

# 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.

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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.

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.

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The attendance of the Directors at the Board and Board Committee meetings held during FY2016 are set out as follows:

	Board Committees			
	Board	Audit	Nominating	Remuneration
<b>Total number of meetings held in FY2016</b>	4	4	1	1
	Number of meetings attended			
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:

- making key decisions on the operational management and supervision of the Management of the Group's operations;
- managing acquisitions, disposals and transfers of fixed assets within limits authorised by the Board;
- approving operational expenditure within authorised limits;
- entering into sale and purchase contracts in relation to shipbuilding and ship-trading within authorised limits;

- (e) managing procurement in relation to shipbuilding contract expenditure within authorised limits;
- (f) entering into operational contracts within authorised limits;
- (g) obtaining borrowings and credit facilities within authorised limits;
- (h) writing-off trade and non-trade receivables within authorised limits;
- (i) granting credit limits to trade debtors within authorised limits; and
- (j) reviewing the performance of the Company and the Group, deliberating on corporate strategies, group business and principal risks, addressing important operational and financial issues and making recommendations to the Board for approval.

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

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

## 2. BOARD COMPOSITION AND GUIDANCE

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

The Board comprises 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.

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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.

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.

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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.

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## Particulars of the Directors

None of the Directors holds any shares in the Company and its related corporations. The directorships and chairmanships held by the Directors, both present (as at 31 December 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> 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> * <i>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.</i></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> ** <i>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.</i></p>	

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Name	Directorships	Major Appointments (other than Directorships)
Mr Sun Yan	<i>Present</i>	<i>Present</i>
	<u>Listed companies</u> Nil	<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>
	<u>Others</u> <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>	
	<i>In the Past 3 Years</i>	
	<u>Listed Companies</u> Nil	
	<u>Others</u> <ul style="list-style-type: none"> <li>• AVIC International Ship Development (Guangzhou) Co., Ltd.**</li> </ul>	
	<u>Note:</u> ** As announced on 9 November 2016, the company was deregistered as it has become inactive since 2014.	

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Name	Directorships	Major Appointments (other than Directorships)
Mr Li Meijin	Present	Present
	<u>Listed companies</u> Nil	<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>
	<u>Others</u> <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>	
	<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.	
	<i>In the Past 3 Years</i>	
	<u>Listed Companies</u> Nil	
	<u>Others</u> <ul style="list-style-type: none"> <li>• AVIC International Marine Engineering (Lux), S.à.r.l**</li> </ul>	
	<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.	

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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>Present</i></p> <ul style="list-style-type: none"> <li>• AVIC International Shenzhen Co., Ltd. (Deputy General Manager and Chief Accountant)</li> </ul>
	<p><i>In the Past 3 Years</i></p> <p>Nil</p>	
Mr Zhong Sijun	<p><i>Present</i></p> <p><u>Listed companies</u></p> <ul style="list-style-type: none"> <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>Present</i></p> <ul style="list-style-type: none"> <li>• AVIC International Holdings Limited (Company Secretary)</li> </ul>
	<p><i>In the Past 3 Years</i></p> <p>Nil</p>	
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>* <i>The company is in the process of being liquidated pursuant to the proposed intragroup restructuring exercise announced by the Company on 12 August 2016.</i></p>	<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>• StatsChipPac Ltd</li> <li>• Junma Tyre Cord Company Ltd</li> </ul>	

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Name	Directorships	Major Appointments (other than Directorships)
Mr Chong Teck Sin	<i>Present</i>	<i>Present</i>
	<u>Listed companies</u> <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>	Nil
	<u>Others</u> Cimec Construction & Engineering Singapore Pte Ltd.	
	<i>In the Past 3 Years</i> Nil	
Mr Wang Puqu	<i>Present</i>	<i>Present</i>
	Nil	<ul style="list-style-type: none"> <li>• Peking University (Professor, School of Government)</li> </ul>
	<i>In the Past 3 Years</i> Nil	
Ms Alice Lai Kuen Kan	<i>Present</i>	<i>Present</i>
	<u>Listed companies</u> <ul style="list-style-type: none"> <li>• China Energine 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>	Nil
	<u>Others</u> <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>	
	<i>In the Past 3 Years</i>	
	<u>Listed Companies</u> Nil	
	<u>Others</u> <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.

## 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'	Allowances	Other Benefits	Total
	Salary	Bonus	Fees			
	%	%	%	%	%	%
<b>Directors</b>						
<b>Below S\$250,000</b>						
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
<b>Executive Officers</b>						
<b>Below S\$250,000</b>						
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.

## 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:

<b>Purpose of utilisation</b>	<b>Amount Allocated (S\$ million)</b>	<b>Total Amount utilised (S\$ million)</b>	<b>Balance (S\$ million)</b>
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	(a) Has the Company complied with all the principles and guidelines of the Code? If not, please state the specific deviations and the alternative corporate governance practices adopted by the Company in lieu of the recommendations in the Code.	The Company has complied in all material respects with the principles and guidelines set out in the Code.
	(b) In what respect do these alternative corporate governance practices achieve the objectives of the principles and conform to the guidelines in the Code?	Not applicable.

### Board Responsibility

Guideline 1.5	What are the types of material transactions which require approval from the Board?	The Company has adopted a set of Approving Limits of Authority which contains a schedule of matters specifically reserved for the Board's approval. In addition to matters such as annual budgets, financial plans and business strategies, the Board's approval is required for material transactions such as major acquisitions and disposals, funding and investment proposals.
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### Members of the Board

Guideline 2.6	(a) What is the Board's policy with regard to diversity in identifying director nominees?	The composition of the Board is reviewed on an annual basis by the NC to ensure that the Board has the appropriate mix of skills, experience and expertise, and collectively possesses the necessary core competencies for effective functioning and informed decision-making. This is reflected in the diversity of backgrounds and competencies of our Directors.
	(b) Please state whether the current composition of the Board provides diversity on each of the following – skills, experience, gender and knowledge of the Company, and elaborate with numerical data where appropriate.	The Board comprises persons who possess core competencies and experience in accounting and finance, business and management experience, and strategic planning, as well as industry knowledge. In recognition of the importance and value of gender diversity, the Board has one female Director and the NC continually reviews the composition of the Board to encourage diversity. The profile and experience of each Director is set out in the section titled "Board of Directors" in the Annual Report.
	(c) What steps has the Board taken to achieve the balance and diversity necessary to maximize its effectiveness?	The NC and the Board annually review and assess the structure, size and composition of the Board to ensure that it allows for effective decision making. The NC and the Board take into account the scope and nature of the operations of the Group in its annual assessment.

# 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.  (b) What are the Board's reasons for considering him independent? Please provide a detailed explanation.	No.  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.