB'000	2015 RMB'000
<b>Cash flows from operating activities</b>			
(Loss)/profit before income tax		(13,154)	8,892
Adjustments for:			
– Amortisation of intangible assets		5,206	7,773
– Allowance/(write-back) of doubtful debts			
– Trade		(206)	115
– Non-trade		3,424	1,797
– Available-for-sale financial assets written off		–	34
– Bad trade debts written off		1,176	4,570
– Depreciation of property, plant and equipment		3,472	3,286
– Impairment loss of an associated company		–	159
– Interest expense		20,905	12,507
– Interest income		(2,782)	(3,905)
– Loss on disposal of subsidiary		–	3,676
– Loss on disposal of property, plant and equipment		105	–
– Property, plant and equipment written off		188	5
– Share of profit of associated companies		(679)	(1,524)
– Unrealised currency translation losses		3,325	2,720
		<b>20,980</b>	<b>40,105</b>
Change in working capital, net of effects from acquisition and disposal of subsidiaries:			
– Inventories		28,828	(103,963)
– Trade and other receivables		(581,975)	31,503
– Trade and other payables		372,032	(59,918)
Cash used in operations		<b>(160,135)</b>	<b>(92,273)</b>
Interest received		1,887	3,905
Income tax paid		(11,069)	(8,928)
<b>Net cash used in operating activities</b>		<b>(169,317)</b>	<b>(97,296)</b>
<b>Cash flows from investing activities</b>			
Acquisition of a subsidiary, net of cash acquired	12(a)	–	(21,303)
Additions to property, plant and equipment (Note A)		(1,350)	(2,848)
Additions to intangible assets		(1,064)	(3,013)
Disposal of a subsidiary, net of cash disposed of	12(b)	–	1,115
Proceeds on disposal of property, plant and equipment		696	–
<b>Net cash used in investing activities</b>		<b>(1,718)</b>	<b>(26,049)</b>
<b>Cash flows from financing activities</b>			
Dividends paid to non-controlling interests		–	(2,203)
Interest paid		(18,815)	(9,097)
(Increase)/decrease in cash pledged with bank		(52,152)	53,074
Loan from non-controlling interests		54,874	19,315
Loan from related corporations		21,926	–
Proceeds from borrowings		586,850	369,849
Proceeds on issuance of subsidiary's shares to non-controlling interests		–	857
Proceeds from finance leases		304	–
Repayment of borrowings		(251,168)	(9,108)
Repayment of finance lease liabilities		(1,270)	(1,192)
Repayment of related corporation's loan		(5,864)	(186,221)
<b>Net cash provided by financing activities</b>		<b>334,685</b>	<b>235,274</b>
<b>Net increase in cash and cash equivalents</b>		<b>163,650</b>	<b>111,929</b>
<b>Cash and cash equivalents</b>			
Beginning of financial year		316,963	208,763
Effects of currency translation on cash and cash equivalents		14,571	(3,729)
<b>End of financial year</b>	12	<b>495,184</b>	<b>316,963</b>

Note A:

During the financial year ended 31 December 2016, the Group acquired property, plant and equipment with an aggregate cost of RMB2,595,000 (2015: RMB4,124,000), of which RMB1,246,000 (2015: RMB1,276,000) was acquired by means of finance leases. Cash payments amounting to RMB1,350,000 (2015: RMB2,848,000) were made to purchase property, plant and equipment.

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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 8 Robinson Road, #13-00 ASO Building, Singapore 048544. Its principal place of business is 27th and 28th Floor, CATIC Mansion, 212 Jiangning Road, Shanghai 200041, the People's Republic of China ("PRC").

The principal activity of the Company is that of investment holding. The principal activities of its subsidiaries are disclosed in Note 18 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 2016***

On 1 January 2016, 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.



## 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) *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.

(b) *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.

(c) *Service fee income*

Service fee income generated from the provision of project management, consultancy and financing service relating to shipbuilding, which cover ship design and construction (both of which are outsourced), procurement, new building management and marine finance, is recognised when the services are rendered over the period of the contract.

(d) *Sale of vessels*

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

(e) *Finance lease income*

Finance lease income is recognised in profit or loss on a basis that reflects a constant periodic rate of return on the net investment in the finance lease receivable.

(f) *Interest income*

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3 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.

##### (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.

## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **2.4 Group accounting (continued)**

#### *(a) Subsidiaries (continued)*

##### *(ii) Acquisitions (continued)*

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

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

The excess of (a) the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the (b) fair value of the identifiable net assets acquired is recorded as goodwill. Please refer to Note 2.6(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.

#### *(b) Transactions with non-controlling interests*

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4 Group accounting (continued)

#### (c) *Associated companies*

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

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

#### (i) *Acquisitions*

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

#### (ii) *Equity method of accounting*

In applying the equity method of accounting, the Group's share of its associated companies' post-acquisition profits or losses are recognised in profit or loss and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. These post-acquisition movements and distributions received from the associated companies are adjusted against the carrying amount of the investments. When the Group's share of losses in an associated company equals to or exceeds its interest in the associated company, the Group does not recognise further losses, unless it has legal or constructive obligations to make, or has made, payments on behalf of the associated company. If the associated company subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

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

#### (iii) *Disposals*

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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:

	<u>Useful lives</u>
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.

#### (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.



## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.6 Intangible assets (continued)

#### (a) Goodwill on acquisitions (continued)

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

#### (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. There is no change in the amortisation period and amortisation method for the acquired brand during the financial year ended 31 December 2016.

## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **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.

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. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

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. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

#### (b) *Recognition and derecognition*

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

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount previously recognised in other comprehensive income relating to that asset is reclassified to profit or loss.

#### (c) *Initial measurement*

Financial assets are initially recognised at fair value plus transaction costs.

#### (d) *Subsequent measurement*

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.11 Financial assets (continued)

#### (e) *Impairment*

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

#### (i) *Loans and receivables*

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

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

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

#### (ii) *Available-for-sale financial assets*

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. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **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.

### **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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.16 Leases (continued)

#### (b) Lessee – Operating leases

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

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

#### (c) Lessor – Finance leases

Leases where the Group has transferred substantially all risks and rewards incidental to ownership of the leased assets to the lessees, are classified as finance leases.

The leased asset is derecognised and the present value of the lease receivable is recognised on the balance sheet and included in “finance lease receivables”. The difference between the gross receivable and the present value of the lease receivable is recognised as unearned finance income.

Each lease payment received is applied against the gross investment in the finance lease receivable to reduce both the principal and the unearned finance income. The finance income is recognised in profit or loss on a basis that reflects a constant periodic rate of return on the net investment in the finance lease receivable.

### 2.17 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. 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.

## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **2.18 Income taxes (continued)**

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.

### **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. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

#### (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").

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.21 Currency translation (continued)

#### (b) *Transactions and balances*

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

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

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

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

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

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

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

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.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

## 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 of ship-design fee income

The Group uses the percentage of completion method in accounting for its fixed price contracts to deliver ship-design services. Use of the percentage of completion method requires the Group to measure the actual working hours incurred to date as a proportion of the total estimated working hours to be incurred. 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 income tax payable of the Group at 31 December 2016 is RMB19,241,000 (2015: RMB12,787,000).

### 3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

#### (b) Uncertain tax positions (continued)

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

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

As at 31 December 2016, the Group has recognised the full withholding tax liability of RMB15,332,000 (2015: RMB8,259,000) for the intragroup restructuring exercises carried out in 2015 and 2016. This amount includes the effects of foreign currency translation of RMB473,000 on the opening balance of the tax liability.

#### (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. In estimating the future cash flows, management makes assumptions on the expected operating margin, revenue compound growth rate and terminal growth rate. The carrying amount of goodwill at the end of the reporting period was RMB106,796,000 (2015: RMB103,497,000) as disclosed in Note 20 to the financial statements. Effects of reasonable possible changes on impairment key assumptions are included in Note 20. No impairment loss (2015: nil) was recognised during the financial year.

### 4. REVENUE

	Group	
	2016 RMB'000	2015 RMB'000
Ship-design fee income	184,774	229,954
Shipbuilding revenue	55,211	285,201
Service fee income	89,123	64,921
Sale of vessels	79,729	–
Finance lease income	4,030	–
Others	13,405	11,306
Total revenue	426,272	591,382

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 5. EXPENSES BY NATURE

	Group	
	2016	2015
	RMB'000	RMB'000
Allowance/(write-back) of doubtful debts		
– Trade	(206)	115
– Non-trade	3,424	1,797
Amortisation of intangible assets (Note 20)	5,206	7,773
Available-for-sale financial assets written off	–	34
Bad trade debts written off	1,176	4,570
Cost of sales of vessels (Note 16)	79,486	–
Contract labour and sub-contract costs	111,291	153,699
Depreciation of property, plant and equipment (Note 19)	3,472	3,286
Employee compensation (Note 6)	100,212	102,415
Impairment loss of an associated company	–	159
Insurance expenses	1,605	2,343
Office expenses	15,291	15,435
Other expenses	8,454	6,995
Professional fees	13,730	13,317
Rental expense on operating leases	17,463	17,583
Shipbuilding sub-contract costs	34,960	220,707
Travelling expenses	16,861	16,505
Use of raw materials and consumables	–	9,624
Total cost of sales, distribution expenses and marketing costs, administrative expenses, and other operating expenses	412,425	576,357

## 6. EMPLOYEE COMPENSATION

	Group	
	2016	2015
	RMB'000	RMB'000
Wages and salaries	83,777	89,056
Employer's contribution to defined contribution plans	8,052	7,909
Other benefits	8,383	5,450
	100,212	102,415

## 7. OTHER INCOME

	Group	
	2016	2015
	RMB'000	RMB'000
Interest income	2,782	3,905
Government grants	2,919	11,763
Other income	1,372	427
	7,073	16,095

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 8. OTHER LOSSES – NET

	Group	
	2016	2015
	RMB'000	RMB'000
Loss on disposal of property, plant and equipment	(105)	–
Loss on disposal of subsidiary (Note 12)	–	(3,676)
Foreign exchange losses	(11,323)	(2,917)
	<b>(11,428)</b>	<b>(6,593)</b>

## 9. FINANCE EXPENSES

	Group	
	2016	2015
	RMB'000	RMB'000
Interest expense		
– Bank borrowings	23,253	14,909
– Loan from previous immediate holding corporation	–	3,196
– Loan from non-controlling interests	–	209
– Finance lease liabilities	54	61
Less: Borrowing costs capitalised in inventories	(2,402)	(5,868)
	<b>20,905</b>	<b>12,507</b>
Bank charges	1,272	2,899
Corporate guarantee fee	1,145	1,708
Others	3	45
	<b>23,325</b>	<b>17,159</b>

Interest expense on borrowings obtained specifically for constructing units of vessels for sale (Note 16) are capitalised in inventories.

## 10. INCOME TAXES

### (a) Income tax expense

	Group	
	2016	2015
	RMB'000	RMB'000
Tax expense attributable to (loss)/profit is made up of:		
Current income tax	17,233	20,177
Deferred income tax (Note 25)	(2,822)	(2,773)
	<b>14,411</b>	<b>17,404</b>
Over provision in prior financial years:		
– Current income tax	(513)	(22)
	<b>13,898</b>	<b>17,382</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 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 2016 (2015: 25%).

The corporate income tax rate in Finland is 20% (2015: 20%).

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

	<b>Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>RMB'000</b>	<b>RMB'000</b>
(Loss)/profit before tax	<b>(13,154)</b>	8,892
Share of profit of associated companies net of tax	<b>(679)</b>	(1,524)
(Loss)/profit before tax and share of profit of associated companies	<b>(13,833)</b>	7,368
Tax calculated at tax rate of 17% (2015: 17%)	<b>(2,352)</b>	1,253
Effects of:		
– Different tax rates in other countries	<b>4,172</b>	2,865
– Expenses not deductible for tax purposes	<b>4,869</b>	6,147
– Income not subject to tax	<b>(1,294)</b>	(2,473)
– Utilisation of previously unrecognised tax losses	<b>(259)</b>	–
– Deferred tax assets not recognised	<b>2,448</b>	1,300
– Over provision of tax in prior years	<b>(513)</b>	(22)
– Effect of tax rebate and exemption	–	(175)
– Overseas tax arising from intra-group restructuring [Note 3(b)]	<b>6,602</b>	8,259
– Others	<b>225</b>	228
<b>Tax charge</b>	<b>13,898</b>	17,382

As at 31 December 2016, the Group has undistributed profits of subsidiaries of RMB150,667,000 (2015: RMB133,103,000). 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 RMB7,533,000 (2015: RMB6,655,000) 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 RMB20,805,000 (2015: RMB32,317,000). No deferred tax asset has been recognised in respect of such losses as the realisation is uncertain.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 10. INCOME TAXES (continued)

### (b) Movement in current income tax liabilities

	Group	
	2016 RMB'000	2015 RMB'000
Beginning of financial year	12,787	1,377
Currency translation differences	803	(103)
Acquisition of subsidiary (Note 12)	–	286
Income tax paid	(11,069)	(8,928)
Tax expense	17,233	20,177
Over provision in prior financial years	(513)	(22)
End of financial year	19,241	12,787

## 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	
	2016	2015
Net loss attributable to equity holders of the Company (RMB'000)	(28,575)	(4,211)
Weighted average number of ordinary shares outstanding for basic earnings per share ('000)	285,576	285,576
Loss per share (expressed in RMB cents per share)	(10.01)	(1.47)

Diluted earnings per share is the same as the basic earnings per share for the financial years ended 31 December 2016 and 2015 as the Company has no potential dilutive ordinary shares.

## 12. CASH AND CASH EQUIVALENTS

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Cash at bank and on hand	184,778	234,839	24,479	900
Fixed deposits	310,406	82,124	–	–
Cash pledged with bank	91,553	39,401	–	–
	586,737	356,364	24,479	900



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 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	
	2016 RMB'000	2015 RMB'000
Cash and bank balances (as above)	586,737	356,364
Less: Cash pledged with bank	(91,553)	(39,401)
Cash and cash equivalents per consolidated statement of cash flows	495,184	316,963

Cash amounting to RMB91,553,000 (2015: RMB39,401,000) 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 Catco Investments Pte. Ltd ("Catco"). Both Catco 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 27(b)(ii)]	3,664
Consideration transferred for the business	21,903

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 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:

	<b>Group 2015 RMB'000</b>
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 DeltaLangh Ltd. for a cash consideration of RMB1,416,000 (EUR200,000). The effects of the disposal on the cash flows of the Group were:

	<b>Group 2015 RMB'000</b>
<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 20(d)]	9,913
Total assets	<u>18,375</u>
Trade and other payables	(17,702)
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 DeltaLangh Ltd. were:

	<b>Group 2015 RMB'000</b>
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 2016

## 13. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables				
– Third parties	<b>68,068</b>	88,493	–	–
– Related corporations	<b>32,784</b>	37,142	–	–
Less: Allowance for impairment of receivables				
– third parties	<b>(222)</b>	(428)	–	–
	<b>100,630</b>	125,207	–	–
Less: Non-current portion	<b>(11,167)</b>	(26,837)	–	–
Trade receivables – net	<b>89,463</b>	98,370	–	–
Construction contracts				
– Due from customers on construction contract (Note 15)	<b>25,331</b>	138,528	–	–
Other receivables				
– Subsidiaries	–	–	<b>61,988</b>	7,296
– Related corporations	<b>602,014</b>	4,509	<b>920</b>	–
– Third parties	<b>70,580</b>	26,835	–	–
Less: Allowance for impairment of receivables				
– third parties	<b>(3,704)</b>	(1,337)	–	–
	<b>668,890</b>	30,007	<b>62,908</b>	7,296
Loan to a subsidiary	–	–	<b>25,705</b>	–
Less: Non-current portion	–	–	<b>(11,198)</b>	–
	–	–	<b>14,507</b>	–
Deposits	<b>7,363</b>	5,414	–	–
Less: Allowance for impairment of deposits	<b>(1,517)</b>	(460)	–	–
	<b>5,846</b>	4,954	–	–
Advances to suppliers	<b>72,043</b>	10,951	<b>27,163</b>	–
Staff advances	<b>682</b>	1,074	–	–
Value added tax/GST recoverable	<b>677</b>	596	<b>228</b>	269
Others	–	954	–	–
	<b>862,932</b>	285,434	<b>104,806</b>	7,565

The non-trade receivables due from subsidiaries and related corporations are unsecured, interest-free and are repayable on demand.

Loan to a subsidiary is unsecured, bears interest at 3.25% per annum and is fully repayable in 2018.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 14. FINANCE LEASE RECEIVABLES

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

	Group	
	2016 RMB'000	2015 RMB'000
Gross receivables due		
– Not later than one year	20,279	–
– Later than one year but within five years	62,003	–
	82,282	–
Less: Unearned finance income	(17,899)	–
Net investment in finance leases	64,383	–

The net investment in finance leases is analysed as follows:

	Group	
	2016 RMB'000	2015 RMB'000
Not later than one year	13,832	–
Later than one year but within five years	50,551	–
	64,383	–

## 15. CONSTRUCTION CONTRACTS

	Group	
	2016 RMB'000	2015 RMB'000
Aggregate costs incurred and profits recognised (less losses recognised) to date on uncompleted construction contracts	332,290	784,518
Less: Progress billings	(354,458)	(647,948)
	(22,168)	136,570
Presented as:		
Due from customers on construction contracts (Note 13)	25,331	138,528
Due to customers on construction contracts (Note 21)	(47,499)	(1,958)
	(22,168)	136,570

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 16. INVENTORIES

	Group	
	2016	2015
	RMB'000	RMB'000
Inventories work-in-progress	<b>278,962</b>	319,141

The Group has 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.

The cost of inventories recognised as an expense and included in "cost of sales" amounted to RMB79,486,000 (2015: Nil) (Note 5).

## 17. INVESTMENTS IN ASSOCIATED COMPANIES

	Group	
	2016	2015
	RMB'000	RMB'000
Beginning of financial year	<b>1,773</b>	405
Share of post-acquisition profit	<b>679</b>	1,524
Impairment loss of an associated company	–	(159)
Share of other comprehensive income	<b>52</b>	3
End of financial year	<b>2,504</b>	1,773

Details of the associated companies are as follows:

Name	Place of business/ country of incorporation	Effective interest		Principal activities
		2016	2015	
		%	%	
<b>Held by Deltamarin Ltd.</b>				
GPS Deltamarin (M) Sdn. Bhd.*	Malaysia	<b>38.99</b>	38.99	Design engineering
Shandong Deltamarin Marine Engineering Co., Ltd.*	People's Republic of China	<b>39.79</b>	39.79	Design engineering
Brodoplan d.o.o.*	Croatia	<b>39.79</b>	39.79	Design engineering

\* Audited by PricewaterhouseCoopers Oy for consolidation purposes

There are nil (2015: Nil) contingent liabilities relating to the Group's interests in the associated companies.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 17. INVESTMENTS IN ASSOCIATED COMPANIES (continued)

### *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):

	2016 RMB'000	2015 RMB'000
Total assets	8,467	6,396
Total liabilities	(3,788)	(2,314)
Net assets	4,679	4,082

	2016 RMB'000	2015 RMB'000
Revenue	17,113	15,687
Profit after tax for the year	3,467	3,273

## 18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2016 RMB'000	2015 RMB'000
<i>Equity investments at cost</i>		
Beginning of financial year	388,394	393,143
Additions	576,597	–
Disposals	(407,329)	–
Currency translation differences	17,462	(4,749)
End of financial year	575,124	388,394

During the financial year ended 31 December 2016, the Group underwent an intra-group reorganisation exercise to minimise the layers of intermediary companies and streamline the Group's corporate holding structure.

As part of the intra-group reorganisation, the Company acquired the entire equity interests in six subsidiaries that were held by Kaixin Industrial Pte. Ltd. ("Kaixin"), AVIC International Ship Development Pte. Ltd. ("AISD"), AVIC International Ship Engineering Pte. Ltd. ("AISE") and AVIC international Marine Engineering (Lux), S.a.r.l. ("AIME Lux"). Kaixin, AISD and AISE were wholly-owned subsidiaries of the Company. Subsequent to the share transfer, Kaixin, AISD and AISE have undergone members' voluntary liquidation prior to the financial year end.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 18. INVESTMENTS IN SUBSIDIARIES (continued)

Details of the Company's subsidiaries are as follows:

Name	Principal activities	Country of business/ incorporation	Proportion of ordinary shares directly held by the Company		Proportion of ordinary shares directly held by the Group		Proportion of ordinary shares held by non-controlling interests	
			2016	2015	2016	2015	2016	2015
			%	%	%	%	%	%
<b>Held by AVIC International Maritime Holdings Limited</b>								
Kaixin Industrial Pte. Ltd. <sup>(1)</sup>	In liquidation	Singapore	–	100	–	100	–	–
AVIC International Ship Development Pte. Ltd. <sup>(1)</sup>	In liquidation	Singapore	–	100	–	100	–	–
AVIC International Ship Engineering Pte. Ltd. <sup>(1)</sup>	In liquidation	Singapore	–	100	–	100	–	–
AVIC Ship Investments Limited <sup>(4)</sup>	Investment holding	Hong Kong	100	100	100	100	–	–
AVIC International Offshore Pte. Ltd. <sup>(1)</sup>	Ship-trading agency and import and export business	Singapore	100	–	100	100	–	–
AVIC International Ship Development (China). Ltd. <sup>(2)</sup>	Ship-trading related businesses	PRC	100	–	100	100	–	–
AVIC Zhenjiang Shipyard Marine Pte. Ltd. <sup>(1)</sup>	Trading, ship-trading agency and shipbuilding related businesses	Singapore	60	–	60	60	40	40
AVIC International Marine Engineering Pte. Ltd. <sup>(1)</sup>	Investment holding	Singapore	79.57	–	79.57	79.57	20.43	20.43
Deltamarin Floating Construction Pte. Ltd. <sup>(1)</sup>	Providing engineering, procurement and construction services	Singapore	51	–	89.99	89.99	10.01	10.01
Deltamarin Ltd. <sup>(3)</sup>	Provision of design, engineering and contracting services for offshore, shipping, shipbuilding naval and marine industries	Finland	79.57	–	79.57	79.57	20.43	20.43
<b>Held by Kaixin Industrial Pte. Ltd.</b>								
Deltamarin Floating Construction Pte. Ltd. <sup>(1)</sup>	Providing engineering, procurement and construction services	Singapore	–	51	89.99	89.99	10.01	10.01
AVIC International Ship Development (China). Ltd. <sup>(2)</sup>	Ship-trading related businesses	PRC	–	50.22	100	100	–	–
<b>Held by AVIC International Ship Development Pte. Ltd.</b>								
AVIC International Offshore Pte. Ltd. <sup>(1)</sup>	Ship-trading agency and import and export business	Singapore	–	100	100	100	–	–
AVIC International Ship Development (China). Ltd. <sup>(2)</sup>	Ship-trading related businesses	PRC	–	41.37	100	100	–	–

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 18. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Principal activities	Country of business/ incorporation	Proportion of ordinary shares directly held by the Company		Proportion of ordinary shares directly held by the Group		Proportion of ordinary shares held by non-controlling interests	
			2016	2015	2016	2015	2016	2015
			%	%	%	%	%	%
<b>Held by AVIC International Offshore Pte. Ltd.</b>								
AVIC Zhenjiang Shipyard Marine Pte. Ltd. <sup>(1)</sup>	Trading, ship-trading agency and shipbuilding related businesses	Singapore	–	60	60	60	40	40
AVIC Tidestar Fast Offshore Pte. Ltd. <sup>(1)</sup>	Liquidated	Singapore	–	65	–	65	–	35
AVIC International Ship Development (China). Ltd. <sup>(2)</sup>	Ship-trading related businesses	PRC	–	8.41	100	100	–	–
<b>Held by AVIC International Ship Engineering Pte. Ltd.</b>								
AVIC International Marine Engineering Pte. Ltd. <sup>(1)</sup>	Investment holding	Singapore	–	79.57	79.57	79.57	20.43	20.43
<b>Held by AVIC International Marine Engineering Pte. Ltd.</b>								
AVIC International Marine Engineering (Lux), S.a.r.l. <sup>(4)</sup>	In liquidation	Luxembourg	–	79.57	–	79.57	–	20.43
<b>Held by AVIC International Marine Engineering (Lux), S.a.r.l</b>								
Deltamarin Ltd. <sup>(3)</sup>	Provision of design, engineering and contracting services for offshore, shipping, shipbuilding naval and marine industries	Finland	–	79.57	79.57	79.57	20.43	20.43
<b>Held by AVIC Ship Investment Limited</b>								
AVIC Ship Europe GmbH <sup>(4)</sup>	Investment holding	Germany	100	100	100	100	–	–
<b>Held by Zhenjiang Shipyard Marine Pte. Ltd.</b>								
Blue Ocean Ship Management & Engineering Limited <sup>(4)</sup>	Acquiring, owning, selling, brokering and chartering of various types of vessels, including without limitation tugboats and offshore vessels	Hong Kong	100	–	60	–	40	–

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 18. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Principal activities	Country of business/ incorporation	Proportion of ordinary shares directly held by the Company		Proportion of ordinary shares directly held by the Group		Proportion of ordinary shares held by non-controlling interests	
			2016	2015	2016	2015	2016	2015
			%	%	%	%	%	%
<b>Held by Deltamarin Ltd.</b>								
Deltamarin Floating Construction Ltd. <sup>(1)</sup>	Building, construction and financing of office premises, buying, selling, managing and renting of office premises and real estate	Finland	52	52	89.38	89.38	10.62	10.62
Deltamarin (China) Co., Ltd. <sup>(3)</sup>	Consulting services for ocean engineering/supply chain/environmental/energy/lifecycle management, investment information, consulting and technical services	PRC	100	100	79.57	79.57	20.43	20.43
Deltamarin Sp.z o.o. <sup>(3)</sup>	Design and marine engineering, project management and consultancy	Poland	100	100	79.57	79.57	20.43	20.43
<b>Held by AVIC International Ship Development (China) Co., Ltd.</b>								
AVIC International Offshore Xiamen Co., Ltd. <sup>(2)</sup>	Wholesale import and export, commission agency of ship/marine engineering equipment/marine equipment, material and accessories	PRC	100	100	100	100	—	—
AVIC International Ship Development (Beijing) Co., Ltd. <sup>(2)</sup>	Ship-trading agency and import and export business	PRC	100	100	100	100	—	—
AVIC International Ship Development (Guangzhou) Co., Ltd. <sup>(2)</sup>	Liquidated	PRC	—	100	—	100	—	—

(1) Audited by PricewaterhouseCoopers LLP, Singapore.

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

(3) Audited by PricewaterhouseCoopers Oy for consolidation purpose.

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

## 18. INVESTMENTS IN SUBSIDIARIES (continued)

### Significant restrictions

Cash and short-term deposits of RMB462,254,000 (2015: RMB252,933,000) are held in the People's Republic of China and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

### Carrying value of non-controlling interests

	2016 RMB'000	2015 RMB'000
Deltamarin Ltd. <sup>(i)</sup>	48,956	48,571
AVIC Zhenjiang Shipyard Marine Pte. Ltd.	14,244	12,845
Other subsidiaries with immaterial non-controlling interests	267	936
<b>Total</b>	<b>63,467</b>	<b>62,352</b>

(i) Includes Deltamarin Ltd. and its subsidiaries.

### Summarised financial information of subsidiaries with material non-controlling interests

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

#### Summarised balance sheet

	Deltamarin Ltd.		AVIC Zhenjiang Shipyard Marine Pte. Ltd.	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Current				
Assets	166,784	133,471	359,168	303,512
Liabilities	(87,490)	(51,165)	(323,904)	(271,406)
Total current net assets	79,294	82,306	35,264	32,106
Non-current				
Assets	197,087	195,377	351	10
Liabilities	(17,680)	(19,398)	(3)	(3)
Total non-current net assets	179,407	175,979	348	7
Net assets	258,701	258,285	35,612	32,113

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 18. INVESTMENTS IN SUBSIDIARIES (continued)

### Summarised financial information of subsidiaries with material non-controlling interests (continued)

#### Summarised income statement

	Deltamarin Ltd.		AVIC Zhenjiang Shipyard Marine Pte. Ltd.	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	188,601	236,543	79,729	–
Profit/(loss) before income tax	3,198	1,911	1,201	(537)
Income tax expense	(353)	(2,615)	–	–
Other comprehensive income/(loss) for the year	7,252	(13,855)	2,298	(1,067)
Total comprehensive income/(loss) for the year	10,097	(14,559)	3,499	(1,604)
Total comprehensive income/(loss) allocated to non-controlling interests	1,936	(2,854)	1,399	(642)
Dividends to non-controlling interest	–	1,526	–	–

#### Summarised cash flows

	AVIC Zhenjiang Shipyard Marine	
	Deltamarin Ltd.	Pte. Ltd.
	2016	2016
	RMB'000	RMB'000
Net cash generated from/(used in) operating activities	36,681	(3,450)
Net cash used in investing activities	(2,414)	(329)
Net cash used in financing activities	(1,343)	(2,564)
Net increase/(decrease) in cash and cash equivalents	32,924	(6,343)
Cash and cash equivalents at beginning of year	44,091	15,905
Exchange (losses)/gains on cash and cash equivalents	(99)	823
Cash and cash equivalents at end of year	76,916	10,385

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 19. 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
<i>Group</i>						
<b>2016</b>						
<i>Cost</i>						
Beginning of financial year	5,602	9,175	2,931	3,800	16	21,524
Currency translation differences	148	242	108	135	1	634
Additions	181	2,237	–	177	–	2,595
Disposals	–	–	(2,204)	–	–	(2,204)
Write-off	(55)	(2,690)	–	(2,256)	–	(5,001)
End of financial year	5,876	8,964	835	1,856	17	17,548
<i>Accumulated depreciation</i>						
Beginning of financial year	2,696	6,061	1,388	2,715	16	12,876
Currency translation differences	78	161	62	108	1	410
Depreciation charge	687	2,086	235	464	–	3,472
Disposals	–	–	(1,403)	–	–	(1,403)
Write-off	(55)	(2,685)	–	(2,073)	–	(4,813)
End of financial year	3,406	5,623	282	1,214	17	10,542
<b>Net book value</b>						
<b>End of financial year</b>	<b>2,470</b>	<b>3,341</b>	<b>553</b>	<b>642</b>	<b>–</b>	<b>7,006</b>
<b>2015</b>						
<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
<b>Net book value</b>						
<b>End of financial year</b>	<b>2,906</b>	<b>3,114</b>	<b>1,543</b>	<b>1,085</b>	<b>–</b>	<b>8,648</b>

The carrying amount of the Group's property, plant and equipment includes an amount of RMB1,772,000 (2015: RMB1,739,000) secured in respect of assets held under finance leases.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 19. PROPERTY, PLANT AND EQUIPMENT (continued)

	Computer RMB'000	Renovation RMB'000	Total RMB'000
<i>Company</i>			
<b>2016</b>			
<i>Cost</i>			
Beginning of financial year	121	–	121
Currency translation differences	5	–	5
Additions	8	150	158
End of financial year	134	150	284
<i>Accumulated depreciation</i>			
Beginning of financial year	121	–	121
Currency translation differences	5	–	5
Depreciation charge	8	14	22
End of financial year	134	14	148
<b>Net book value</b>			
<b>End of financial year</b>	–	136	136
<b>2015</b>			
<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
<b>Net book value</b>			
<b>End of financial year</b>	–	–	–

## 20. INTANGIBLE ASSETS

	Group	
	2016 RMB'000	2015 RMB'000
<i>Composition:</i>		
Goodwill arising on consolidation [Note (a)]	106,796	103,497
Acquired brand [Note (b)]	45,492	45,662
Technical knowhow [Note (c)]	26,335	27,842
Ship-design engineering software licences [Note (d)]	3,194	3,203
Total	181,817	180,204

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 20. INTANGIBLE ASSETS (continued)

### (a) Goodwill arising on consolidation

	Group	
	2016 RMB'000	2015 RMB'000
Beginning of financial year	103,497	109,203
Currency translation differences	3,299	(5,706)
End of financial year	106,796	103,497

Goodwill is allocated to Deltamarin Ltd. and its subsidiaries (the "Deltamarin Group") cash-generating unit ("DM-CGU") which is in the business of ship-design service.

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

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

The Group prepares cash flow forecasts derived from the most recent financial budgets for DM-CGU approved by management for the next five years based on an estimated revenue compound annual growth rate of 3.5% (2015: 5%) and terminal growth rate of 3.5% (2015: 3.5%) for period beyond 5 years.

The rate used to discount the forecast cash flows from the DM-CGU is 12.76% (2015: 12.43%) per annum.

The impairment test carried out as at 31 December 2016 for DM-CGU, which includes 100% of the goodwill recognised on the balance sheet, has revealed that the recoverable amount of the CGU is RMB19,902,000 (2015: RMB8,859,000) or 7.5% (2015: 3.3%) higher than its carrying amount. A further decrease in the revenue compound annual growth rate by 2.9% (2015: 0.98%) or a further decrease in operating margin by 0.85% (2015: 0.4%) would result in the recoverable amount of DM-CGU being equal to its carrying amount.

### (b) Acquired brand

	Group	
	2016 RMB'000	2015 RMB'000
<i>Cost</i>		
Beginning of financial year	47,237	49,841
Currency translation differences	1,505	(2,604)
End of financial year	48,742	47,237
<i>Accumulated amortisation</i>		
Beginning of financial year	1,575	–
Amortisation charge (Note 5)	1,635	1,538
Currency translation differences	40	37
End of financial year	3,250	1,575
<b>Net book value</b>	<b>45,492</b>	<b>45,662</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 20. INTANGIBLE ASSETS (continued)

### (c) Technical knowhow

	Group	
	2016 RMB'000	2015 RMB'000
<i>Cost</i>		
Beginning of financial year	34,802	36,721
Currency translation differences	1,109	(1,919)
End of financial year	35,911	34,802
<i>Accumulated amortisation</i>		
Beginning of financial year	6,960	4,896
Currency translation differences	207	(202)
Amortisation charge (Note 5)	2,409	2,266
End of financial year	9,576	6,960
<b>Net book value</b>	<b>26,335</b>	<b>27,842</b>

### (d) Ship-design engineering software licences

	Group	
	2016 RMB'000	2015 RMB'000
<i>Cost</i>		
Beginning of financial year	10,692	24,872
Currency translation differences	303	(1,589)
Disposal of subsidiary (Note 12)	–	(13,830)
Write-off	–	(63)
Additions	1,064	1,302
End of financial year	12,059	10,692
<i>Accumulated amortisation</i>		
Beginning of financial year	7,489	8,157
Currency translation differences	214	(657)
Amortisation charge (Note 5)	1,162	3,969
Disposal of subsidiary (Note 12)	–	(3,917)
Write-off	–	(63)
End of financial year	8,865	7,489
<b>Net book value</b>	<b>3,194</b>	<b>3,203</b>

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 21. TRADE AND OTHER PAYABLES

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Trade payables				
– Third parties	20,042	1,901	64	–
– Related corporation	–	–	27,963	–
Construction contracts				
– Due to customers (Note 15)	47,499	1,958	–	–
Advances received				
– Third parties	63,834	633	–	–
– Related corporations	189,499	36,536	66,957	–
	253,333	37,169	66,957	–
Accrued expenses	48,198	51,789	3,737	2,940
Accrued construction costs	67,788	48,961	–	–
Other payables				
– Third parties	10,130	35	–	–
– Related corporations	110,290	4,796	4,793	–
– Associated companies	948	81	–	–
Interest payable to banks	1,742	1,478	78	89
Other tax payable	3,861	1,055	–	–
Other provisions	–	–	15,332	–
Others	–	2,190	–	–
	563,831	151,413	118,924	3,029
Less: Other payables – non-current	–	(35)	–	–
	563,831	151,378	118,924	3,029

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

Other provisions relate to liabilities assumed on behalf of subsidiaries that have undergone members' voluntary liquidation during the financial year ended 31 December 2016 as part of the Group's intra-group reorganisation exercise (Note 18).

## 22. DUE TO SUBSIDIARIES (NON-TRADE)

RMB8,767,000 (2015: Nil) of the non-trade amount due to a subsidiary is unsecured, bears interest at 2.3% per annum and is repayable on 31 January 2021. The remaining amounts are unsecured, interest-free and are repayable on demand.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 23. BORROWINGS

	Group		Company	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Current</i>				
Bank borrowings (secured)	568,713	107,113	215,996	–
Loans from non-controlling interests	98,138	54,547	–	–
Loan from related corporation	36,669	12,854	–	–
	703,520	174,514	215,996	–
<i>Non-current</i>				
Bank borrowings (secured)	492,240	583,471	–	206,483
Total borrowings	1,195,760	757,985	215,996	206,483

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	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
6 months or less	619,998	656,821	215,996	206,483
6 – 12 months	295,955	–	–	–
1 – 5 years	145,000	39,420	–	–
	1,060,953	696,241	215,996	206,483

### (a) Guarantee granted

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

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

	Group		Company	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowings	492,240	583,471	–	206,483

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

	Group		Company	
	2016	2015	2016	2015
Bank borrowings	3.49%	3.34%	–	3.14%

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

## 23. BORROWINGS (continued)

### (c) Loans from non-controlling interests

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

### (d) Loan from related corporation

The loans from related corporation are unsecured, interest-free and are repayable on demand. These loans are denominated in USD and the carrying amount approximates its fair value.

## 24. FINANCE LEASE LIABILITIES

	Group	
	2016	2015
	RMB'000	RMB'000
Minimum lease payments due		
– Not later than one year	1,073	962
– Between one and five years	801	888
	1,874	1,850
Less: Future finance charges	(77)	(84)
Present value of finance lease liabilities	1,797	1,766

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

	Group	
	2016	2015
	RMB'000	RMB'000
Not later than one year	1,042	935
Between one and five years	755	831
	1,797	1,766

The Group leases certain of its property, plant and equipment under finance leases. The average lease term is 4 years (2015: 4 years). For the financial year ended 31 December 2016, the average effective interest rate was 3% (2015: 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.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 25. DEFERRED INCOME TAXES

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

	Group	
	2016	2015
	RMB'000	RMB'000
Deferred income tax liabilities	16,928	18,535
Deferred income tax assets	(1,545)	(919)
	15,383	17,616

Deferred income tax assets and liabilities are expected to be recovered and settled after one year.

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
<b>2016</b>			
Beginning of financial year	14,706	3,829	18,535
Currency translation differences	473	128	601
Charged to profit or loss	(810)	(1,398)	(2,208)
End of financial year	14,369	2,559	16,928
<b>2015</b>			
Beginning of financial year	16,348	5,691	22,039
Currency translation differences	(872)	(311)	(1,183)
Effect of change in tax rate	–	2	2
Charged to profit or loss	(770)	(1,553)	(2,323)
End of financial year	14,706	3,829	18,535

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 25. DEFERRED INCOME TAXES (continued)

### Deferred income tax assets

	Provisions RMB'000	Total RMB'000
<b>2016</b>		
Beginning of financial year	(919)	(919)
Currency translation differences	(12)	(12)
Charged to profit or loss	(614)	(614)
End of financial year	(1,545)	(1,545)
<b>2015</b>		
Beginning of financial year	(497)	(497)
Currency translation differences	28	28
Charged to profit or loss	(450)	(450)
End of financial year	(919)	(919)

## 26. SHARE CAPITAL

	No. of ordinary shares	Amount RMB'000
<u>Group and Company</u>		
<b>2016 and 2015</b>		
Beginning and end of financial year	285,576,000	101,237

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

## 27. OTHER RESERVES

### (a) Composition:

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Capital reserve	11,944	11,944	10,429	10,429
Merger reserve	(3,664)	(3,664)	–	–
Statutory reserve	16,712	14,735	–	–
Currency translation reserve	(8,209)	1,669	(3,277)	(4,654)
	16,783	24,684	7,152	5,775

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 27. OTHER RESERVES (continued)

### (b) Movements:

#### (i) Capital reserve

	Group		Company	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Beginning of financial year	11,944	12,470	10,429	10,603
Reversal of deemed contribution on shareholder's loan	–	(526)	–	(174)
End of financial year	11,944	11,944	10,429	10,429

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

#### (ii) Merger reserve

	Group	
	2016	2015
	RMB'000	RMB'000
Beginning of financial year	(3,664)	–
Addition (Note 12)	–	(3,664)
End of financial year	(3,664)	(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	
	2016	2015
	RMB'000	RMB'000
Beginning of financial year	14,735	11,988
Transfer from retained profits	1,977	2,747
End of financial year	16,712	14,735

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.

## 27. OTHER RESERVES (continued)

### (b) Movements: (continued)

#### (iii) Statutory reserve (continued)

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

#### (iv) Currency translation reserve

	Group		Company	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Beginning of financial year	1,669	10,914	(4,654)	(4,146)
Reclassification on disposal of a subsidiary	–	(1,456)	–	–
Net currency translation differences of financial statements of foreign subsidiaries and associated companies	(7,517)	(9,138)	1,377	(508)
Less: Non-controlling interests	(2,361)	1,349	–	–
End of financial year	(8,209)	1,669	(3,277)	(4,654)

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.

## 28. COMMITMENTS

### (a) Contractual commitments

Contractual expenditures contracted for at the balance sheet date but not recognised in the financial statements, excluding those relating to investments in associated companies (Note 17), are as follows:

	Group	
	2016	2015
	RMB'000	RMB'000
Inventories work-in-progress	262,145	299,540

## 28. COMMITMENTS (continued)

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

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

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

	Group	
	2016 RMB'000	2015 RMB'000
Not later than one year	19,711	10,630
Between one and five years	21,596	30,318
Later than five years	13,273	18,738
	<b>54,580</b>	<b>59,686</b>

## 29. FINANCIAL RISK MANAGEMENT

### Financial risk factors

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

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

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").

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 29. FINANCIAL RISK MANAGEMENT (continued)

### (a) Market risk (continued)

#### (i) Currency risk (continued)

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

	SGD RMB'000	USD RMB'000	RMB RMB'000	EUR RMB'000	Total RMB'000	
<b>At 31 December 2016</b>						
<b>Financial assets</b>						
Cash and cash equivalents	24,817	17,913	462,255	81,752	586,737	
Trade and other receivables	244	1,538	709,375	90,899	802,056	
Due from subsidiaries	–	461,811	31,765	18,453	512,029	
Available-for-sale investments	–	–	–	11	11	
Finance lease receivables	–	64,383	–	–	64,383	
	25,061	545,645	1,203,395	191,115	1,965,216	
<b>Financial liabilities</b>						
Trade and other payables	(4,106)	(80,585)	(139,607)	(38,701)	(262,999)	
Borrowings	(215,996)	(499,390)	(480,374)	–	(1,195,760)	
Due to subsidiaries	–	(461,811)	(31,765)	(18,453)	(512,029)	
Finance lease liabilities	–	–	–	(1,797)	(1,797)	
	(220,102)	(1,041,786)	(651,746)	(58,951)	(1,972,585)	
<b>Net financial (liabilities)/ assets</b>	(195,041)	(496,141)	551,649	132,164	(7,369)	
<b>Currency exposure of financial liabilities net of those denominated in the respective entities' functional currency</b>	(98)	(22,214)	(5,563)	(59)	(16,808)	
	SGD RMB'000	USD RMB'000	RMB RMB'000	EUR RMB'000	Others RMB'000	Total RMB'000
<b>At 31 December 2015</b>						
<b>Financial assets</b>						
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
Due from subsidiaries	15,792	493,046	27,848	55,222	–	591,908
Available-for-sale investments	–	–	–	11	–	11
	18,924	790,647	203,775	236,120	137	1,249,603
<b>Financial liabilities</b>						
Trade and other payables	(3,652)	(51,717)	(19,385)	(37,532)	–	(112,286)
Borrowings	(206,483)	(512,082)	(39,420)	–	–	(757,985)
Due to subsidiaries	(15,792)	(493,046)	(27,848)	(55,222)	–	(591,908)
Finance lease liabilities	–	–	–	(1,766)	–	(1,766)
	(225,927)	(1,056,845)	(86,653)	(94,520)	–	(1,463,945)
<b>Net financial (liabilities)/ assets</b>	(207,003)	(266,198)	117,122	141,600	137	(214,342)
<b>Currency exposure of financial assets net of those denominated in the respective entities' functional currency</b>	1,544	206,056	722	36,034	137	244,493



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 29. FINANCIAL RISK MANAGEMENT (continued)

### (a) Market risk (continued)

#### (i) Currency risk (continued)

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

	SGD RMB'000	USD RMB'000	Total RMB'000
<b>At 31 December 2016</b>			
<b>Financial assets</b>			
Cash and cash equivalents	24,479	–	24,479
Trade and other receivables	228	88,613	88,841
	<b>24,707</b>	<b>88,613</b>	<b>113,320</b>
<b>Financial liabilities</b>			
Trade and other payables	(8,672)	(27,963)	(36,635)
Borrowings	(215,996)	–	(215,996)
	<b>(224,668)</b>	<b>(27,963)</b>	<b>(252,631)</b>
<b>Net financial (liabilities)/assets</b>	<b>(199,961)</b>	<b>60,650</b>	<b>(139,311)</b>
<b>Currency exposure of financial assets net of those denominated in the Company's functional currency</b>	<b>–</b>	<b>60,650</b>	<b>60,650</b>

	SGD RMB'000	USD RMB'000	RMB RMB'000	EUR RMB'000	Total RMB'000
<b>At 31 December 2015</b>					
<b>Financial assets</b>					
Cash and cash equivalents	143	481	13	263	900
Trade and other receivables	7,296	–	–	–	7,296
	<b>7,439</b>	<b>481</b>	<b>13</b>	<b>263</b>	<b>8,196</b>
<b>Financial liabilities</b>					
Trade and other payables	(3,029)	–	–	–	(3,029)
Due to subsidiaries	(154,476)	–	–	–	(154,476)
Borrowings	(206,483)	–	–	–	(206,483)
	<b>(363,988)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(363,988)</b>
<b>Net financial (liabilities)/assets</b>	<b>(356,549)</b>	<b>481</b>	<b>13</b>	<b>263</b>	<b>(355,792)</b>
<b>Currency exposure of financial (liabilities)/assets net of those denominated in the Company's functional currency</b>	<b>–</b>	<b>481</b>	<b>13</b>	<b>263</b>	<b>757</b>

## 29. FINANCIAL RISK MANAGEMENT (continued)

### (a) Market risk (continued)

#### (i) Currency risk (continued)

If the SGD, USD and EUR change against the RMB by 10% (2015: 10%) and 10% (2015: 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	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
SGD against RMB				
– Strengthened	(8)	128	–	–
– Weakened	8	(128)	–	–
USD against RMB				
– Strengthened	(1,844)	17,103	5,034	40
– Weakened	1,844	(17,103)	(5,034)	(40)
EUR against RMB				
– Strengthened	(5)	2,991	–	22
– Weakened	5	(2,991)	–	(22)

#### (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 23 to the financial statements.

If interest rates had been 50 (2015: 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 2016 would decrease/increase by RMB3,263,053 (2015: RMB2,917,355) and RMB1,736,200 (2015: RMB1,032,415) respectively. This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

### (b) Credit risk

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

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 29. FINANCIAL RISK MANAGEMENT (continued)

### (b) Credit risk (continued)

The credit risk for trade receivables and finance lease receivables based on the information provided to key management is as follows:

	Group	
	2016 RMB'000	2015 RMB'000
<u>By geographical areas</u>		
Singapore	29,039	43,623
China	96,226	41,159
Europe	39,748	40,425
	<b>165,013</b>	<b>125,207</b>

#### (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.

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

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

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

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

	Group	
	2016 RMB'000	2015 RMB'000
Past due < 1 months	9,828	9,157
Past due 1 to 3 months	18,561	12,784
Past due over 3 months	30,475	13,306
	<b>58,864</b>	<b>35,247</b>

## 29. 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	
	2016 RMB'000	2015 RMB'000
Past due over 6 months	222	428
Less: Allowance for impairment	(222)	(428)
	—	—
Beginning of financial year	428	313
Allowance made	—	428
Write-back of allowance	(206)	(313)
End of financial year	222	428

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

	Group	
	2016 RMB'000	2015 RMB'000
Past due over 6 months	74,112	31,353
Less: Allowance for impairment	(5,221)	(1,797)
	68,891	29,556
Beginning of financial year	1,797	—
Allowance made	4,761	1,797
Write-back of allowance	(1,337)	—
End of financial year	5,221	1,797

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 29. FINANCIAL RISK MANAGEMENT (continued)

### (c) Liquidity risk

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

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 the Company can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	On demand or within 1 year RMB'000	Within 2 to 5 years RMB'000	Total RMB'000
<u>Group</u>				
<b>At 31 December 2016</b>				
Trade and other payables	–	259,138	–	259,138
Interest-free borrowings	–	134,807	–	134,807
Fixed interest rate borrowings	3.04	278,784	154,359	433,143
Variable interest rate borrowings	3.55	326,763	372,227	698,990
Finance lease liability (fixed rate)	3.62	1,073	801	1,874
		<b>1,000,565</b>	<b>527,387</b>	<b>1,527,952</b>
<b>At 31 December 2015</b>				
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
<u>Company</u>				
<b>At 31 December 2016</b>				
Trade and other payables	–	51,967	–	51,967
Variable interest rate borrowings	2.93	228,636	–	228,636
		<b>280,603</b>	<b>–</b>	<b>280,603</b>
<b>At 31 December 2015</b>				
Trade and other payables	–	3,029	–	3,029
Variable interest rate borrowings	3.14	–	219,431	219,431
		3,029	219,431	222,460

## 29. FINANCIAL RISK MANAGEMENT (continued)

### (d) Capital risk

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

Net debt is calculated as borrowings plus trade and other payables 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 27). The statutory reserves may only be distributed to shareholders upon liquidation of the subsidiary.

The Group's overall strategy remains unchanged from 2015.

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Net debt	<b>1,173,218</b>	553,034	<b>310,441</b>	363,088
Total equity	<b>199,507</b>	236,845	<b>88,122</b>	32,871
Total capital	<b>1,372,725</b>	789,879	<b>398,563</b>	395,959

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 2016 and 2015. 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 2016 and 2015.

### (f) Financial instruments by category

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

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Loans and receivables	<b>1,453,176</b>	657,684	<b>113,320</b>	8,465
Available-for-sale financial assets	<b>11</b>	11	–	–
Financial liabilities at amortised cost	<b>1,460,556</b>	872,037	<b>545,332</b>	363,988

### (g) Financial instruments subject to offsetting

The Group and the 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 2016

## 30. IMMEDIATE AND ULTIMATE HOLDING CORPORATIONS

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

## 31. RELATED PARTY TRANSACTIONS

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

### (a) Sales and purchases of goods and services

	Group	
	2016	2015
	RMB'000	RMB'000
Shipbuilding contract revenue from related corporations	55,211	285,201
Shipbuilding contract costs to related corporations	(37,185)	(220,101)
Service fee income from related corporations	80,016	46,359
Management fee income from related corporations	100	2,076
Ship-design fee income from related corporations	39,127	4,159
EPC income from related corporations	8,548	–
Other income from related corporations	2,139	–
Property management fees to related corporations	(1,042)	(894)
Rental expense to related corporations	(544)	(505)

Related corporations refer to subsidiaries of the immediate holding corporation.

Outstanding balances at 31 December 2016 and 31 December 2015, arising from sale/purchase of goods and services, are unsecured and receivable/payable within 12 months from balance sheet date and disclosed in Notes 13, 21 and 23.

### (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	
	2016	2015
	RMB'000	RMB'000
Short-term benefits	2,805	3,495
Post-employment benefits	298	349
	3,103	3,844

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

## **32. SEGMENT INFORMATION**

For the purpose of the resource allocation and assessment of segment performance, the Group's 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) Ship-design service – provision of ship-design services.
- (b) Shipbuilding construction service – provision of shipbuilding construction services.
- (c) Shipbuilding project management service – provision of shipbuilding project management and consultancy services.
- (d) Vessels trading and leasing – sale of vessels and vessel leasing.
- (e) Others – sale of goods used in shipbuilding, marketing and consulting service, and EPC service.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 2. Segment profit represents the profit earned by each segment without allocation of finance income, finance costs, and income tax expense. This is the measure reported to the 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 20 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 2016

## 32. SEGMENT INFORMATION (continued)

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

	Ship-design service RMB'000	Shipbuilding construction service RMB'000	Shipbuilding project management service RMB'000	Vessels trading and leasing RMB'000	Others RMB'000	Total RMB'000
<u>2016</u>						
<b>Sales</b>						
Third parties	145,647	–	9,107	83,759	2,618	241,131
Related corporations	44,080	55,211	80,016	–	10,787	190,094
	189,727	55,211	89,123	83,759	13,405	431,225
Inter-segment sales	(4,953)	–	–	–	–	(4,953)
	184,774	55,211	89,123	83,759	13,405	426,272
<b>Results</b>						
Segment results	2,344	3,888	25,259	(1,519)	2,545	32,517
<b>Assets</b>						
Segment assets	335,767	35,573	1,133,045	389,375	99,244	1,993,004
Unallocated assets						4,060
Total assets						1,997,064
<b>Liabilities</b>						
Segment liabilities	86,000	42,103	288,242	76,950	72,333	565,628
Unallocated liabilities						1,231,929
Total liabilities						1,797,557
<b>Other information</b>						
Depreciation	2,682	103	559	69	59	3,472
Amortisation	5,206	–	–	–	–	5,206
Share of profit of associated companies	679	–	–	–	–	679
Additions to property, plant and equipment	1,743	161	673	–	18	2,595
Bad trade debts						
– Written off	314	–	2,194	–	–	2,508
– Collected	(1,332)	–	–	–	–	(1,332)

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 32. SEGMENT INFORMATION (continued)

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

	Ship-design service RMB'000	Shipbuilding construction service RMB'000	Shipbuilding project management service RMB'000	Vessels trading and leasing RMB'000	Others RMB'000	Total RMB'000
<u>2015</u>						
<b>Sales</b>						
Third parties	225,795	–	18,562	–	9,230	253,587
Related corporations	9,781	285,201	46,359	–	2,076	343,417
	235,576	285,201	64,921	–	11,306	597,004
Inter-segment sales	(5,622)	–	–	–	–	(5,622)
	229,954	285,201	64,921	–	11,306	591,382
<b>Results</b>						
Segment results	20,751	13,955	29,657	–	(27,233)	37,130
<b>Assets</b>						
Segment assets	131,517	564,587	416,995	–	63,529	1,176,628
Unallocated assets						2,703
Total assets						1,179,331
<b>Liabilities</b>						
Segment liabilities	43,871	64,150	43,573	–	1,585	153,179
Unallocated liabilities						789,307
Total liabilities						942,486
<b>Other information</b>						
Depreciation	2,435	292	525	–	34	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	2,964	–	1,160	–	–	4,124
Bad trade debts written off	4,570	–	–	–	–	4,570

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 2016

## 32. SEGMENT INFORMATION (continued)

### (a) Reconciliations

#### (i) Segment profits

A reconciliation of segment results to (loss)/profit before tax is as follows:

	2016 RMB'000	2015 RMB'000
Segment results	32,517	37,130
Other income	2,194	1,048
Marketing, distribution and administrative expense	(30,544)	(14,034)
Finance cost	(17,321)	(15,252)
	<b>(13,154)</b>	8,892

#### (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, investment in associated companies, and available-for-sale financial assets.

Segment assets are reconciled to total assets as follows:

	2016 RMB'000	2015 RMB'000
Segment assets for reportable segments	1,993,004	1,176,628
Unallocated:		
Deferred income tax assets	1,545	919
Available-for-sale financial assets	11	11
Investment in associated companies	2,504	1,773
	<b>1,997,064</b>	1,179,331

#### (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, deferred tax liabilities and borrowings.

Segment liabilities are reconciled to total liabilities as follows:

	2016 RMB'000	2015 RMB'000
Segment liabilities for reportable segments	565,628	153,179
Unallocated:		
Current income tax liabilities	19,241	12,787
Deferred tax liabilities	16,928	18,535
Borrowings	1,195,760	757,985
	<b>1,797,557</b>	942,486

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 32. SEGMENT INFORMATION (continued)

### (b) Revenue from major products and services

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

	Ship-design service RMB'000	Shipbuilding construction service RMB'000	Shipbuilding project management service RMB'000	Vessels trading and leasing RMB'000	Others RMB'000
<b>2016</b>					
Customer 1	38,691	—	36,872	—	8,548
Customer 2	437	—	42,777	—	2,240
Customer 3	—	—	—	83,759	—
Customer 4	—	55,211	—	—	—
Customer 5	25,618	—	—	—	—
Customer 6	19,162	—	—	—	—
Customer 7	15,994	—	—	—	—
Total	99,902	55,211	79,649	83,759	10,788
<b>2015</b>					
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	96,468	285,201	46,359	—	1,850

### (c) Geographical information

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

	Revenue	
	2016 RMB'000	2015 RMB'000
PRC	224,273	414,615
Finland	49,462	77,915
Germany	20,191	—
United Kingdom	—	51,400
United States	24,620	27,240
Oman	83,759	—
Other countries	23,967	20,212
	426,272	591,382

## 32. SEGMENT INFORMATION (continued)

### (c) Geographical information (continued)

	Non-current assets	
	2016 RMB'000	2015 RMB'000
PRC	1,535	1,489
Finland	200,668	214,765
Germany	151	164
Singapore	140	1,044
Oman	50,551	–
	<b>253,045</b>	<b>217,462</b>

## 33. 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 2017. 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.

Management is currently assessing the effects of applying the new standards on the Group's financial statements and has not identified any areas that are likely to be affected. The Group will make more detailed assessment over the next twelve months.



## 33. NEW OR REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS (continued)

- FRS 109 *Financial instruments* (effective for annual periods beginning on or after 1 January 2018)

The complete version of FRS 109 replaces most of the guidance in FRS 39. FRS 109 retains the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through Other Comprehensive Income (OCI) and fair value through Profit or Loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI.

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, debt instruments currently classified as available-for-sale (AFS) financial assets would appear to satisfy the conditions for classification as at fair value through OCI and hence there will be no change to the accounting for these assets.

The other financial assets held by the Group include:

- equity instruments currently classified as AFS for which fair value through OCI election is available; and
- debt instruments classified as held-to-maturity or loans and receivables and measured at amortised cost appear to meet the conditions for classification at amortised cost under FRS 109.

Accordingly, the Group does not expect the new guidance to have a significant impact on the classification of its financial assets.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in OCI, for liabilities designed at fair value through profit or loss. There will be no impact on the Group's accounting for financial liabilities as the Group does not have any such liabilities.

FRS 109 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. While the Group is yet to undertake a detailed assessment, it would appear that the Group's current hedge relationships would qualify as continuing hedges upon the adoption of FRS 109. Accordingly, the Group does not expect a significant impact on the accounting for its hedging relationships.

There is now a new expected credit losses model that replaces the incurred loss impairment model used in FRS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through OCI, contract assets under FRS 115 Revenue from contracts with customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

### 33. NEW OR REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS (continued)

- FRS 116 *Leases* (effective for annual periods beginning on or after 1 January 2019)

FRS 116 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not change significantly.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB54,580,000 (Note 28). However, the Group has yet to determine to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under FRS 116.

### 34. AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of AVIC International Maritime Holdings Limited on 31 March 2017.

# STATISTICS OF SHAREHOLDINGS

AS AT 22 MARCH 2017

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

*As at 22 March 2017, the Company did not hold any treasury shares.*

## DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 – 99	1,839	43.96	77,924	0.03
100 – 1,000	1,981	47.36	636,400	0.22
1,001 – 10,000	280	6.69	686,483	0.24
10,001 – 1,000,000	76	1.82	10,022,823	3.51
1,000,001 AND ABOVE	7	0.17	274,152,370	96.00
<b>TOTAL</b>	<b>4,183</b>	<b>100.00</b>	<b>285,576,000</b>	<b>100.00</b>

## TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	UOB KAY HIAN PRIVATE LIMITED	211,040,983	73.90
2	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	25,336,336	8.87
3	RHB SECURITIES SINGAPORE PTE. LTD.	19,019,547	6.66
4	CITIBANK NOMINEES SINGAPORE PTE LTD	8,024,848	2.81
5	HSBC (SINGAPORE) NOMINEES PTE LTD	7,019,347	2.46
6	RAFFLES NOMINEES (PTE) LIMITED	2,197,424	0.77
7	DBS NOMINEES (PRIVATE) LIMITED	1,513,885	0.53
8	PHILLIP SECURITIES PTE LTD	972,494	0.34
9	LIM TECK CHAY	800,000	0.28
10	PANG WING SENG	706,800	0.25
11	LEUNG TAI KEUNG	584,000	0.20
12	YUEN SUK CHING	584,000	0.20
13	DB NOMINEES (SINGAPORE) PTE LTD	500,044	0.18
14	OCBC SECURITIES PRIVATE LIMITED	490,721	0.17
15	PEH HOCK CHOON	454,140	0.16
16	PHUA GIM CHUAN	291,000	0.10
17	CHUA BOCK ENG	270,000	0.09
18	CHENG BING	240,000	0.08
19	ABN AMRO CLEARING BANK N.V.	237,471	0.08
20	FONG KWOK KWONG	224,000	0.08
<b>TOTAL</b>		<b>280,507,040</b>	<b>98.21</b>

# STATISTICS OF SHAREHOLDINGS

AS AT 22 MARCH 2017

## Substantial Shareholders as at 22 March 2017

(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) <sup>(1)</sup>	–	–	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) <sup>(1)</sup>	–	–	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) <sup>(1)</sup>	–	–	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) <sup>(1)</sup>	210,947,369	73.87	–	–

### Note:

(1) AVIC holds 62.52% of the registered capital of AVIC International, which in turn holds the entire registered capital of AVIC International Shenzhen. 35.6% and 39.4% of the share capital of AVIC IHL are 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 2017. 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

(Incorporated in the Republic of Singapore)

(Registration No. 201024137N)

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of AVIC International Maritime Holdings Limited (the “**Company**”) will be held at 3.00 p.m. on 26 April 2017 at Paprika Room, Level 5, Novotel Singapore Clarke Quay, 177A River Valley Road, Singapore 179031 for the following purposes:

### As Ordinary Business

1. To receive and adopt the Audited Financial Statements of the Company for the financial year ended 31 December 2016 (“**FY2016**”), together with the Directors’ Statement and Report of the Auditors thereon. **(Resolution 1)**
2. To approve the Directors’ Fees of S\$180,000 for FY2016. **(Resolution 2)**
3. To re-elect Mr Sun Yan, 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 Teng Cheong Kwee, 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 Li Meijin, 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-appoint Messrs PricewaterhouseCoopers LLP as Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 6)**

### As Special Business

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

#### 1. **SHARE ISSUE MANDATE**

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

- (a) allot and issue shares in the capital of the Company (“**Shares**”) whether by way of rights, bonus or otherwise; and/or
- (b) make or grant offers, agreements or options (collectively, “**Instruments**”) that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures, convertible securities or other instruments convertible into Shares;

# NOTICE OF THE ANNUAL GENERAL MEETING

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

- (c) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) to be issued pursuant to this Resolution shall not exceed one hundred percent (100%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (d) below), of which the aggregate number of Shares to be issued other than on a pro-rata basis to existing shareholders of the Company (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) does not exceed fifty percent (50%) of the total number of issued Shares (excluding treasury shares) (as calculated in accordance with sub-paragraph (d) below);
- (d) subject to such calculation as may be prescribed by the SGX-ST, for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (c) above, the total number of issued shares (excluding treasury shares) shall be based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:
  - (i) new Shares arising from the conversion or exercise of any convertible securities;
  - (ii) new Shares arising from exercising of share options or vesting of share awards which are outstanding or subsisting at the time of the passing of this Resolution; and
  - (iii) any subsequent bonus issue, consolidation or subdivision of shares;
- (e) in exercising the authority conferred by this Resolution, the Company shall comply with the requirements imposed by the SGX-ST from time to time and the provisions of the Catalist Rules for the time being in force (unless such compliance has been waived by the SGX-ST), all legal requirements under the Companies Act and the Constitution of the Company; and
- (f) such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier, unless revoked or varied by the Company in a general meeting.

*[Explanatory Note (iv)]*

**(Resolution 7)**

2. 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, 11 April 2017

**Explanatory Notes:**

# NOTICE OF THE ANNUAL GENERAL MEETING

- (i) Resolution 3: Pursuant to Article 91 of the Constitution of the Company, Mr Sun Yan will retire at the forthcoming Annual General Meeting and shall be eligible to offer himself for re-election at that meeting. If re-elected, he will remain as an Executive Director and the Chief Executive Director of the Company.
- (ii) Resolution 4: Pursuant to Article 91 of the Constitution of the Company, Mr Teng Cheong Kwee 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 the Lead Independent Director of the Company, the Chairman of the Nominating Committee, and a member of the Audit Committee and the Remuneration Committee.
- (iii) Resolution 5: Pursuant to Article 91 of the Constitution of the Company, Mr Li Meijin will retire at the forthcoming Annual General Meeting and shall be eligible to offer himself for re-election at that meeting. If re-elected, he will remain as an Executive Director of the Company.
- (iv) Resolution 7: If passed, this Resolution will empower the Directors of the Company, effective until the conclusion of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue Shares, make or grant Instruments convertible into Shares and to issue shares pursuant to such Instruments, up to a number not exceeding in total 100% of the issued Shares (excluding treasury shares, if any), of which up to 50% may be issued other than on a pro-rata basis to shareholders.

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



# NOTICE OF THE ANNUAL GENERAL MEETING

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 Paprika Room, Level 5, Novotel Singapore Clarke Quay, 177A River Valley Road, Singapore 179031 on 26 April 2017 at 3.00p.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 2016 (" <b>FY2016</b> "), together with the Directors' Statement and Report of the Auditors thereon.		
Resolution 2	To approve the Directors' Fees of S\$180,000 for FY2016.		
Resolution 3	To re-elect Mr Sun Yan, a Director who retires pursuant to Article 91 of the Constitution of the Company.		
Resolution 4	To re-elect Mr Teng Cheong Kwee, a Director who retires pursuant to Article 91 of the Constitution of the Company.		
Resolution 5	To re-elect Mr Li Meijin, a Director who retires pursuant to Article 91 of the Constitution of the Company.		
Resolution 6	To re-appoint Messrs PricewaterhouseCoopers LLP as Auditors of the Company and to authorise the Directors of the Company to fix their remuneration.		
	<b>SPECIAL BUSINESS</b>		
Resolution 7	To approve and adopt the Share Issue Mandate.		

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2017

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

\_\_\_\_\_  
Signature(s) of members(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 abstain as he thinks fit.
5. If the instrument appointing a proxy is returned without the name of the proxy indicated, the instrument appointing a proxy shall be invalid.
6. If the appointor is an individual, the instrument appointing a proxy shall be signed by the appointor or his attorney.
7. If the appointor is a corporation, the instrument appointing a proxy shall be either given under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the meeting, in accordance with Section 179 of the Companies Act, 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 8 Robinson Road, #13-00 ASO Building, Singapore 048544, at least forty-eight (48) hours before the time appointed for holding of the Annual General Meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) for the taking of the poll at which it is to be used.

**General:**

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at seventy-two (72) hours before the time appointed for holding the Annual General Meeting, as certified by The Central Depository (Pte) Limited to the Company.

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

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**AVIC INTERNATIONAL MARITIME  
HOLDINGS LIMITED**

Registration Number: 201024137N

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