THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **AVIC International Holdings Limited**, you should at once hand this circular to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

中航國際控股股份有限公司
AVIC INTERNATIONAL HOLDINGS LIMITED

(formerly known as CATIC Shenzhen Holdings Limited (深圳中航集團股份有限公司))
(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock code: 00161)

MAJOR AND CONNECTED TRANSACTION ACQUISITION OF FURTHER INTEREST IN KHD

Supplemental Circular

This Supplemental Circular is for information purpose only. A letter from the Board is set out on pages 2 to 29 of this Supplemental Circular.

20 September 2014

CONTENTS

Capitalised terms used in this Supplemental Circular shall have the meanings as defined in the Circular unless the context otherwise requires. Moreover, in this Supplemental Circular, the following terms shall have the following meanings:

"Circular"	the circular dated 26 March 2014 issued by the Company in respect of the Acquisition;
"Deloitte Germany"	Deloitte & Touche Gmblt Wirtschaftspruefungsgesellschaft;
"Latest Practicable Date"	16 September 2014, being the latest practicable date prior to the printing of this Supplemental Circular for the purpose of ascertaining certain information contained herein;
"Resulting Group"	the Group and KHD Group; and
"Supplemental Circular"	this supplemental circular.

No representation has been made by the Company that any amount has been, could have been or could be converted at any rates or at all.

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20 September 2014

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION ACQUISITION OF FURTHER INTEREST IN KHD

Supplemental Circular

INTRODUCTION

Reference is made to the Circular, and to the announcements of the Company dated 30 April 2014 and 27 May 2014, respectively.

On 11 October 2013, the Purchaser entered into twelve Agreements, each with a Vendor, pursuant to which the Purchaser conditionally agreed to acquire, in aggregate, the Sale Shares (representing approximately 19.03% of the share capital of KHD as at the Latest Practicable Date) at an aggregate consideration of approximately EUR61.0 million.

After all the conditions for the acquisition of the Sale Shares and the Offer Conditions were fulfilled by 27 December 2013, the acquisition of the 9,456,353 Sale Shares was completed and the Offer was completed on 16 January 2014 following the end of the acceptance periods and a total acceptance in respect of 24,847,045 KHD Shares (representing approximately 49.99% of the total issued share capital of KHD) have been received by the Bidders. All options to purchase the issued share capital of the BVI Companies under the Option Agreements have also been exercised.

Immediately before the Acquisition, the Group held approximately 20.00% of the issued share capital of KHD. Following the completion of the Acquisition and as at the Latest Practicable Date, the Group, in aggregate, held 44,244,113 KHD Shares (representing approximately 89.02% of the issued share capital of KHD).

Written shareholders' approval has been obtained from AVIC International and AVIC Shenzhen for the approval of the Acquisition pursuant to Rules 14.44 and 14A.43 of the Listing Rules on 25 November 2013.

The purpose of this Supplemental Circular is to provide the Shareholders with further details of KHD and the Acquisition.

COMPOSITION OF BOARD MEMBERS OF KHD

As at the Latest Practicable Date, KHD had a two tier board system, consisting of:

1. Management Board: comprising Mr. Jouni Salo, Mr. Ralph Quellmalz and Mr. Yizhen Zhu. Mr. Jouni Salo was the chief executive officer, Mr. Ralph Quellmalz was the chief financial officer and Mr. Yizhen Zhu was the chief operating officer of Asia Pacific.

2. Supervisory Board: comprising Ms. Eliza Suk Ching Yuen, Mr. Hubert Keusch and Mr. Kangning Zou. Mr. Hubert Keusch was the Chairman and Ms. Eliza Suk Ching Yuen was the Deputy Chairperson. Each member of the Supervisory Board of KHD is nominated by the Group and elected at a general meeting of KHD.

The Management Board is responsible for managing the enterprise. Its members are jointly accountable for the management of the enterprise. The Chairman of the Management Board coordinates the work of the Management Board. The Management Board is responsible for independently managing the enterprise in the interest of the enterprise, thus taking into account the interests of its shareholders, its employees and other stakeholders, with the objective of sustainable creation of value. The Management Board develops the enterprise's strategy, coordinates it with the Supervisory Board and ensures its implementation. The Management Board ensures that all provisions of law and the enterprise's internal policies are abided by and works to achieve their compliance by companies of KHD Group. The Management Board ensures appropriate risk management and risk controlling in the enterprise.

The Supervisory Board appoints, supervises and advises members of the Management Board and is directly involved in decisions of fundamental importance to the enterprise. The chairman of the Supervisory Board coordinates the work of the Supervisory Board. The task of the Supervisory Board is to advise regularly and supervise the Management Board in the management of the enterprise. It must be involved in decisions of fundamental importance to the enterprise. The Supervisory Board appoints and dismisses members of the Management Board. When appointing the Management Board, the Supervisory Board shall also respect diversity and, in particular, aim for an appropriate consideration of women. Together with the Management Board it shall ensure that there is a long-term succession planning.

The Management Board and Supervisory Board members are appointed for the maximum term of five years (paragraph 84 section 1 and paragraph 102 section 1 German Corporation Act). After the end of an election term a re-election is possible.

MANAGEMENT DISCUSSION AND ANALYSIS OF KHD GROUP

Business Model

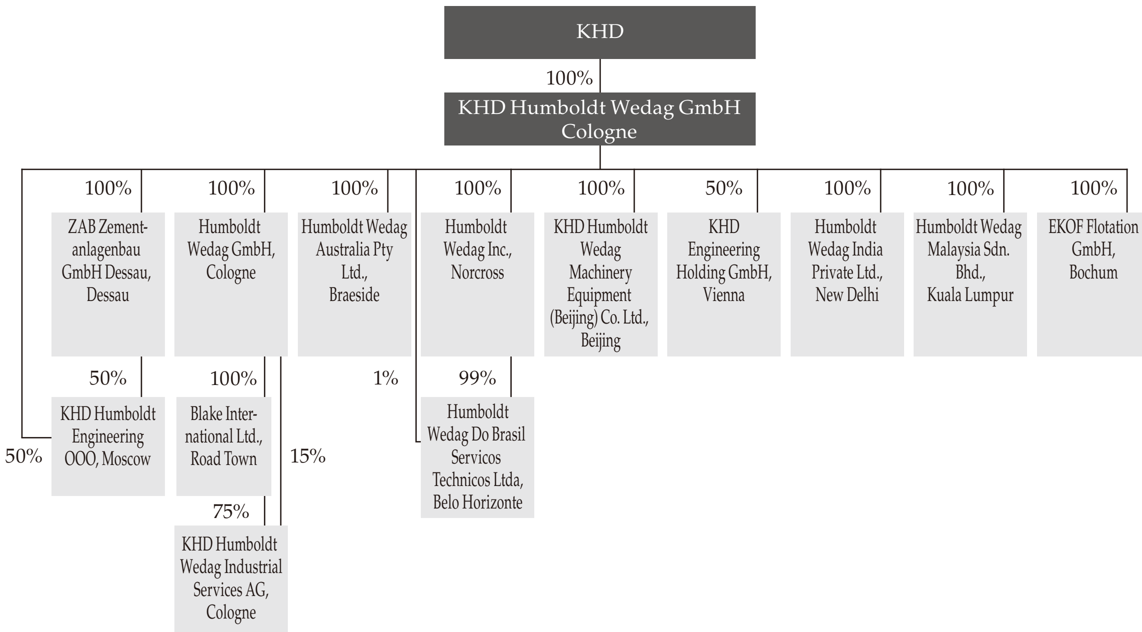
Organizational Structure and Locations

With its subsidiaries in Europe, the Americas, Asia, and Australia, KHD based in Cologne, Germany, ranks as one of the world's top equipment suppliers and service companies for the cement industry. The scope of services encompasses process technology, design, engineering, project management, the supply of technology and equipment as well as supervising the erection and commissioning of cement plants and related equipment. Customer services such as supplying spare parts, optimization of cement plants, and training plant personnel round out KHD Group's service portfolio. KHD Group focuses mainly on knowledge-intensive areas. The manufacturing of plant equipment is almost entirely outsourced to quality-certified, external manufacturers who work in accordance with KHD Group's specifications.

In its capacity as the ultimate holding company of KHD Group, KHD holds a 100% investment in KHD Humboldt Wedag GmbH, Cologne, Germany ("KHD HW"), which functions as a strategic management holding company. The 14 KHD Group companies focus on the business segment of industrial plant engineering as well as related services.

There has been a strategic partnership between KHD Group and Beijing-based Beijing Company since the end of 2010, underpinned by the capital interests of the Purchaser and Max Glory in KHD. The 20% capital interest of Max Glory exists since February 2011. In particular, the strategic partnership extends to joint participation in project tenders (including turnkey plants (engineering, procurement, construction, or "EPC")) as well as collaboration on procurement. Due to the majority takeover of KHD by the Bidders, strategic collaboration will be further strengthened in the future.

Corporate Structure of KHD

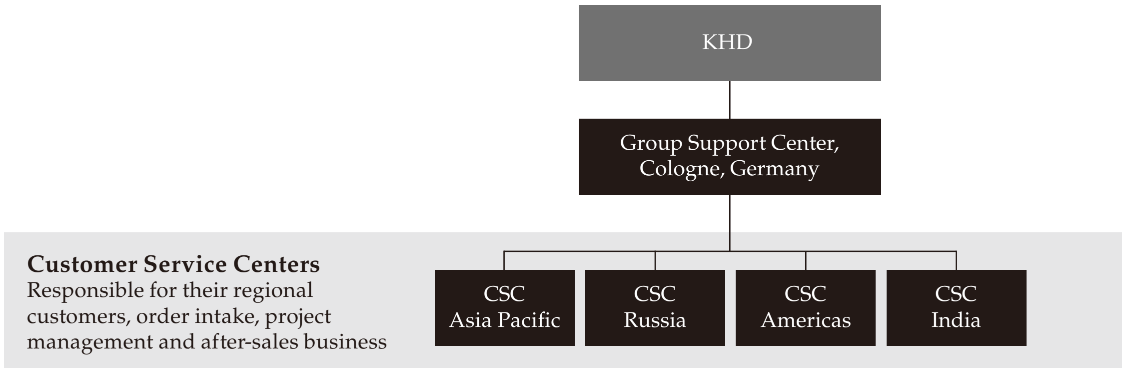


KHD Group's customer base is primarily made up of cement producers from around the world. Maintaining close contact with this target group is one of the keys to the success of KHD Group's business activities. Through targeted account management of KHD Group, KHD Group ensures that customers are served in accordance with their individual needs. KHD Group ensures direct customer care through KHD Group Customer Service Centers (CSCs) in the respective sales territories.

The advantage of KHD Group's structure lies in the global coordination of the KHD Group Support Center in Cologne combined with the proximity of the regional Customer Service Centers to the respective customers and their knowledge of the local market environment. In order to tap into markets in which KHD Group is not represented by its own sales force, KHD Group employs sales agents.

Within KHD Group, KHD Group Support Center in Cologne, Germany, assumes the central strategic functions and serves as contact for all specialist and organizational matters. The markets in Europe, the Middle East and North Africa are managed directly from Cologne. The remaining regions – Asia Pacific (APA), Russia/CIS, the Americas, and India/Sub-Saharan Africa – are each managed by a Customer Service Center (CSC).

Customer Service Centers (CSC)



The CSC Asia Pacific in Beijing is in charge of coordinating the cooperation with Beijing Company and of accelerating market development in China and Southeast Asia. The focus here is on cement markets in Indonesia and Malaysia, among others. Orders from CSC Asia Pacific are currently processed by KHD Group Support Center in Cologne.

With a company in Dessau, Germany, and a subsidiary in Moscow, the CSC Russia covers the 15 states of the former Soviet Union plus Mongolia. In addition to new plants, the focus is on taking advantage of the huge potential for modernization and expansion projects. The orders are processed through collaboration between personnel at KHD Group Support Center and CSC Russia. However, the Customer Service Center has plans to become a full-scale project execution center.

The CSC Americas, responsible for the entire North and South American continent, is located in the USA in Norcross near Atlanta, Georgia, and also includes a subsidiary in Brazil. The CSC Americas is capable to execute projects with only limited support from KHD Group Support Center.

The CSC India in New Delhi is responsible for the important Indian market, the neighboring countries of Nepal, Bhutan, and Sri Lanka, as well as the management of markets in Sub-Saharan Africa. With over 150 engineers, the CSC India not only executes its own projects, but it also increasingly supports the other Customer Service Centers. Marketing for the entire KHD Group is managed from India and implemented by employees at each location. The CSC India has its own workshop for manufacturing some key components and for roller refurbishment.

Range of Products and Services

Capex (Project Business)

The scope in the Capex business unit (project business) encompasses the process technology, design, engineering, project management, and the supply of technology and equipment (grinding, pyro process, system automation). Supervising of the erection and commissioning of cement plants and related equipment is related to the project business, but is organizationally allocated to the Parts & Services business unit.

The core product range supplied by KHD Group includes equipment for grinding and pyro processing, which represent essential elements of every cement plant. Grinding technology of KHD Group is utilized in raw material, clinker and clinker substitute grinding, and comprises crushing, grinding, and separation equipment. KHD Group's pyro processing equipment covers all of the key components of the kiln line, such as preheaters, calciner systems, burners, rotary kilns, and clinker coolers. Moreover, KHD Group has developed a number of system automation products, which are used together with process control systems to optimize plant performance.

Products of KHD Group stand out from those of competitors thanks to their low energy consumption, low maintenance costs, reduced vibrations and noise emissions, as well as minimal wear.

Parts & Services

KHD Group's services include on the one hand the supply of spare and wear parts and supervision of the erection and commissioning of cement plants and related equipment, while on the other hand, KHD Group offers various plant services such as roller refurbishment, technical inspections and audits, as well as consulting and assistance services. Consulting on energy efficiency, emissions reduction, and alternative fuels for plant modernizations is also part of the scope of the Parts & Services business unit.

KHD Group also organizes training for cement plant personnel. For this purpose, KHD Group uses its own program SIMULEX®, with which all processes in a cement plant can be simulated and controlled by the training course participants.

Management and Supervision

KHD is governed by the provisions of the German Stock Corporation Act (AktG), capital market regulations, and the rules set out in its articles of association. Pursuant to the dual board system, the Management Board is responsible for managing KHD, while the Supervisory Board carries out advisory and monitoring functions. Both boards cooperate closely for the benefit of KHD. Their common goal is to ensure sustainable value, while taking the interests of its shareholders, employees, and other stakeholders into account.

Objectives and Strategy

KHD Group's strategy focuses primarily on offering an attractive portfolio of technology and services at competitive prices to customers from the cement industry around the world and thereby successively increasing its market share. In doing so, KHD Group is able to build on a comfortable position with regard to the technology, which is used in over 500 installed plants worldwide. High energy efficiency and low maintenance costs are two of the product characteristics that have made KHD Group a preferred supplier worldwide. Through the further development of business model of KHD Group and strengthening of the service business, KHD Group intends to grow with a focus on profits and with limited risks, while at the same time reducing the susceptibility to cyclical or seasonal fluctuations of KHD Group.

The cornerstones of KHD Group strategy are:

- to create customer-oriented growth through consistent account management and the expansion of service activities under the umbrella of the new segment Parts & Services;
- to extend technological leadership of KHD Group by means of intensive research and development activities, modular standard plants and products, and investment in key technologies;
- to expand market position of KHD Group in markets on which KHD Group previously placed less focus and to secure long-term competitiveness through strategic partnerships and by strengthening resources and capacities in low-cost regions;
- to promote a shared culture of excellence and commitment (operational excellence) across the entire KHD Group.

The manufacturing of plant equipment has been almost completely outsourced to certified suppliers. This means that KHD Group can concentrate on knowledge-intensive and correspondingly high-margin core competencies and implement a flexible cost management system. This helps KHD Group to react faster to different market situations. Moreover, KHD Group will continue to focus the attention on the technology-intensive core components of cement plants, which represent almost one-third of the order value of an entire cement plant. In this way, KHD Group becomes possible to purchase the remaining components from the best provider, thus enabling KHD Group to offer the customer a convincing and comprehensive package.

While KHD Group's gross profit margin declined from 20.5% to 11.8% in 2013, it is the strategy of KHD to concentrate on high margin core competencies. However, the current situation in the cement market is very competitive. KHD has signed several contracts, which were won under high margin pressure. Due to these contracts the gross profit margin declined in 2013 while KHD is confident that the gross profit margin will improve in the future.

Customer-oriented Growth

Against a backdrop of market consolidation among cement producers, KHD Group has shifted its customer care towards global account management. Newly established sales offices and subsidiaries in Brazil and Turkey provide targeted support for activities in key growth markets. Global and local account managers have access to a comprehensive range of up-to-date information covering products and processes as well as marketing materials. Building on experience gained in on-site project management, they are now responsible for developing and expanding the service business in their respective markets as well as generating new project business.

In response to KHD Group customers' requirements, KHD Group is gradually expanding the portfolio of services KHD Group offers in the Parts & Services segment.

This will enable KHD Group to ensure the most comprehensive service possible for KHD Group's customers, in particular after a cement plant has been commissioned. In intensifying service activities of KHD Group, KHD Group holds true to technological core competencies and concentrate on regions with a sufficient number of installed plant components. Additionally, KHD Group will place greater emphasis on technical audits, which provide an early indication of the needs of individual customers for high-quality services and spare parts, thereby helping KHD Group to serve them better.

KHD Group also pursues customer-oriented growth at the process level through customer relationship management system (CRM), which has enabled KHD Group to streamline the evaluation and prioritization of all customer activities, especially during the critical tendering phase.

Expansion of Technological Leadership/Research and Development of KHD Group

Technological leadership continues to be important for KHD Group as a premium brand. The world's first suspension preheater and the first two-pier rotary kiln are KHD Group developments. KHD Group was also instrumental in developing high-pressure grinding and was among the first to successfully commission a roller press.

KHD Group's recently developed COMFLEX® (COMpact and FLEXible) grinding system combines KHD roller presses and separators for one of the most energy-efficient grinding circuits. In times of ever increasing energy costs, the COMFLEX® system is gaining in popularity in comparison to tradition ball mills or vertical roller mills. KHD Group's pyro processing equipment like rotary kilns, burners, and coolers undergo continuous improvement to make the entire process more efficient and use less energy, while at the same time providing customers with a high level of availability.

Research and development efforts focus on the major trends in the cement industry. Environmental protection is playing an increasingly important role. As one of the world's leading providers of environmentally friendly technologies for the cement industry, KHD Group continually focuses on solutions involving the use of alternative fuels and on continuous improvement of grinding and burning processes (increasing the efficiency of individual plant components and reducing emissions). KHD Group thus helps customers to comply with ever stricter requirements and to cut costs. As part of standardization efforts of KHD Group, KHD Group continues to aim to be able to offer customized plants to customers of KHD Group through the use of modular products and designs. This saves time and money for everyone involved. KHD Group is also working on automation solutions for the service business.

KHD Group spent €3.2 million on research and development in 2013 (previous year: €3.6 million). This corresponds to 1.3% (previous year: 1.7%) of revenue, a high value in industry comparisons maintained by KHD Group. A total of 24 patents incl. one registered design (previous year: 23 patents incl. six registered designs) were applied for in the reporting year. At the end of the year, KHD Group owned the rights to a total of 996 (previous year: 915) items of intellectual property, of which 461 (previous year: 403) were patents, 518 (previous year: 497) were brands and 17 (previous year: 15) were registered designs.

The important directions for research and development are oriented along the long-term industry trends, shown in the following table:

Industry Trend	KHD Technology Focus Area
Consolidation of global cement producers	– Standardization of products and processes to be able to serve customers better, faster and with more cost efficiency
Energy-efficient plants needed for lowering operating costs	– Increased use of KHD roller presses and COMFLEX® grinding applications – Increased use of waste heat – Improved kiln fuel efficiency and use of alternative fuels – Replacement or retrofitting of old plants – Improved maintenance management – Improved productivity through better automation and process control
Use of alternative fuels – driven by cost and legislation	– Further development of KHD's already leading technologies for the use of alternative fuels
More requirements for emission controls	– Increased use of COMFLEX® technology to grind clinker as well as substitutes like fly ash, slag, etc. – Development and use of KHD low-emission technology

Products and areas at the center of research and development at KHD Group in 2013:

Product/area	R&D Focus in 2013
Kiln	– Work on the new design for gears – Feasibility studies in connection with new kiln drives – Cost reduction measures for rollers
Burners	– Testing of other alternative fuels
Clinker coolers	– Development completion with a focus on improved efficiency, simpler operation, and maintenance as well as optimized automation (PLC logic)

Automation	–	Introduction of an internal flow sheet tool for optimization
	–	Further development of various automation products
Environment	–	New projects in the area of alternative fuels and emissions reduction
Base plant	–	Continued work on the standardization of plant layout for certain markets
Roller presses	–	Improvement in performance/weight ratio by approximately 15%
	–	Studies with new surfaces (reduced wear)

KHD Group uses an online innovation management system to collect, analyze and manage new ideas from KHD Group employees, regardless of their position or location.

Strategic Partnership

The collaboration with Beijing Company facilitates the combination of KHD Group's premium technology with Beijing Company's efficient and cost-effective construction expertise. With their combined portfolio, the two partners are able to cover almost 80% of the total value when building a new cement plant, whereby Beijing Company should act as the general contractor, being primarily responsible for construction and erection while KHD Group should mainly be responsible for the engineering and supply of the core equipment for cement plants. The focus of EPC activities is on cement markets outside of China.

Combining their services KHD Group and Beijing Company look forward to becoming one of the market leaders in global cement plant construction industry. Furthermore, the partnership presents KHD Group with the opportunity to win orders for equipment in attractive niches of the Chinese market. The emphasis here is on implementing energy-efficient and environmentally friendly technologies, which are being spearheaded by the Chinese government.

Working together in executing projects for turnkey cement plants has its own set of special requirements. KHD Group does not only ensure the quality, cost-efficiency, and adherence to the project time schedule for its own scope, but also takes into account the interrelation of its own supply with the scope of the strategic partner Beijing Company at all times. The aim is to offer the customer, together with Beijing Company, the most efficient solution for an EPC project.

Improvement in the cost structure is a central issue for achieving sustainable competitiveness. Through Beijing Company procurement center in Beijing, KHD Group increasingly exploits the cost advantages offered by the Chinese supply market and ensure competitive prices for equipment and services.

Collaboration is set to intensify following the successful takeover of KHD by the Bidders led by Beijing Company. It will also mean even better use of cost savings and improvement potential for joint projects.

Group-wide Culture of Excellence and Commitment (Operational Excellence)

In order to remain competitive, KHD Group is continuously working on optimizing processes of KHD Group and making cost structure flexible of KHD Group. The cost optimization program of KHD Group enabled KHD Group to achieve significant reductions in sales and administrative expenses in the year under review.

Different demands are being placed on KHD Group's employees as a consequence of intensified international cooperation and a greater emphasis on customer and service orientation. KHD Group supports them with targeted measures to foster both team and managerial development, including management training seminars, workshops, and conferences as well as the regular exchange of information and ideas between experts at the individual Customer Service Centers (CSC). KHD-Group-wide standardization of processes using SAP and the CRM (Customer Relationship Management) system also helps to simplify cooperation in teams spread across several locations.

The management structure represents the market-oriented focus and lays the foundations for strengthening KHD-Group-wide culture of excellence. The performance-based remuneration of managers is based on financial as well as customer and service related performance targets.

Management and Control System

The strategy of KHD Group also manifests itself in the way KHD Group is managed and controlled. By using a uniform system of key financial targets across KHD Group, KHD Group ensures a common understanding of how to measure success.

The primary financial performance indicators KHD Group uses to determine target achievement are calculated monthly on the basis of key figures. They include:

- Order intake and order backlog;
- KHD Group revenue;
- KHD Group earnings before taxes and interest (EBIT) as well as the ratio to revenue (EBIT margin);
- Operating cash flow.

Macroeconomic and Sector-related Conditions

Economic Environment

Economic expansion in the markets relevant to KHD Group was significantly less than expected, despite some positive indications from the USA and Europe. The International Monetary Fund (IMF) estimated global growth for 2013 as a whole at 3.0% (previous year: 3.1%). For the developing and emerging economies, the IMF calculated growth of 4.7% (previous year: 4.9%):

- Economic development in India continued to be restrained. The IMF estimates growth of 5.4% (previous year: 3.2%). The industry is suffering due to the sluggish pace of infrastructure development as well as regulatory obstacles. Companies and consumers are also struggling due to persistently high inflation.

- The IMF has significantly cut its initial growth forecast for Russia, which is now 1.5% (previous year: 3.4%). However, the construction industry continued benefiting from the infrastructure investments for the 2014 Winter Olympic Games and the 2018 FIFA World Cup as well as private housing construction.

- At 3.8% (forecast in October), the Turkish economy recovered and experienced stronger growth during 2013 (previous year: 2.2%), although the IMF doubts whether the upturn will last. In the period under review, the construction industry benefited from a government investment program backing the construction of earthquake-proof housing.

- The economic trend in Latin America has been curbed by inadequate infrastructure, lower raw materials prices and also, in some cases, by a tightening of monetary policy. Economic activity in Brazil was particularly volatile. The IMF calculated growth of 2.6% (previous year: 3.0%) for the region.

- Economic growth also slowed in the emerging markets of Southeast Asia that are relevant for KHD Group. In Indonesia, Malaysia, and Thailand, lower raw materials prices and a more restrictive monetary policy led to lower growth rates.

- In China, the 7.7% rate of growth was approximately at the level of the previous year.

Industry Environment

The most important engine of growth in the cement industry remains the investment in infrastructure in developing and emerging economies. China is particularly important when it comes to the worldwide demand for cement, as it represents 59% of global cement consumption. However, previous investments in Chinese cement plants have been covered almost exclusively by Chinese technology. In addition to the price level of cement, willingness to invest in new cement plants worldwide is affected on the one hand by the capacity utilization of existing plants and, on the other, by the level of interest rates and the availability of capital.

According to currently available market information, which is in line with KHD Group's findings from projects and discussions with customers, overall growth in the global cement market weakened slightly in the year under review following a promising start. According to estimates by Morgan Stanley Research, global cement consumption outside of China grew by only about 2.1% in 2013, while the market within China increased by 7.1% despite structural problems.

- In India, the world's second-largest cement market, the cement industry struggled as it did in the previous year with rising energy costs, high interest rates, and low capacity utilization. Growth in cement consumption is estimated at 3.6%.

- High growth rates in cement consumption were again recorded in Russia in 2013, thanks to large infrastructure projects. Cement manufacturers investing in modernizing their plants and to some extent in new capacities also benefited KHD Group.

- The cement market in Latin America grew at a slower rate than in the previous year at an estimated 2.1%. Investment in infrastructure linked to the major sporting events in Brazil (FIFA World Cup 2014 and the 2016 Olympic Games) is apparently lower than expected.

- The cement market grew at a somewhat stronger rate in Turkey in 2013, mainly driven by real estate projects. Turkish cement producers ordered several plants, including from KHD Group.

Following the US Federal Reserve's announcement that it will be scaling down its expansionary monetary policy, financing of investment projects has become more difficult in many emerging economies. The interest rates on long-term government bonds (10-year term), which are considered a guide to the market interest rate, rose significantly in some key markets in 2013. India and Brazil, which rely heavily on foreign capital, have been particularly affected.

In the medium-to-long term, factors such as ongoing urbanization, demographic trends, and infrastructural needs in developing and emerging economies will drive construction activities and, by extension, boost cement consumption. Increasingly demanding environmental regulations and rising energy prices offer an opportunity for modernization projects. Half of the world's cement plants are between 25 and 50 years old and often no longer meet the growing requirements for emissions control and energy efficiency. Irrespective of short-term cyclical trends, the underlying market data continues to be positive.

The industry-specific environment and developments at cement producers meant that in 2013 KHD Group again found itself in a tough competitive environment throughout the world and under continued margin pressure.

Financial Market Environment

Because of KHD Group's global presence, its business performance is subject to currency effects. Particularly relevant is the development of the Indian rupee and the US dollar as well as, to a lesser degree, the development of the Russian ruble.

In particular, the Indian rupee suffered devaluation during the reporting year. By comparison with the euro, it lost 13.7% over the course of the year; the average exchange rate was 78.53 rupees to the euro (previous year: 69.05 rupees to the euro). The average rate of the Russian ruble changed to 42.59 rubles to the euro (previous year: 40.05 rubles to the euro). In the year under review, the euro was worth on average 1.33 US dollars (previous year: 1.29 US dollars to the euro). Overall, exchange rate fluctuations in the year under review due to the translation of local financial statements in Euro had a negative effect on KHD Group's business.

License Agreement

KHD signed a license agreement with Weir Minerals in April 2013. Weir Minerals had previously acted as an agent for KHD Group for the marketing of High Pressure Grinding Rolls (HPGRs) in the minerals sector, operating on a commission only basis. This agreement has been replaced by a perpetual license agreement, giving Weir Minerals direct control over the design, manufacturing, and distribution of HPGR equipment in minerals processing applications using KHD Group's technology, in return for royalty payments on equipment sales. KHD Group can therefore continue to have a stake in the promising growth market for HPGR applications in the mining industry and, at the same time, focus more on its core business. The technology for roller presses for the cement markets remains the intellectual property of KHD Group and is an important cornerstone for the future development of KHD Group.

Service Business Expansion

In order to expand the business with spare parts and services for cement plants, KHD Group has strengthened personnel in this business area during the year under review and invested in new service products. In addition, this business area is managed as a separate segment since the beginning of the 2014 financial year.

Relevant Orders

Despite the overall unsatisfactory order intake, several important orders were won in the second half of 2013:

- In December 2013, "Volskcement" OJSC Russia (Holcim Group) placed an order with KHD Group to construct a production line in the cement factory in Volsk. With a value of over €77 million, the order includes engineering and the delivery of equipment. The project is scheduled to run until the end of 2016.

- In November 2013, KHD Group received an order for the modernization of a production line from Holcim in Hagerstown, USA, relating to emissions reduction, efficiency increases, and the use of alternative fuels. The order encompasses engineering and services as well as delivery of equipment, including a five-stage preheater with a Low-NO_x calciner, a PYROFLOOR® cooler, and a PYROJET® burner. Commissioning of the new system is planned for 2016.

- In October 2013, the Turkish BATI ANADOLU GROUP ordered a COMFLEX® grinding system for a cement plant in western Turkey. In addition to supplying the components, KHD Group will carry out the engineering and provide advisory services during erection and commissioning. The commissioning is planned for the end of 2014.

- In September 2013, the Turkish LIMAK Bati Group ordered a new production line with a capacity of 3,500 tons per day for the TRAKYA cement plant near Pinarhisar. The order encompasses engineering, equipment supply, supervision of erection and commissioning, and the training of personnel. The production line is to be commissioned in fall of 2014.

Overall Assessment of the Results of Operations and Economic Position

Overall, business development in 2013 was not satisfactory. Several important budgetary targets were not achieved during the 2013 financial year. The uncertainty surrounding the future development of cement consumption continued to result in further delays in the awarding of orders by customers. The execution of orders with weak margins and difficulties in project execution, including the cancellation of an order in Brazil, also negatively affected the result of KHD Group. Significant cost savings in administrative and sales expenses mitigated the negative effects only partially. The comfortable liquidity situation and the high equity ratio mean that KHD Group's financial and net assets position remains stable.

KHD Group is well positioned in current tenders in the 2014 financial year. The successful takeover by the group of bidders led by AVIC increases mid- to long-term chances of winning new projects in growth regions of KHD Group, and of establishing itself in the Chinese market.

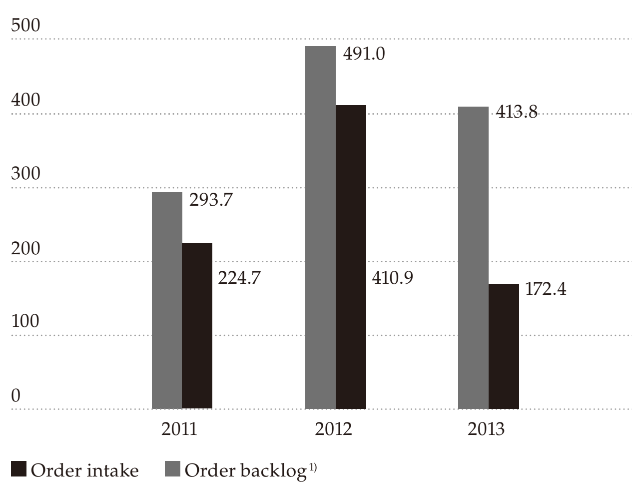
By strengthening the service business, which will be operated in its own segment from the 2014 financial year onward, KHD Group believes it is able to gain additional revenue and profit potential outside of the cyclical project business.

Business and Earnings Position

Order intake and order backlog

Order intake stood at €172.4 million in the 2013 financial year, compared with €410.9 million in the previous year. This clear decrease in relation to the previous year's level – which was affected by several major contracts – is attributable to investment restraint in the cement industry. This was exacerbated by the negative effect of €15.7 million arising from changes in exchange rates. At over €40 million, the spare parts and service business accounted for a comparably high portion of the order intake during the year as a whole. As of 31 December 2013, the total order backlog was €413.8 million (previous year: €491.0 million). It should be noted, however, that the order backlog includes a significant contract of approximately €75 million that is likely to be canceled by the customer. As a consequence of the general development in the market, order intake and order backlog are significantly below last year's outlook.

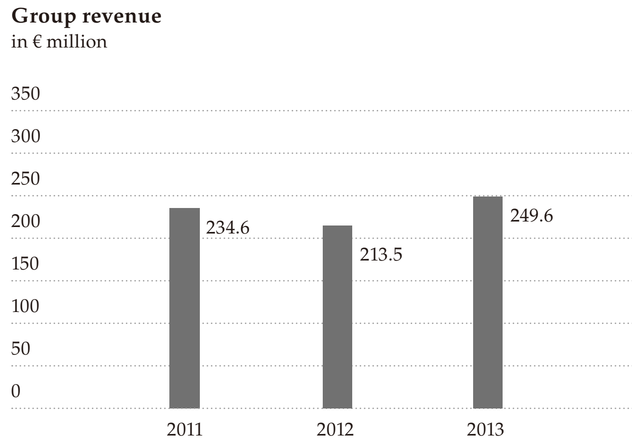
Order intake and order backlog
in € million



[1] at end of year

Revenue

In the 2013 financial year, KHD Group generated revenue of €249.6 million. The increase of 16.9% on the previous year (€213.5 million) mainly resulted from the high order backlog at the beginning of the financial year. A large share of the revenue comes from the projects won in Malaysia, Italy, and Venezuela in the previous year and from stable business in spare parts and services, which contributed a total of approximately €38 million (previous year: €40 million) to revenue. The new orders in the project business gained in the reporting year had only a marginal effect on revenue in the 2013 financial year. The significant increase in revenue confirmed the previous year's outlook.



Earnings

Gross profit fell by a third to €29.4 million (previous year: €43.8 million). The gross profit margin declined from 20.5% to 11.8%. This was caused in particular by the competitive environment characterized by strong margin pressure in previous years. The further execution of two projects in Malaysia also had a negative effect on the margin. A significant part of one of these projects relates to structural steel and general erection works and cannot be executed by KHD Group itself. This part of the order was passed on to strategic partner Beijing Company, whereby KHD Group will not receive additional gross profit for this part. In addition, some difficulties in project execution, including the cancellation of a project from CSC Americas, had a negative effect on gross profit margin. On the other hand, gross profit margin was positively affected by income related to the license agreement with Weir Minerals and the release of provisions due to successful management of residual risks after completion of delivery.

Other operating income amounting to €3.5 million (previous year: €1.7 million) include income of €2.1 million relating to contingent purchase consideration agreed in 2009 as part of the sale of the workshop in Cologne.

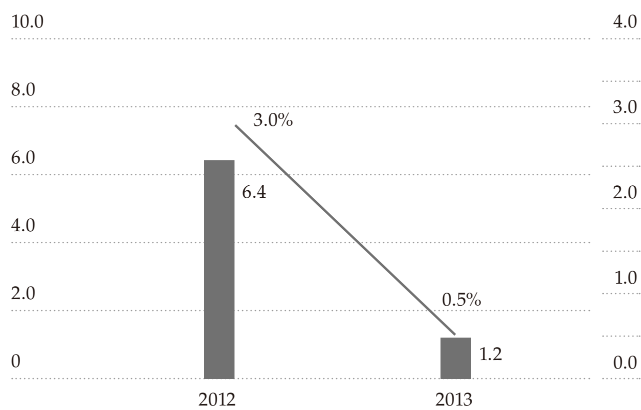
Sales and tendering activities are focused on strategically important projects in KHD Group's core markets that offer a satisfactory margin quality. Sales expenses thus decreased by 29.4% to €9.6 million (previous year: €13.6 million).

The general and administrative expenses and other expenses are indicative of the success of the strict cost management system during the reporting year. At €16.0 million, the general and administrative expenses, which include the costs of general administration as well as in particular legal and consulting costs, costs for preparing and auditing financial statements, Management Board remuneration, Supervisory Board remuneration, and costs related to KHD's stock exchange listing, were 13.5% down on the previous year's figure of €18.5 million. Other expenses declined by 14.3% to €6.0 million (previous year: €7.0 million). These expenses include research and development costs of €3.2 million (previous year: €3.6 million). Other expenses also comprise expenses from changes in exchange rates, write-downs in intangible assets and expenses for consulting services.

After deduction of the expenses, earnings before interest and taxes (EBIT) came to €1.2 million (previous year: €6.4 million). The EBIT margin was 0.5% (previous year: 3.0%). Originally, an improvement in EBIT and a slight improvement in the EBIT margin were expected. However, in particular as a consequence of the deteriorated gross profit margin, EBIT and EBIT margin remained significantly below last year's outlook.

Finance income consists mainly of interest income from the investment of cash and cash equivalents. At €1.2 million, net finance income failed to match the previous year's level of €2.4 million – as was expected – due to the historically low interest-rate level as well as the reduced liquidity. As in 2012, the largest single item under finance expenses, which totaled €1.4 million (previous year: €2.4 million), was the interest expense related to pension benefit obligations, provisions, and other non-current liabilities.

EBIT and EBIT margin (in %)
in € million



Earnings before tax (EBT) fell significantly short of the previous year's level (€8.8 million) at €2.4 million. For deferred taxes, it was already taken into account that after the takeover tax loss carry-forwards can only be used to a limited extent, meaning the tax ratio was very high at 70.8% (previous year: 20.5%). After income tax expenses of €1.7 million (previous year: €1.8 million), KHD Group achieved a net profit of €0.7 million (previous year: €7.0 million). Basic and diluted earnings per share amount to €0.01 (previous year: €0.14).

Financial Position and Net Assets

Fundamentals of Financing Strategy

KHD Group's strategy is based on a solid liquidity position at group level and a robust equity-based financing strategy. At the same time, this is also the basis for the planning of the internal and external growth of KHD Group over the next few years, which includes investing in new technologies and expanding the business model.

KHD controls KHD Group's financial management and provides sufficient cash to KHD Group companies, if required, so that payment obligations can be met in full at all times. Internal financing is the fundamental principle followed within KHD Group. Correspondingly, KHD Group companies are in the first instance themselves responsible for accumulating liquidity surpluses to cover their financing requirements. Project business means that KHD Group has to cope with a very cyclical market environment that is characterized by individual high-volume orders and varying financing structures. In order to have sufficient cash and cash equivalents to meet KHD Group companies' operating financing requirements available at all times, a high liquidity position is necessary. Financial security is controlled via the operating cash flow and is largely measured using the equity ratio in addition to existing liquidity.

All operating companies in KHD Group have access to a bank guarantee credit facilities, provided by a consortium of banks as well as by other banks, for various hedging instruments such as guarantees, letters of credit, or letters of comfort. As of 31 December 2013, €93.5 million of the bank guarantee credit facilities were utilized. Following the occurrence of the "Change of Control" clause that had been contractually agreed for a bank guarantee credit facility provided by a consortium of banks, there has been no cancellation of this bank guarantee credit facility so far. Before the occurrence of the "Change of Control" clause, KHD was already in ongoing communication with the members of the bank consortium and with other banks that would be able to make a guarantee facility line available on short notice if the facility agreement were canceled.

Contracts are generally concluded in the local currency of the respective KHD Group company. In principle, foreign exchange risks are hedged using derivative financial instruments; these exclusively comprise foreign exchange forward contracts.

Liquidity

Total cash and cash equivalents fell by €54.4 million to €228.2 million in 2013. This decrease was mainly attributable to the cash flow from operating activities in the amount of € -47.1 million (previous year: € -11.3 million). This resulted from the lower volume of advance payments, due to the moderate volume of new business, as well as a high portion of projects close to completion; in this phase, payments to suppliers normally exceed incoming payments from customers. The cash flow from operating activities was also affected by overall deteriorated payment conditions and the increase in trade receivables on the reporting date. Overall, cash flow from operating activities was significantly below the outlook given in the previous year.

Further details of the operating cash flow are presented in the following table:

in € thousand	1 January – 31 December 2013
Cash flow from construction contracts in progress (including progress billings)	(37,741)
Cash flow from current liabilities / invoices from subcontractors	15,179
Cash flow from changes in receivables	(19,802)
Cash flow from utilization of provision and long term liabilities	(7,701)
Cash inflow from result (EBITDA)	3,372
Cash flow from tax payments made / received	1,310
Other cash inflows and outflows	(1,760)
Cash flow from operating activities	**(47,143)**

Cash flow from financing activities in the amount of € -29.7 million (previous year: €9.7 million) mainly reflected the deposit of cash with a volume of €27.7 million (previous year: repayment of €12.2 million) as collateral within the scope of the existing bank guarantee credit facility. Excluding this effect – which had no impact on total cash and cash equivalents – the cash flow from financing activities amounted to € -2.0 million (previous year: cash inflow of €2.5 million). Cash flow from financing activities also includes cash outflows from the payment of the dividend totaling €4.5 million (previous year: €5.9 million).

Cash flow from investing activities (€ -1.0 million, previous year: € -2.9 million) did not have a significant impact on the development of cash and cash equivalents.

Total Assets

Total assets in the amount of €418.1 million primarily comprised current assets, notably cash and cash equivalents, as in the previous year. Cash and cash equivalents made up 54.6% of assets (previous year: 64.9%).

Within one year non-current assets fell from €17.5 million to €15.4 million. This was primarily the result of the reduction in deferred tax assets and intangible assets. The low volume of non-current assets reflects KHD Group's business model, in which production is almost completely outsourced to external manufacturers.

In addition to cash and cash equivalents, current assets include gross amounts due from customers for contract work of €59.1 million (previous year: €26.6 million). As of the end of 2013, costs incurred for these projects plus proportionate profits recognized exceeded progress billings. The significant increase of trade and other receivables by €19.8 million to €84.8 million (previous year: €65.0 million) resulted from a high invoicing volume close to year-end. Payments made in advance declined to €19.5 million (previous year: €28.8 million). Receivables from income taxes largely include refund claims for capital gains tax on the profit distribution paid by subsidiaries.

Total assets increased due to high invoicing volume close to year end. However, most of the receivables were already paid in the first weeks of 2014 (Please also refer to KHD's interim financial statements in 2014, which extract was also incorporated in Appendix I to the Circular).

Further, KHD's management is constantly reviewing the recoverability of trade receivables. Financial risks are reflected by the impairment of the respective receivables.

Financing

Equity fell slightly to €222.5 million (previous year: €229.3 million) resulting in an equity ratio of 53.2% (previous year: 52.6%). Significant changes within equity arose from the dividend payment (€ -4.5 million) and from currency translation differences (€ -3.4 million).

The 20.3% decrease in non-current liabilities to €35.3 million (previous year: €44.3 million) mainly resulted from the reduction of non-current provisions. These had been set aside to meet guarantee and warranty obligations from projects in the warranty phase.

Also on the liabilities side of the balance sheet, the reduced level of advance payments received from new business and the overall deteriorated payment conditions of projects are reflected in the decrease in commitments under construction contracts from €66.0 million to €51.2 million. By contrast, trade payables (especially contract costs) and other liabilities saw an increase of €14.4 million to €84.9 million due to a high volume of incoming invoices close to year-end. In overall terms, current liabilities fell only slightly to €160.3 million, compared to €162.1 million at the end of 2012.

Net working capital – the difference between current assets (less cash and cash equivalents) and current liabilities – increased as a consequence of the aforementioned effects in the previous year from € -26.5 million to € 14.3 million.

Non-financial Performance Indicators

Non-financial performance indicators include employee development, customer satisfaction, impact of products of KHD Group on the environment, speed of project execution, product quality, and individual employee-related performance indicators.

Target achievement in relation to non-financial performance indicators is recorded with the help of various instruments, e.g. via the annual employee appraisal, via the CRM system for recording customer satisfaction, or via the systematic capture of emissions values and energy consumption of individual products. Value-oriented management in KHD Group means that, for example, customer satisfaction or the minimization of KHD Group products' impact on the environment are more important than short-term profit maximization.

Employees

Personnel Development

As of the end of 2013, KHD Group employed 757 people across KHD Group. By comparison with the previous year (783), the number decreased slightly despite new hires, in particular in the Parts & Services segment. As of the end of 2013, approximately 46% of employees in KHD Group were working in Germany and 41% in India. This has hardly changed since the previous year.

At €43.5 million, personnel expenses were 1.1% below the previous year's value – despite wage and salary increases – due to the lower yearly average of employees.

Development of Team and Leadership Skills

Employees of KHD Group undergo a variety of internal and external training programs. This is intended to ensure that the knowledge, skills, and working practices are adapted to the continuously changing conditions and also to customers' growing expectations. For example, external qualifications include the accreditation of project managers by the Project Management Institute or the participation of employees of the Parts & Services segment in a Service Manager Certification Course. Managers' training also focuses on leadership and communication.

Market Environment

According to current findings, global economic growth was weaker than expected during the first half-year. The recovery in the US was initially slow following unusually cold winter months, while the economy in the emerging nations remained weak and the crisis in the Ukraine hampered development in Eastern Europe. Growth in the Eurozone stabilized at a low level, although significant imbalances remain.

In July, the International Monetary Fund (IMF) forecasted global economic growth of 3.4% for 2014 as a whole (previous year: 3.0%); while an increase of 4.6% (previous year: 4.7%) is forecasted for the developing and emerging economies.

The slow economic movement in the emerging economies overall had a negative impact on cement consumption. This reduced cement manufacturers' willingness to invest.

The demand for new cement plants was also impacted by the merger of Holcim Ltd. (Switzerland) and Lafarge S.A. (France), who announced on 7 April 2014 that they had agreed to merge. This merger is currently under review of the antitrust authorities and faces significant regulatory obstacles, as 15 different jurisdictions could potentially raise objections. In light of the disinvestment program announced by the companies, there may be acquisition opportunities for other cement manufactures as an alternative to investments in new plants. Therefore, many investment decisions for new capacity have been postponed.

KHD's most important sales markets were characterized by several trends:

- Following disappointing GDP growth during the first quarter, no change in market development was evident in India. The cement industry, negatively impacted by overcapacities and high pricing pressure, also had to bear a significant rise in costs for railroad transport during the first half-year.

- Russia's economic development was negatively impacted during the first half-year by the reduced demand for oil and gas, as well as by the conflict in the Ukraine. In cement consumption, Russia and the Commonwealth of Independent States (also called Russian Commonwealth) states were among the regions showing the strongest growth. However, the implementation of projects has slowed down due to increased uncertainty.

- In Turkey, the resurgent demand from Europe and investment by the government during the first half-year have led to surprisingly strong growth.

- As expected, economic momentum in the US increased significantly during the second quarter. The North American market currently offers the best opportunities for cement plant engineering companies; the strong competition however led to significant pricing pressure.

- Development in Latin America was determined during the first half-year by the slow growth in Brazil and Argentina. However, further government infrastructure projects in Brazil in particular created increased demand for cement.

Overall Assessment of the Economic Situation

KHD's economic development in the first half of 2014 was below the forecasted development as a whole. Order intake did not meet the expectations and was only slightly above the previous year's level. Order intake thus reflected the continued dampened trend in the market. Revenue slightly exceeded the figure for the first six months 2013, but again was strongly characterized by a number of low margin projects.

In spite of the difficult market and margins situation, KHD continued investing in the expansion of its business model. The business unit Parts & Services was strengthened, selling activities intensified and research and development activities continued on a high level. Based on this, the modestly negative EBIT in the first half year 2014 is not fully satisfactory. However, KHD posted a positive EBIT in the second quarter 2014.

Business Development

During the first half of 2014, order intake was at €52.0 million which was slightly above the previous year's level (€40.4 million), with the Parts & Services segment contributing €27.4 million, or 52.7%.

In the business unit Capex, KHD won a major order in Russia for a total value of over €90 million. The project encompasses the delivery of equipment and services for a new cement plant in the Kaluga region with two production lines. Within the context of the crisis in the Ukraine and the resulting uncertainties surrounding the economic development in Russia, KHD has not yet been able to book the order as order intake. Accordingly, Capex segment's order intake figure was just €24.6 million.

Due to the cancellation of a project from Stavropolsky Zavod Stroitelnih Materialov, a member of the EUROCEMENT Group as a result of it decided not to realise the project, in April 2014, order backlog was retroactively corrected by €74.5 million to €339.3 million as of 31 December 2013. Save as being a customer of KHD Group, Eurocement Group has no other relationship with KHD. As a result of the low order intake and the execution of current projects, the order backlog as of 30 June 2014 at €276.5 million was significantly below the previous year's level.

Group Earnings Situation

With revenue of €114.8 million for the first half year of 2014, KHD slightly exceeded the figure for the previous year (€111.5 million). Significant contributions to this revenue were made by projects won in a highly competitive environment with strong margin pressure. Gross profit was therefore just €16.0 million during the reporting period (previous year: €17.6 million). At 13.6%, the gross profit margin did not reach the mid and long term target level, as was also the case in the previous year (15.8%).

Sales expenses increased by 6.3% from €4.8 million to €5.1 million compared with the first six months of 2013. KHD Group's sales activities were still concentrated on strategically important projects in KHD's core markets. The increase in general and administrative expenses of 18.4% from €7.6 million to €9.0 million is attributable to a large extent to higher personnel expenses and is also related to the expansion of the Parts & Services segment. Other expenses amounting to €3.3 million (previous year: €2.7 million) include research and development expenses of €2.1 million (previous year: €1.4 million). This significant increase on the previous year is due to strengthening several development projects which will reinforce KHD's leading technological position. Both the expansion of the business unit Parts & Services as well as the increased expenses for research and development reflect the continued investment in KHD's strategic growth despite the currently difficult economic environment.

Earnings before interest and tax (EBIT) in the reporting period amounted to €-0.9 million (previous year: €3.1 million). This corresponds to an EBIT margin of -0.8%.

At €0.7 million, KHD Group's financial result (i.e. financial income deducted by financial expenses) remained at roughly the same level for the first half year of 2014 as in the previous year (€0.9 million) due to continuously low interest rates. Earnings before tax consequently decreased from €4.0 million in the previous year to their current level of €-0.2 million. The net profit for the period amounted to €-0.6 million (previous year: €2.6 million), which corresponds to diluted and basic earnings per share of €-0.02 (previous year: €0.05).

Segment Earnings Situation

Revenue in the Capex segment in the six-month period at €87.3 million was slightly down from the budget value. In the Parts & Services segment, revenue amounted to €27.5 million. This development was mainly due to growing customer demand in the spare parts business.

While gross profit of €7.6 million in the Capex segment (gross profit margin: 8.7%), especially due to the execution of projects with low margin and margin deterioration in current projects, was unsatisfactory, the Parts & Services segment generated gross profit of €8.4 million (gross profit margin: 30.5%).

EBIT in the Capex segment of €-7.2 million reflects the difficult economic environment of recent years, unexpected margin deterioration and the increased activities in research and development as mentioned above. The EBIT in the Parts & Services segment of €6.3 million partly offset the negative results of the Capex segment and underlines the importance of this business unit for KHD.

Financial Position and Net Assets

Liquidity

KHD's cash and cash equivalents changed only slightly in the first six months of the year 2014. As of 30 June 2014, this figure amounted to €228.0 million (end of 2013: €228.2 million). Cash flow from operating activities totaled €-2.7 million in the first six months of 2014.

Further details of the operating cash flow are presented in the following table:

Cash flow effect from operating activities for the first half year 2014

Cash flow from contracts in progress (including progress billings)	22,961
Cash flow from current liabilities/invoices from subcontractors	(7,197)
Cash flow from changes in receivables	(13,812)
Cash flow from changes in provisions and long term liabilities	(5,235)
Cash inflow from result (EBITDA)	59
Cash flow from tax payments made/received	(1,848)
Other cash inflows and outflows	2,395
Cash flow from operating activities	(2,677)

Cash flow from investing activities amounting to €-1.2 million can be attributed mainly to the expansion of the service business. Among other investments, a mobile repair unit for roller presses was purchased. The modernization of a crane for KHD's technical center is also included in the additions to fixed assets as well as continued investments in the expansion of KHD's IT landscape.

Cash flow from financing activities amounted to €4.9 million. This includes cash inflows from the sale of treasury stock, interest payments received as well as cash inflow from changes in restricted cash.

Total Assets

In comparison with the end of 2013 at €418.1 million, the balance sheet was reduced by €13.6 million to €404.5 million. This was primarily the result of progress billings for projects with gross amounts due from customers. Compared with the 2013 balance sheet the gross amount due from customers for contract work decreased by €10.0 million from €59.1 million to €49.1 million. Inventories fell by €2.0 million from €5.3 million to €3.3 million, which can essentially be attributed to the sale of a roller press that had been capitalized as inventory in the previous year. Other current and non-current assets changed only slightly.

Financing

On the liabilities side, trade payables and other liabilities decreased by €7.6 million to €77.3 million and current provisions by €4.7 million to €19.0 million. In overall terms, current liabilities fell to by €12.8 million to €147.5 million, in comparison with the end of 2013 at €160.3 million.

At €13.7 million, net working capital – the difference between current assets (less cash and cash equivalents) and current liabilities – remains virtually unchanged from its value as at December 31, 2013 of €14.3 million.

Equity increased by €0.7 million from €222.5 million to €223.2 million. The increase is primarily caused by an increase in capital reserves due to the acceptance of the takeover offer for treasury shares, the decrease in the currency translation difference recognized in equity as well as the reduction in retained earnings due to actuarial losses and the negative result for the period. The equity ratio as of June 30, 2014 was 55.4%.

Non-Financial Performance Indicators

KHD spent €2.1 million on R&D in the first half of 2014 (previous year: €1.4 million). The focus of R&D continues to be on standardizing key components and improving the efficiency of cement plants. Other important R&D topics include developing environmentally friendly products, with a particular emphasis on energy efficiency and reducing emissions, as well as using alternative fuels in cement plants.

KHD Group had 775 employees (excluding apprentices) at the end of June 2014 (end of 2013: 757). While the number of employees in the Capex segment remained virtually constant, employees were added to Parts & Services, mostly in sales. The segment also employed additional freelance engineers.

In view of the market situation, KHD's sales and marketing team primarily focused on strategically important projects and selected markets. Emphasis in the second quarter remained on KHD's spare parts and services offerings and on marketing of clean technology solutions in China. KHD had presented both of these topics together with Beijing Company at the 13th China International Cement Industry Exhibition in Beijing.

Report on Events after 30 June 2014

On 25 August 2014, KHD has cancelled its existing bonding line facility with a consortium of banks, which had issued bank guarantees of over €80.3 million as per 31 December 2013. KHD Group replaced this facility with two bilateral bonding line agreements with the Deutsche Bank AG (€40 million) and the Raiffeisen Bank International AG, Wien (€38 million).

There were no further developments or events of particular significance after 30 June 2014.

Risk and Opportunities

KHD's approach to risk management ensures that changes in the risk position are promptly identified. To the extent required, provisions are set up for specific risks. The risks identified do not pose a threat to KHD Group as an ongoing concern, either individually or in combination.

In terms of the risks associated with the economic environment, the risks to the global economy have increased due to the political situation. For KHD, increased political risks are primarily inherent in the possible escalation of tension between Russia and the Western nations, which may result in an accelerating spiral of sanctions and counter-sanctions. KHD maintains close contact with its customers in the Russian market and provides them with support for project financing. The residual risk is classified as "high" in view of KHD's limited influence over events and the significance of the Russian market for KHD's order intake.

There have been no further significant changes since 31 December 2013 in the assessment of KHD's risks and opportunities.

Outlook

The overall economic growth in KHD's core markets is likely to remain at a low level in the second half of the year 2014. For the moment, the slow recovery of the industrial nations is not expected to significantly impact the cement market.

The market research firm CW Group expects an increase in cement consumption of 3.9% for 2014. The largest growth in demand is likely to come from North America. The CW Group also expects relatively high growth rates for the rest of Asia (excluding China), Latin America, Africa and the Middle East in 2014. At the beginning of the year 2014, the investment bank Exane BNP Paribas forecasted growth in global cement consumption of between 2.9% and 6.5%.

Modernization programs and upgrades to improve efficiency and to meet increased environmental requirements remain important growth drivers. KHD is well positioned in these areas thanks to its efficient and environmentally friendly solutions.

WAIVER FROM STRICT COMPLIANCE WITH RULE 4.03 OF THE LISTING RULES

Pursuant to Rule 4.03 of the Listing Rules, an accountants' report on KHD Group which is included in this Supplemental Circular must be prepared by certified public accountants who are qualified under the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong). Rule 4.03 of the Listing Rules also provides that, in the case of a circular issued by a listed issuer in connection with acquisition of an overseas company, the Stock Exchange may be prepared to permit the accountants' report to be prepared by a firm of practising accountants which is not so qualified but which is acceptable to the Stock Exchange. Such firm must normally have an international name and reputation and be a member of a recognized body of accountants.

KHD is a public limited company (AG) under the laws of Germany. Deloitte Germany has been the auditors of KHD during the three years ended 31 December 2013 and up to the Latest Practicable Date. The Directors are of the view that Deloitte Germany has extensive knowledge and is familiar with the operation, accounting and reporting of KHD, and its financial information. Also, Deloitte Germany is geographically proximate to KHD. Among others, published audited financial statements of KHD for the last three financial years ended 31 December 2013 were audited by Deloitte Germany.

Although Deloitte Germany is not registered under the Professional Accountants Ordinance as required by Rule 4.03 of the Listing Rules, it is a member of the Chamber of Public Accountants (Wirtschaftspruefekammer), Berlin, Germany, which is a member of the International Federation of Accountants, and is a member firm of the Deloitte network of firms.

The Directors are of the view that it is more appropriate to appoint Deloitte Germany instead of professional accountants who are qualified under the Professional Accountant Ordinance as reporting accountants for the purpose of issuing the accountants' report of KHD Group to be included in this Supplemental Circular. The Company has therefore applied to the Stock Exchange for a waiver from strict compliance with Rule 4.03 of the Listing Rules to allow Deloitte Germany to prepare the accountants' report of KHD Group for the inclusion in this Supplemental Circular. Such waiver was granted by the Stock Exchange on 27 August 2014.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this Supplemental Circular.

By order of the Board
AVIC International Holdings Limited
Wu Guang Quan
Chairman

The following is the text of a report received from Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf/Germany on KHD Group for the purpose of incorporation in this Supplemental Circular.

Deloitte.

The Directors
AVIC International Holdings Limited
24/F, HangDu Building
Catic Zone
Shennan Road Central
Shenzhen
CHINA

September 20, 2014

ACCOUNTANTS' REPORT ON FINANCIAL INFORMATION OF KHD HUMBOLDT WEDAG INTERNATIONAL AG

Dear Sirs,

We set out below our report on the Financial Information of KHD Humboldt Wedag International AG, Cologne/Germany ("**KHD**") and its subsidiary (together, "**KHD Group**") for each of the three years ended December 31, 2011, 2012 and 2013 and six months ended June 30, 2014 (the "**Relevant Periods**") for inclusion in Appendix I to the supplemental circular of the Company dated September 20, 2014 (the "**Circular**") in connection with the acquisition of shares of KHD by AVIC International Holdings Limited (the "**Company**") as laid down in the Circular.

KHD was incorporated in Germany as a stock corporation with limited liability (Aktiengesellschaft) on June 16, 1911. Since August 29, 2001 the registered office of KHD is Cologne/Germany.

As at the date of this report, KHD has direct and indirect interests in subsidiaries and a joint venture company as set out in Note 2 of the Section II below. The financial year end date of these entities is December 31.

The consolidated financial statements of KHD for the Relevant Periods have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board ("**IASB**"), which have been endorsed by the European Union (the "**Underlying Financial Statements**") and were audited by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf/Germany, certified public accountants registered in Germany, in accordance with German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer Deutschlands e.V., which are in full compliance with the International Standards on Auditing ("**ISA**") as issued by the International Auditing and Assurance Standards Board ("**IAASB**").

Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf/Germany has examined the Underlying Financial Statements and performed such additional procedures as necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

The Financial Information of KHD Group for the Relevant Periods (the "**Financial Information**") set out in this report has been prepared from the Underlying Financial Statements after making such adjustments as we consider appropriate for the purpose of preparing our report in accordance with IFRS issued by IASB and for inclusion in the Circular.

The preparations of the Underlying Financial Statements are the responsibility of the management board of KHD who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of KHD and of KHD Group as at December 31, 2011, 2012 and 2013 and June 30, 2014 and of KHD Group's results and cash flows for each of the Relevant Periods.

The comparative consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of KHD Group for the six months ended June 30, 2013 together with the notes thereon have been extracted from the consolidated Financial Information of KHD Group for the same period ("**June 30, 2013 Financial Information**") which was prepared by the directors of KHD solely for the purpose of this report. We conducted our review on the June 30, 2013 Financial Information in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the IAASB. Our review of June 30, 2013 Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with ISA issued by IAASB and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the June 30, 2013 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the June 30, 2013 Financial Information, for the purpose of this report, is not prepared, in all material respects, in accordance with the accounting policies consistent to those used in the preparation of the Financial Information, which conform with IFRS.

I. FINANCIAL INFORMATION

CONSOLIDATED BALANCE SHEETS

		As at December 31,			As at June 30,
	Note	**2011**	**2012**	**2013**	**2014**
ASSETS					
in € thousand					
Non-current assets					
Goodwill	*6*	5,162	5,162	5,162	5,162
Intangible assets	*6*	3,286	3,614	2,680	2,364
Property, plant and equipment	*7*	2,948	2,997	2,576	3,150
Investments accounted for using the equity method	*8*	5,083	105	90	90
Deferred income tax assets	*10*	3,930	5,691	4,908	4,637
Total non-current assets		20,409	17,569	15,416	15,403
Current assets					
Inventories	*11*	7,882	4,963	5,318	3,266
Trade and other receivables	*12*	81,488	93,466	104,091	102,436
Amount due from customers for contract work	*13*	21,181	26,563	59,050	49,074
Financial assets at fair value through profit or loss	*14*	888	1,428	1,163	1,057
Derivative financial instruments		28	376	191	–
Income tax assets		4,782	8,788	4,687	5,239
Pledged bank deposits	*15*	12,642	453	28,103	25,997
Cash and cash equivalents	*16*	282,620	282,073	200,066	202,031
Total current assets		411,511	418,110	402,669	389,100
Total assets		431,920	435,679	418,085	404,503

	Note	As at December 31, 2011	2012	2013	As at June 30, 2014
EQUITY AND LIABILITIES					
in € thousand					
Equity					
Share capital	*17*	49,704	49,704	49,704	49,704
Share premium		59,841	59,841	59,841	61,097
Other reserves	*17*	(3,658)	(7,752)	(10,822)	(10,663)
Retained earnings		125,556	126,553	122,819	122,073
Shares of equity attributable to the equity owners of KHD		231,443	228,346	221,542	222,211
Non-controlling interests	*17*	881	944	908	955
Total equity		232,324	229,290	222,450	223,166
Non-current liabilities					
Deferred income tax liabilities	*10*	4,664	2,915	2,079	242
Provisions	*18*	16,720	7,571	2,358	2,407
Retirement and other supplemental benefit obligations	*19*	20,180	24,353	23,102	23,966
Other non-current liabilities	*21*	11,142	7,901	6,183	5,634
Total non-current liabilities		52,706	42,740	33,722	32,249
Current liabilities					
Trade and other payables	*20*	71,878	70,509	84,916	77,329
Amount due to customers for contract work	*22*	42,359	65,965	51,210	50,296
Derivative financial instruments		–	83	144	105
Current income tax liabilities		3,560	1,073	417	822
Retirement benefit obligations	*19*	1,569	1,550	1,588	1,594
Provisions	*18*	27,524	24,469	23,638	18,942
Total current liabilities		146,890	163,649	161,913	149,088
Total equity and liabilities		431,920	435,679	418,085	404,503
Net current assets		264,621	254,461	240,756	240,012
Total assets less current liabilities		285,030	272,030	256,172	255,415

BALANCE SHEETS OF KHD HUMBOLDT WEDAG INTERNATIONAL AG

		As at December 31,			As at June 30,
	Note	**2011**	**2012**	**2013**	**2014**
ASSETS					
in € thousand					
Non-current assets					
Property, plant and equipment		3	3	21	22
Investment in a subsidiary	*9*	26,118	26,118	26,118	26,118
Deferred income tax assets		–	4	4	31
Total non-current assets		26,121	26,125	26,143	26,171
Current assets					
Trade and other receivables	*12*	7,871	9,238	11,519	19,362
Derivative financial instruments		–	244	191	–
Income tax assets		1,690	2,779	1,111	1,152
Pledged bank deposits	*15*	12,189	–	27,650	25,544
Cash and cash equivalents	*16*	86,795	82,178	71,224	64,224
Total current assets		108,545	94,439	111,695	110,282
Total assets		134,666	120,564	137,838	136,453

	Note	As at December 31, 2011	2012	2013	As at June 30, 2014
EQUITY AND LIABILITIES					
in € thousand					
Equity					
Share capital	*17*	49,704	49,704	49,704	49,704
Share premium		59,841	59,841	59,841	61,097
Other reserves	*17*	(221)	(221)	(221)	–
Retained earnings		9,763	8,087	7,975	7,600
Total equity		119,087	117,411	117,299	118,401
Non-current liabilities					
Deferred income tax liabilities		–	91	74	25
Total non-current liabilities		–	91	74	25
Current liabilities					
Trade and other payables	*20*	15,263	3,024	20,441	17,872
Derivative financial instruments		–	–	5	95
Provisions	*18*	316	38	19	60
Total current liabilities		15,579	3,062	20,465	18,027
Total equity and liabilities		134,666	120,564	137,838	136,453
Net current assets		92,966	91,377	91,230	92,255
Total assets less current liabilities		119,087	117,502	117,373	118,426

CONSOLIDATED INCOME STATEMENTS

		Year ended December 31,			Six months ended June 30,	
in € thousand	*Note*	2011	2012	2013	2013	2014
					(unaudited)	
Revenue	*23*	229,226	213,546	249,624	111,451	114,809
Cost of sales	*28*	(178,434)	(169,723)	(220,249)	(93,852)	(98,805)
Gross profit		50,792	43,823	29,375	17,599	16,004
Distribution costs	*28*	(15,016)	(14,284)	(10,297)	(5,171)	(5,455)
Administrative expenses	*28*	(24,935)	(24,792)	(21,254)	(9,981)	(11,940)
Other income	*24*	975	1,262	740	575	352
Other gains (losses) – net	*25*	2,738	488	2,130	(143)	(243)
Profit (loss) before interest and taxes (EBIT)		14,554	6,497	694	2,879	(1,282)
Finance income	*26*	5,630	4,266	2,950	1,378	1,501
Finance costs	*26*	(985)	(1,988)	(1,204)	(207)	(388)
Finance costs – net	*26*	4,645	2,278	1,746	1,171	1,113
Share of profit of investments accounted for using the equity method		1,341	15	(15)	(8)	–
Profit (loss) before income tax (EBT)		20,540	8,790	2,425	4,042	(169)
Income tax expense	*27*	(7,035)	(1,762)	(1,689)	(1,411)	(471)
Profit (loss) for the year/period		13,505	7,028	736	2,631	(640)

in € thousand	Note	Year ended December 31, 2011	2012	2013	Six months ended June 30, 2013 (unaudited)	2014
Profit (loss) attributable to						
Equity owners of KHD		13,456	6,923	733	2,610	(754)
Non-controlling interests		49	105	3	21	114
		13,505	7,028	736	2,631	(640)

Earnings per share	Note	Year ended December 31, 2011	2012	2013	Six months ended June 30, 2013 (unaudited)	2014
Basic (undiluted) and diluted earnings per share in €	*31*	0.28	0.14	0.01	0.05	(0.02)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

in € thousand	Year ended December 31, 2011	2012	2013	Six months ended June 30, 2013 (unaudited)	2014
Profit (loss) for the year/period	13,505	7,028	736	2,631	(640)
Items that may be subsequently reclassified to profit or loss					
Currency translation differences	(2,773)	(981)	(3,369)	(1,153)	809
Items that will not be reclassified to profit or loss					
Remeasurement of post-employment benefit obligations, gross of tax	89	(4,621)	445	–	(1,290)
Remeasurement of post-employment benefit obligations, tax	(29)	1,508	(146)	–	419
Other comprehensive income (expense)	(2,713)	(4,094)	(3,070)	(1,153)	(62)
Total comprehensive income (expense) for the year/period, net of tax	10,792	2,934	(2,334)	1,478	(702)
Attributable to:					
Equity owners of KHD	10,743	2,829	(2,337)	1,457	(816)
Non-controlling interests	49	105	3	21	114
	10,792	2,934	(2,334)	1,478	(702)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in € thousand)	Share Capital	Share Premium	Other Reserves	Retained earnings	Total	Non-controlling interests	Total
	Attributable to the equity owners of KHD						
January 1, 2011	33,142	1,776	(945)	112,100	146,073	841	146,914
Group net profit for the year	–	–	–	13,456	13,456	49	13,505
Other comprehensive income	–	–	60	–	60	–	60
Currency translation difference	–	–	(2,773)	–	(2,773)	–	(2,773)
Total comprehensive income	–	–	(2,713)	13,456	10,743	49	10,792
Other changes	–	(396)	–	–	(396)	–	(396)
Capital Increase	16,562	58,461	–	–	75,023	–	75,023
Purchase of non-controlling interests	–	–	–	–	–	(9)	(9)
December 31, 2011	49,704	59,841	(3,658)	125,556	231,443	881	232,324
Group net profit for the year	–	–	–	6,923	6,923	105	7,028
Other comprehensive income	–	–	(3,113)	–	(3,113)	–	(3,113)
Currency translation difference	–	–	(981)	–	(981)	–	(981)
Total comprehensive income	–	–	(4,094)	6,923	2,829	105	2,934
Other changes	–	–	–	11	11	–	11
Payment of dividends	–	–	–	(5,937)	(5,937)	–	(5,937)
Purchase of non-controlling interests	–	–	–	–	–	(42)	(42)
December 31, 2012	49,704	59,841	(7,752)	126,553	228,346	944	229,290
Group net profit for the year	–	–	–	733	733	3	736
Other comprehensive income	–	–	299	–	299	–	299
Currency translation difference	–	–	(3,369)	–	(3,369)	–	(3,369)
Total comprehensive income	–	–	(3,070)	733	(2,337)	3	(2,334)

(in € thousand)	Share Capital	Share Premium	Other Reserves	Retained earnings	Total	Non-controlling interests	Total
	Attributable to the equity owners of KHD						
Other changes	–	–	–	(14)	(14)	–	(14)
Payment of dividends	–	–	–	(4,453)	(4,453)	–	(4,453)
Purchase of non-controlling interests	–	–	–	–	–	(39)	(39)
December 31, 2013	49,704	59,841	(10,822)	122,819	221,542	908	222,450
Group net profit for the period	–	–	–	(754)	(754)	114	(640)
Other comprehensive income	–	–	(871)	–	(871)	–	(871)
Currency translation difference	–	–	809	–	809	–	809
Total comprehensive income	–	–	(62)	(754)	(816)	114	(702)
Other changes	–	–	–	8	8	–	8
Sale of treasury shares	–	1,256	221	–	1,477	–	1,477
Purchase of non-controlling interests	–	–	–	–	–	(67)	(67)
June 30, 2014	49,704	61,097	(10,663)	122,073	222,211	955	223,166

Unaudited:

Six months ended June 30, 2013

	Attributable to the equity owners of KHD						
(in € thousand)	Share Capital	Share Premium	Other Reserves	Retained earnings	Total	Non-controlling interests	Total
December 31, 2012	49,704	59,841	(7,752)	126,553	228,346	944	229,290
Group net profit for the period	–	–	–	2,610	2,610	21	2,631
Other comprehensive income	–	–	–	–	–	–	–
Currency translation difference	–	–	(1,153)	–	(1,153)	–	(1,153)
Total comprehensive income	–	–	(1,153)	2,610	1,457	21	1,478
Payment of dividends	–	–	–	(4,453)	(4,453)	–	(4,453)
Purchase of non-controlling interests	–	–	–	–	–	(13)	(13)
June 30, 2013	49,704	59,841	(8,905)	124,710	225,350	952	226,302

CONSOLIDATED STATEMENTS OF CASH FLOWS

in € thousand	Note	Year ended December 31, 2011	2012	2013	Six months ended June 30, 2013 (unaudited)	2014
Cash flow from operating activities						
Cash generated from (used in) operations	32	(33,902)	1,833	(48,344)	(22,425)	(829)
Interest received		5,651	3,522	2,476	1,296	1,336
Income tax (paid)/received		(32,733)	(8,194)	1,310	(904)	(1,848)
Net cash used in operating activities		(60,984)	(2,839)	(44,558)	(22,033)	(1,341)
Cash flow from investing activities						
Purchase of property, plant and equipment		(1,476)	(1,175)	(744)	(246)	(1,002)
Purchase of intangible assets		(1,226)	(1,815)	(294)	(205)	(186)
Acquisition of subsidiaries, net of cash acquired		(777)	–	–	–	–
Proceeds from disposal of property, plant and equipment		75	109	80	–	7
Net cash used in investing activities		(3,404)	(2,881)	(958)	(451)	(1,181)
Cash flow from financing activities						
Cash inflow from issue of shares		74,627	–	–	–	–
Payment for purchase of shares from non-controlling interests		(9)	(42)	(39)	(13)	(67)
Cash inflow from sale of treasury shares		–	–	–	–	1,477
Dividends paid to shareholders of KHD		–	(5,937)	(4,453)	(4,453)	–
Change in pledged bank deposits		1,087	12,189	(27,650)	(32,178)	2,106
Net cash generated from (used in) financing activities		75,705	6,210	(32,142)	(36,644)	3,516

in € thousand	*Note*	Year ended December 31, 2011	2012	2013	Six months ended June 30, 2013 (unaudited)	2014
Net increase (decrease) in cash and cash equivalents		11,317	490	(77,658)	(59,128)	994
Cash and cash equivalents at beginning of year/period		274,271	282,620	282,073	282,073	200,066
Currency translation difference		(2,968)	(1,037)	(4,349)	(1,642)	971
Cash and cash equivalents at end of year/period		282,620	282,073	200,066	221,303	202,031
Composition of unrestricted cash and cash equivalents						
Bank balances and cash		149,175	125,610	77,222	50,311	103,021
Short-term bank deposits		133,445	156,463	122,844	170,992	99,010
Total cash and cash equivalents		282,620	282,073	200,066	221,303	202,031

II NOTES TO THE FINANCIAL INFORMATION

1. SUMMARY OF MAJOR ACCOUNTING AND MEASUREMENT PRINCIPLES

Basis of Preparation and Other Notes

The parent company of KHD Group is KHD Humboldt Wedag International AG ("KHD") with registered offices in Colonia-Allee 3, 51067 Cologne, Germany, entered in the Cologne Commercial Register, Department B, with the number 36688. The consolidated Group of KHD Humboldt Wedag International AG is hereinafter referred to as "KHD Group".

The shares of KHD are traded on the Regulated Market (General Standard) of the Frankfurt Stock Exchange.

The main business activity of KHD Group is the development, production, and distribution of industrial plant equipment, in particular for cement plants.

The Financial Information of KHD and KHD Group (the "Financial Information") is presented in EUR'000, unless otherwise stated.

The Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRS") and under the historical cost convention, except for certain financial instruments that are measured at fair values. In addition, the Financial Information includes applicable disclosure requirements required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance which for the Relevant Periods continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The accounting policies and bases adopted in the preparation of the Financial Information differ from those used in the statutory accounts of KHD which are prepared in accordance with German Generally Accepted Accounting Policies (separate financial statements of KHD Humboldt Wedag International AG) or IFRS as applied in the European Union (consolidated financial statements of KHD Group) respectively.

The preparation of Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies of AVIC International Holdings Limited (the "Company"). The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed below.

Applying New or Revised International Financial Reporting Standards

For the Relevant Periods, KHD Group applied all International Accounting Standards Board (IASB) Standards and International Financial Reporting Interpretations Committee (IFRIC) interpretations required to be applied for the financial period commencing from January 1, 2014. Accordingly, new standards, amendments and interpretation to the existing standards that became effective during the Relevant Periods presented have been adopted by KHD Group consistently throughout the Relevant Periods presented unless prohibited by the relevant standard to apply retrospectively.

The following standards or amendments and reviews of standards were not required to be applied yet and were also not voluntarily applied early.

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after January 1, 2018)
- Improvements to IFRS 2010-2012 (December 2013) (effective for annual periods beginning on or after July 1, 2014)
- Improvements to IFRS 2011-2013 (December 2013) (effective for annual periods beginning on or after July 1, 2014)

- Amendment to IAS 19 "Employee Contributions" (effective for annual periods beginning on or after July 1, 2014)

- Amendments to IAS 27: Equity Method in Separate Financial Statements (effective for annual periods beginning on or after January 1, 2016)

- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after January 1, 2016)

- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after January 1, 2016)

- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization (effective for annual periods beginning on or after January 1, 2016)

- IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after January 1, 2017)

- Amendments to IAS 16 and IAS 41: Agriculture - Bearer Plants (effective for annual periods beginning on or after January 1, 2016)

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after January 1, 2016)

KHD is currently assessing the extent to which the application of the additional new standards will affect KHD Group's net assets, financial position, and result of operations.

Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all the Relevant Periods presented, unless otherwise stated.

Consolidation

Subsidiaries

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

Inter-company transactions, balances and unrealized gains on transactions between KHD Group companies are eliminated. Unrealized losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

KHD Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the KHD Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. KHD Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by KHD Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

Joint arrangements

For purpose of preparation of the Financial Information, KHD Group has applied IFRS 11 to all joint arrangements for all Relevant Periods. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. KHD Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method. Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize KHD Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), KHD Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealized gains on transactions between KHD Group and its joint ventures are eliminated to the extent of KHD Group's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by KHD Humboldt Wedag International AG on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of KHD Group are measured using the currency of the primary economic environment in which KHD Group operates ('the functional currency'). The Financial Information is presented in Euro, which is also the functional currency of KHD. The Euro ("EUR") is KHD Group's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or costs'. All other foreign exchange gains and losses are presented in profit or loss within 'other gains/(losses) – net.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss.

Group companies

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

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognized in other comprehensive income.

Applicable exchange rates

The applicable exchange rates are set out in the table below:

		Closing rate					Average rate				
	Currency	as of Dec. 31, 2011	as of Dec. 31, 2012	as of June 30, 2013	as of Dec. 31, 2013	as of June 30th, 2014	Jan. 1 to Dec. 31, 2011	Jan. 1 to Dec. 31, 2012	Jan. 1 to June 30, 2013	Jan. 1 to Dec. 31, 2013	Jan. 1 to June 30, 2014
	1 Euro =										
Australia	AUD	1.2716	1.2712	1.4207	1.5396	1.4507	1.3413	1.2445	1.3087	1.3938	1.4981
India	INR	68.9828	72.2231	77.4375	85.2246	82.241	65.5838	69.0521	72.4866	78.5281	83.2284
USA	USD	1.2938	1.3183	1.3001	1.3767	1.3692	1.3996	1.2918	1.3106	1.3299	1.3713
Malaysia *	MYR	–	4.0333	4.1134	4.5204	4.3951	–	3.9609	4.0585	4.2174	4.4744
Brazil	BRL	–	2.6953	2.871	3.2519	3.0174	–	2.5288	2.6906	2.9000	3.1295
Russia	RUB	41.7428	40.1982	42.666	45.2582	46.5654	41.0066	40.0461	40.9293	42.5931	48.1556

* Average rate Apr. 1 to Dec. 31, 2012

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to KHD Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

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

- Leasehold improvements determined based on the lease term
- Property, plant and equipment 5 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized within 'Other gains/(losses) - net' in the income statement.

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over KHD Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

In line with IFRS 1 exemptions, goodwill was included in the first IFRS consolidated financial statements prepared by KHD Group at the carrying amounts which were determined according to the previously applicable accounting principles (Section 301 of the German Commercial Code HGB).

Intangible assets

Software licenses are recognized at cost less scheduled amortization. Software licenses are amortized using the straight line method over a useful life of three years. Through the Relevant Periods, development costs that require capitalization were not incurred.

Costs associated with maintaining computer software programs which do not generate economic benefits are recognized as an expense as incurred.

Impairment of non-financial assets

Assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortization and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

Financial assets

Classification

For purpose of presentation in the Financial Information, KHD Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available for sale (not applicable for the Relevant Periods). The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are categorized as held for trading. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets (not applicable for the Relevant Periods).

Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade-date – the date on which KHD Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and KHD Group has transferred substantially all risks and rewards of ownership. Financial asset at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Offsetting financial instruments

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

Impairment of financial assets

Assets carried at amortized cost

KHD Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, KHD Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.

Assets classified as derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. KHD Group's derivative instruments do not qualify for hedge accounting, and are accounted for at fair value through profit or loss. Changes in the fair value of KHD Group's derivative instruments that do not qualify for hedge accounting are recognized immediately in profit or loss. Trading derivative are defined as a current asset and liability.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

Construction contracts

Contract costs are recognized when incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognized over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that they have been agreed with the customer and are capable of being reliably measured.

KHD Group uses the "percentage of completion method" to determine the appropriate amount to be recognized in a given period. The stage of completion is determined based on the completion of a physical proportion of the contract work by reference to the cost incurred up to the end of the reporting period as a percentage of total estimated budgeted cost for each contract.

KHD Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within trade receivables.

KHD Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses).

Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Borrowing costs

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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

Through the Relevant Periods, no borrowing cost were to be capitalized by KHD Group under the accounting policies as stated in this paragraph.

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where KHD and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

b) *Deferred income tax*

Inside basis differences and tax loss carryforwards

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Further, deferred tax assets are recognized for tax loss carryforwards to the extent that a future tax benefit is probable.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Outside basis differences

Deferred income tax liabilities are provided on temporary differences arising on investments in subsidiaries and joint ventures, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by KHD Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries and joint ventures only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

Following such accounting policy, no deferred tax items on outside basis differences were to be considered by KHD Group for the Relevant Periods.

c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Employee pension obligations

KHD Group operates different post-employment schemes, including both defined benefit and defined contribution pension plans.

A defined contribution plan is a pension plan under which KHD Group pays fixed contributions into a separate entity. KHD Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets (the latter not applicable to KHD for the Relevant Periods). The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Research and development

Research expenditures is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new and improved products) are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset; it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development cost previously recognized as an expense is not recognized as an asset in a subsequent period. Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use on a straight-line basis over their estimated useful lives.

For the Relevant Periods included in the Financial Information, all research and development cost were to be expenses as incurred by KHD under the accounting policies as stated above. Relevant expenses are included in "Administrative expenses" within the income statement.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

Provisions

Provisions for legal claims are recognized when: KHD Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense within the financial expenses in the income statement.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. KHD Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the group's activities, as described below. KHD Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

a) Sales of goods

Sales of goods are recognized when KHD Group has delivered products to the customer, the customer has accepted the products and collectability of related receivables is reasonably assured.

b) Contract revenue

Income and expenses arising in connection with construction contracts for industrial plants are recognized by reference to the stage of completion of the contract activity at the end of the reporting period date using the percentage of completion (PoC) method. An expected loss on a construction contract is recognized as an expense immediately.

c) Rental income

Rental income from properties letting under operating leases is recognized on a straight line basis over the lease terms.

d) Interest income

Interest income is recognized on a time-proportion basis using the effective interest method.

Estimates And Assumptions

The assumptions made and estimates used in preparing the consolidated financial statements have an influence on the recognition and the measurement of the assets, liabilities, income and expenses disclosed, as well as on contingent liabilities and contingent assets. These assumptions and estimates largely relate to the determination of uniform economic useful lives, the determination of the stage of completion for construction contracts, the determination of contract costs, the assumptions used while determining the recoverability of goodwill, the measurement of provisions, and the extent to which tax loss carry-forwards can be utilized. In isolated cases, actual values may deviate from the underlying assumptions and estimates. Effects from such changes are generally recognized in the income statement at the time when more recent knowledge becomes available. The carrying amounts of the affected items can be found in the statements made in the notes to the consolidated financial statements.

2. SUBSIDIARIES AND A JOINT VENTURE OF KHD FOR THE RELEVANT PERIODS

Name of company	Registered office	Shareholding in %		Currency	Subscribed capital	Main business
Subsidiaries						
KHD Humboldt Wedag GmbH	Cologne, Germany	100.00	D	€	15,339,300	Holding Company
Humboldt Wedag GmbH	Cologne, Germany	100.00	I	€	7,000,000	Construction business
ZAB Zementanlagenbau GmbH Dessau	Dessau, Germany	100.00	I	€	2,000,000	Construction business
Blake International Ltd.	Road Town, British Virgin Islands	100.00	I	USD	1,000	Holding Company
KHD Humboldt Wedag Industrial Services AG	Cologne, Germany	90.66	I	€	3,600,000	Service Company
EKOF Flotation GmbH	Bochum, Germany	100.00	I	€	51,129	Flotation Services
Humboldt Wedag Australia Pty Ltd.	Braeside, Australia	100.00	I	AUD	200,002	Construction business
Humboldt Wedag Inc.	Norcross, USA	100.00	I	USD	1,000	Construction business
Humboldt Wedag India Private Ltd.	New Delhi, India	100.00	I	INR	19,200,000	Construction business
KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd.	Beijing, China	100.00	I	USD	1,050,000	Local sales unit
KHD Humboldt Engineering OOO	Moscow, Russia	100.00	I	RUB	3,350,000	Construction business
Humboldt Wedag Malaysia Sdn. Bhd.	Kuala Lumpur, Malaysia	100.00	I	MYR	500,000	Construction business
Humboldt Wedag do Brasil Servicos Technicos Ltda.	Belo Horizonte, Brazil	100.00	I	BRL	200,000	Local sales unit
Joint Venture						
KHD Engineering Holding GmbH	Vienna, Austria	50.00	I	€	180,000	Holding Company

D = directly owned
I = indirectly owned

The percentage of shareholding held directly or indirectly by KHD remained unchanged over all Relevant Periods with exception of the share in KHD Humboldt Wedag Industrial Services AG, Cologne/Germany (KIS), which developed as follows:

	As at December 31, 2011	As at December 31, 2012	As at December 31, 2013	As at June 30, 2014
Shareholding of KHD Group in KIS (in %)	89.08	89.57	89.98	90.66

3. KHD AND SUBSIDIARIES AUDITORS

The statutory financial statements for each of the years ended 31 December 2011, 2012, and 2013 of KHD and the following KHD subsidiaries are falling under legal audit requirements under the relevant jurisdiction in each of the domicile countries (no changes in the respective audit firm over the Relevant Periods):

Name of company	Domicile	Auditor's Name
KHD Humboldt Wedag International AG	Cologne, Germany	Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft
Humboldt Wedag GmbH	Cologne, Germany	Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft
ZAB Zementanlagenbau GmbH Dessau	Dessau, Germany	Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft
KHD Humboldt Wedag Industrial Services AG	Cologne, Germany	Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft
Humboldt Wedag India Private Ltd.	New Delhi, India	Deloitte Haskins & Sells
KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd.	Beijing, China	Beijing Huwse Accounting Firm Co. Ltd.
KHD Humboldt Engineering OOO	Moscow, Russia	Intercom Audit LLC.
Humboldt Wedag Malaysia Sdn. Bhd.	Kuala Lumpur, Malaysia	Deloitte & Touche AF
Humboldt Wedag do Brasil Servicos Technicos Ltda.	Belo Horizonte, Brazil	Moore Stephens Auditores

All other subsidiaries of KHD do not fall under a legal requirement to file statutory financial statements audited by external auditors. The Financial Information for the Relevant Periods included in the underlying financial statements supporting this report has been subject to audit procedures performed by KHD's group auditors Deloitte & Touche GmbH Wirtschftsprüfungsgesellschaft in accordance with ISA 600 when auditing the underlying consolidated financial statements of KHD Group.

4. BUSINESS COMBINATION

With effect from September 30, 2011, the KHD Group companies ZAB Zementanlagenbau GmbH Dessau, Dessau (ZAB), and KHD Humboldt Wedag GmbH (KHD HW), Cologne, each acquired 50% of the shares of KHD Humboldt Engineering OOO, Moscow (KHD OOO). The shares were held up to that point by the Vienna-based company KHD Engineering Holding GmbH (KHD Engineering). KHD group is holding a 50% share in KHD Engineering in its position as a partner in a joint venture. The consideration transferred amounts to cash of €2.5 million.

Since September 30, 2011, the joint venture company KHD OOO has been included in the consolidated financial statements as a fully consolidated subsidiary and no longer reported under application of the equity method.

The equity interest held before control obtained was remeasured at fair value at acquisition date, which resulted in a gain of €2.4 million. This gain is recorded in the reporting line "Other gains (losses) – net" in the consolidated income statement for the year ended December 31, 2011.

At the acquisition-date goodwill was recognized as the excess of the consideration transferred plus the acquisition-date fair value of the previously held equity interest over the acquisition-date fair values of the identifiable assets acquired and the liabilities assumed. The goodwill arising from the business combination amounts to €3.0 million and largely reflects the positive effects anticipated from improved market activity in Russia.

The following assets and liabilities are included in the consolidated financial statements due to KHD OOO being fully consolidated as of September 30, 2011 for the first time.

(in € thousand)	**September 30, 2011**
Assets	
Current assets	5,686
Cash and cash equivalents	1,698
Non-current assets	1,388
Total assets	8,772
Equity and liabilities	
Current liabilities	6,294
Non-current liabilities	564
Equity	1,914
Total equity and liabilities	8,772

Receivables of €1,666 thousands are included under the acquired current assets as well as payments made in advance of €1,836 thousands. The fair values recognized correspond to the gross amounts of the contractual receivables and advance payments made.

The net cash outflow on acquisition of KHD OOO, net of cash and cash equivalents acquired was €0.8 million.

The revenue and net profit for the period and for the year of acquisition of KHD OOO are comprised as follows:

(in € thousand)	**October 1 – December 31, 2011**	**January 1 – December 31, 2011**
Revenue	5,288	16,516
Net profit (loss) for the period/year	(617)	2,215

Had the acquisition been completed on January 1, 2011, the revenue and net profit of the KHD Group for the year ended December 31, 2011 would have been €234.5 million and €14.9 million, respectively. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of KHD Group that actually would have been achieved had the acquisition been completed on January 1, 2011, nor is intended to be a projection of future results.

5. SEGMENT REPORTING

External segment reporting at KHD has been carried out in the two separated segments Capex (project business) and Parts & Services since January 1, 2014. However, it is only possible to compare the aggregated figures with the 2013 financial year, as information required to restate prior period segment information in accordance with the requirement of IFRS 8.29 is not available and could only be produced at excessive cost.

Segment reporting is based on intra-group management control as well as internal financial reporting. In the past KHD group had only one single reportable segment. Since financial year 2014 the management of KHD group is performed in the two segments – Capex (project business) and Parts & Services. The adaptation of the company's internal management system by forming a separate business unit Parts & Service follows the strategy of the Management Board to expand the high-margin service business.

The business activities of the two segments include the following activities and services:

a) Capex (project business)

In the segment Capex industrial plants, in particular cement facilities, are developed, manufactured and marketed.

b) Parts & Services

The segment Parts & Services comprises services related to the production and maintenance of industrial plants, in particular cement facilities, and the provision of spare parts. Besides maintenance and repair work, services also include education and training for the plant operators.

The management control system is based in particular on balance sheet and income statement figures. The measurement principles used for KHD Group segment reporting are in line with the IFRS principles used for the consolidated financial statements. In its function as the chief operating decision maker, the Management Board assesses the profitability of the segment based on the operating result (profit before finance result and tax). The following table provides an overview of the business for the six months ended June 30, 2014 and 2013:

in € million	CAPEX January 1 – June 30, 2014	Parts & Service January 1 – June 30, 2014	Total Group January 1 – June 30, 2014	January 1 – June 30, 2013 (unaudited)
Order intake	25	27	52	40
Revenue	87	28	115	112
Cost of sales	(79)	(20)	(99)	(94)
Gross profit	8	8	16	18
Expenses / other income (net)	(15)	(2)	(17)	(15)
Earnings (loss) before interest and taxes (EBIT)	(7)	6	(1)	3

As outlined above, the KHD Group only had one single reportable segment until December 31, 2013, because KHD almost exclusively operates in the industrial plant engineering business, with no management reporting structure implemented below this level. Below, aggregate Financial Information on the business for all Relevant Periods of the Financial Information is provided, as no comparative information based on the revised management structure as applicable from January 1, 2014 onward can be produced.

The activities related to the holding function are not a separate part of internal financial reporting and are neither reviewed separately with regard to performance nor with regard to allocation of resources. Management control is based in particular on key balance sheet and income statement figures. The revenue figure analyzed is comprised of revenue under construction contracts and from service revenue. The measurement principles used for KHD Group segment reporting are in line with the IFRS principles used for the consolidated financial statements. In its function as the chief operating decision maker, the Management Board assesses the profitability of the segment based on the operating result (earnings before interest and taxes – EBIT).

The following table provides an overview of the business for the Relevant Periods:

	Year ended December 31,			Six months ended June 30,	
	2011	**2012**	**2013**	**2013**	**2014**
	EUR Mio.	*EUR Mio.*	*EUR Mio.*	*EUR Mio.* (unaudited)	*EUR Mio.*
Order intake	225	411	172	40	52
Order backlog (December 31)	294	491	339	420	277
Revenue	229	214	250	112	115
Cost of sales	(178)	(170)	(221)	(94)	(99)
Gross profit	51	44	29	18	16
Expenses/other income (net)	(35)	(37)	(28)	(15)	(17)
Earnings before interest and taxes (EBIT)	15	7	1	3	(1)
Net finance income	5	2	1	1	1
Profit before tax	21	9	2	4	–
Changes in unrestricted cash and cash equivalents	11	(4)	(78)	(61)	2
Total assets	432	436	418	422	405
Liquidity (including pledged bank accounts)	295	283	228	254	228
Liabilities	200	206	196	196	181

Geographical allocation of project data:

a) Revenue

	Year ended December 31,			Six months ended June 30,	
	2011	**2012**	**2013**	**2013**	**2014**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* (unaudited)	*EUR'000*
Germany	6,273	7,506	3,825	1,967	2,635
Russia	49,150	31,116	12,923	4,534	15,816
Rest of Europe	5,439	5,630	36,411	9,255	4,778
North America	9,910	12,618	25,975	3,462	21,185
South America	13,569	19,940	19,214	14,689	6,377
Middle East	28,902	21,870	14,345	4,759	11,814
India	81,732	46,439	47,189	15,121	35,301
China	3,379	9,968	4,914	4,533	734
Rest of Asia	19,210	35,238	69,363	39,275	11,525
Africa	4,655	15,245	13,649	6,141	2,177
Other	7,007	7,976	1,816	7,715	2,467
	229,226	213,546	249,624	111,451	114,809

b) Non-current assets (excluding deferred income taxes and equity investments)

	As at December 31,			As at June 30,	
	2011	2012	2013	2013	2014
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
				(unaudited)	
Germany	6,093	7,457	6,451	6,977	6,662
Russia	4,039	3,281	3,049	3,282	3,043
Rest of Europe	–	–	–	–	–
North America	73	86	85	87	89
South America	–	1	25	32	25
Middle East	–	–	–	–	–
India	1,189	909	770	767	813
China	2	36	23	2	21
Rest of Asia	–	3	15	7	23
Africa	–	–	–	–	–
Other	–	–	–	–	–
	11,396	11,773	10,418	11,154	10,676

c) Order intake

	Year ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
				(unaudited)	
Germany	9,334	3,253	4,959	1,839	6,878
Russia	19,158	5,963	83,128	4,861	8,676
Rest of Europe	5,101	40,036	7,775	4,863	3,098
North America	10,970	25,933	31,047	1,347	8,114
South America	20,650	7,743	10,813	5,392	1,098
Middle East	27,813	13,521	22,678	10,011	10,530
India	24,555	90,504	5,194	5,920	7,817
China	8,091	6,401	(833)	(601)	55
Rest of Asia	2,357	126,268	3,381	1,947	964
Africa	10,533	14,343	4,203	3,590	2,329
Other	86,175	2,421	75	1,197	2,442
	224,737	410,886	172,420	40,366	52,001

d) Order backlog

	Year ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* (unaudited)	*EUR'000*
Germany	6,072	1,818	2,900	1,690	7,143
Russia	37,014	11,861	81,962	86,688	74,322
Rest of Europe	2,301	36,709	8,073	32,317	6,393
North America	3,007	16,323	87,370	638	74,299
South America	18,039	5,842	11,079	10,115	5,800
Middle East	28,309	19,960	28,276	25,212	26,992
India	76,024	120,089	77,699	110,888	50,215
China	9,783	6,216	1,069	1,082	390
Rest of Asia	13,206	104,236	38,312	66,908	27,751
Africa	12,828	11,925	2,479	9,374	2,631
Other	87,106	81,555	112	75,037	587
	293,689	491,034	339,331	419,949	276,523

The project data was allocated to the different geographical areas according to the place of performance or delivery of the products and services.

As of the reporting dates December 31, 2012 onwards, the order backlog includes an order of which around 60% was passed on to the strategic partner AVIC International Beijing Company Limited, Beijing/China. The portion of the order that was passed on amounts to approximately €60 million. Correspondingly, the KHD Group generates no additional gross profit for the remaining order backlog as at December 31, 2012 and 2013 and as at June 30, 2014 in amount of €53.0 million; €22.9 million and of €15.1 million, respectively, that has not yet been recognized as revenue.

Information about Key Customers

For the Relevant Periods, revenue in amount as stated in the table below was attributable to individual customers with which at least 10% of KHD Group's revenue was achieved.

	Year ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013 (unaudited)	2014
Number of customers with revenue of at least 10% of Group revenue for the period	2	1	2	1	2
Revenue from these customers (Mio. EUR)	97.0	27.0	78.5	29.1	39.3

6. GOODWILL AND OTHER INTANGIBLE ASSETS

KHD Group:

	Goodwill	Software licenses and other intangible assets	Total
	EUR'000	*EUR'000*	*EUR'000*
Cost			
January 1, 2011	2,127	3,190	5,317
Additions	–	1,754	1,754
Additions due to changes in consolidated Group	3,035	1,342	4,377
December 31, 2011	5,162	6,286	11,448
Additions	–	1,815	1,815
Disposals	–	(2)	(2)
December 31, 2012	5,162	8,099	13,261
Additions	–	294	294
Disposals	–	–	–
December 31, 2013	5,162	8,393	13,555
Additions	–	186	186
Disposals	–	(45)	(45)
June 30, 2014	5,162	8,534	13,696

	Goodwill	Software licenses and other intangible assets	Total
	EUR'000	*EUR'000*	*EUR'000*
Accumulated amortization			
January 1, 2011	–	2,277	2,277
Charge for the year	–	723	723
Disposals	–	–	–
December 31, 2011	–	3,000	3,000
Charge for the year	–	1,487	1,487
Disposals	–	(2)	(2)
December 31, 2012	–	4,485	4,485
Charge for the year	–	1,228	1,228
Disposals	–	–	–
December 31, 2013	–	5,713	5,713
Charge for the period	–	502	502
Disposals	–	(45)	(45)
June 30, 2014	–	6,170	6,170
Carrying amount			
December 31, 2011	5,162	3,286	8,448
December 31, 2012	5,162	3,614	8,776
December 31, 2013	5,162	2,680	7,842
June 30, 2014	5,162	2,364	7,526

Goodwill

The goodwill reported as of all of the relevant reporting dates, arises from acquisitions and was allocated to the corresponding cash generating units.

The goodwill is attributable to the following cash generating units:

- Parts & Services Humboldt Wedag GmbH, Cologne (€2,126 thousand)
- Parts & Services KHD Humboldt Engineering OOO ("KHD OOO"), Moscow (€1,606 thousand)
- Capex KHD OOO (€1,430 thousand).

Goodwill is subjected to an annual impairment test as part of the preparation of the consolidated financial statements by comparing the carrying amount of the respective cash generating unit (including goodwill) with its recoverable amount. The recoverable amount is calculated as the value in use based on the discounted cash flow method.

No impairment test was performed as of June 30, 2014, as no triggering events indicating impairment of goodwill as at an interim reporting date was identified.

The pre-tax cash flows accounted for are based on the management-approved medium-term planning, which extends over a period of four years. In order to calculate the value contribution arising from the perpetual return (value contribution after expiry of the detailed planning period), the long-term operating cash flows were calculated as the arithmetic average of the latest two detailed planning years for each of the Relevant Periods. A 1.0% growth rate was assumed for the perpetuity. This growth rate reflects the management's long-term expectations.

The discount rates were derived from market data, taking into account the risk situation of the respective cash generating unit and amount to:

	As at December 31,		
	2011	**2012**	**2013**
	in %	*in %*	*in %*
Capitalization rate before tax	11.02	12.47	13.71
Capitalization rate (incl. risk premiums)	12.79	13.84	14.71

Since the calculated value in use exceeds the cash generating unit's carrying amount (including goodwill), there was no need to recognize an impairment loss pursuant to IAS 36.

A change to the key measurement parameters would have the following effects:

	Impairment loss as at December 31,		
	2011	**2012**	**2013**
	EUR'000	*EUR'000*	*EUR'000*
– 10% reduction in the estimated cash flows	–	–	221
– 20% increase in the capitalization rate	–	432	432

7. PROPERTY, PLANT AND EQUIPMENT

KHD Group:

	Leasehold improvements *EUR'000*	Property, plant and equipment *EUR'000*	Total *EUR'000*
Cost			
January 1, 2011	465	8,296	8,761
Additions	–	1,539	1,539
Additions due to changes in consolidated Group	–	7	7
Disposals	(185)	(786)	(971)
Foreign currency translation	–	(82)	(82)
December 31, 2011	280	8,974	9,254
Additions	214	961	1,175
Disposals	–	(1,280)	(1,280)
Foreign currency translation	(2)	(34)	(36)
December 31, 2012	492	8,621	9,113
Additions	10	734	744
Disposals	(30)	(304)	(334)
Foreign currency translation	(6)	(118)	(124)
December 31, 2013	466	8,933	9,399
Additions	–	1,002	1,002
Disposals	–	(383)	(383)
Foreign currency translation	–	28	28
June 30, 2014	466	9,580	10,046

	Leasehold improvements	Property, plant and equipment	Total
	EUR'000	*EUR'000*	*EUR'000*
Accumulated depreciation			
January 1, 2011	63	5,653	5,716
Charge for the year	35	917	952
Disposals	–	(362)	(362)
December 31, 2011	98	6,208	6,306
Charge for the year	45	987	1,032
Disposals	–	(1,222)	(1,222)
December 31, 2012	143	5,973	6,116
Charge for the year	57	909	966
Disposals	(30)	(229)	(259)
December 31, 2013	170	6,653	6,823
Charge for the period	28	392	420
Disposals	–	(347)	(347)
June 30, 2014	198	6,698	6,896
Carrying amount			
December 31, 2011	182	2,766	2,948
December 31, 2012	349	2,648	2,997
December 31, 2013	296	2,280	2,576
June 30, 2014	268	2,882	3,150

8. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

KHD Group:

The investments accounted for using the equity method comprise of the joint venture company KHD Engineering Holding GmbH, Vienna/Austria, at end of each Relevant Periods.

9. INVESTMENT IN A SUBSIDIARY

KHD:

Investment in a subsidiary as disclosed on the balance sheet of KHD at end of each of the Relevant Periods represents 100% share in KHD Humboldt Wedag GmbH, Cologne stated at cost.

10. DEFERRED TAX ASSETS AND LIABILITIES

KHD Group:

KHD Group tax loss carry-forwards as at December 31, 2011, 2012 and 2013 and as at June 30, 2014 amounted in total to €53.9 million, €57.5 million, €64.8 million and €67.3 million, respectively, for corporate income tax and comparable foreign income taxes. Loss carry-forwards for trade tax as at December 31, 2011, 2012 and 2013 and as at June 30, 2014 amounted to €61.8 million, €66.7 million, €75.0 million and €77.9 million, respectively.

In line with the provisions of IAS 12.34 et seq., income tax loss carry-forwards that can probably be utilized to offset future profits within the four-year KHD Group planning period, were included in the calculation of deferred taxes. In doing so, loss carry-forwards as at December 31, 2011, 2012 and 2013 and as at June 30, 2014 in the amount of €4.6 million, €11.9 million, €18.4 million and €22.3 million, respectively, for corporate income tax and comparable foreign income taxes and €4.0 million, €7.1 million, €16.0 million and €19.9 million, respectively, for trade tax were recognized.

On November 21, 2013, a consortium group of bidders consisting of AVIC International Engineering Holdings Pte. Ltd., Singapore, Europe Project Management Pte. Ltd., Singapore, Europe Technology Investment Pte. Ltd., Singapore, and Europe Engineering Holdings Pte. Ltd., Singapore, submitted to the shareholders of the KHD, a voluntary public takeover offer for the acquisition of their shares. Within the scope of this takeover offer, which ended on January 13, 2014, with the expiry of the extended acceptance period, more than 50% of the shares in KHD were transferred to the bidders. Several countries in which subsidiaries of the KHD Group are active in general limit the future utilization of tax loss carry-forwards as a consequence of a direct or indirect shareholder change of over 50%. The extent to which the utilization of tax loss carry-forwards on which no deferred tax assets have been recognized is permanently limited, currently cannot be assessed conclusively.

Unutilized loss carry-forwards for foreign income taxes as at December 31, 2011, 2012 and 2013 and as at June 30, 2014 in amount of €6,046 thousand, €5,360 thousand, €1,732 thousand and €1,732 thousand (no reassessment made at interim reporting dates as tax returns are only filed annually) will expire during the time period from 2029 through 2031.

Deferred taxes as at December 31, 2011, 2012 and 2013 and as at June 30, 2014 in the amount of (€29) thousand, €1,508 thousand, (€146) thousand and €419 thousand, respectively, were recorded in other comprehensive income. These exclusively result from actuarial gains and losses related to defined benefit obligations that are not booked through profit or loss.

For temporary differences as at December 31, 2011 and 2012 amounting to €152.1 million and €146.5 million, respectively, and as at December 31, 2013 and June 30, 2014 of €135.7 million which are linked to shares in subsidiaries and which will not reverse in the foreseeable future, no deferred tax assets or liabilities were recognized.

Deferred tax assets and liabilities arise from the following items:

	As at December 31,			As at June 30,
	2011	2012	2013	2014
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Deferred tax assets				
Provisions	4,059	6,770	6,217	6,059
Resulting from tax loss carry-forwards	1,481	4,250	6,138	7,596
Offset with deferred tax liabilities	(1,610)	(5,329)	(7,447)	(9,018)
	3,930	5,691	4,908	4,637
Deferred tax liabilities				
Construction contracts / Percentage of completion method	(6,274)	(8,244)	(9,526)	(9,260)
Offset with deferred tax assets	1,610	5,329	7,447	9,018
	(4,664)	(2,915)	(2,079)	(242)

11. INVENTORIES

KHD Group:

	As at December 31,			As at June 30,
	2011	2012	2013	2014
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Raw materials	8,761	6,545	6,563	3,064
Work in progress	2,384	391	59	1,430
Write-downs to net realizable value	(3,263)	(1,973)	(1,304)	(1,228)
	7,882	4,963	5,318	3,266

For the years ended December 31, 2011, 2012 and 2013 and six months ended June 30, 2014, inventories in the amount of €3,545 thousand, €5,092 thousand, €6,250 thousand and €2,659 thousand, respectively, were expensed as part of cost of sales.

Write-downs to net realizable value as at December 31, 2011, 2012 and 2013 and as at June 30, 2014 amounted to €3,263 thousand, €1,973 thousand, €1,304 thousand and €1,228 thousand. These write-downs relate to raw materials, consumables, and supplies, the carrying amount of which is €3,654 thousand, €3,833 thousand, €1,974 thousand and €1,754 thousand, respectively, at December 31, 2011, 2012 and 2013 and as at June 30, 2014.

12. TRADE AND OTHER RECEIVABLES

KHD Group:

	As at December 31,			As at June 30,
	2011	**2012**	**2013**	**2014**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Trade receivables	62,019	66,460	80,469	81,678
Less valuation allowances for impairment of receivables	(6,876)	(7,043)	(5,894)	(5,362)
Trade receivables – net	55,143	59,417	74,575	76,316
Financial receivables	6,852	2,590	7,118	6,951
Prepayments to suppliers	13,792	28,845	19,480	17,686
Other receivables	5,701	2,614	2,918	1,483
Current trade and other receivables	81,488	93,466	104,091	102,436
Fair value of trade and other receivables				
Trade receivables – net	55,143	59,417	74,575	76,316
Prepayments to suppliers	13,792	28,845	19,480	17,686
Other financial and non-financial receivables	12,553	5,204	10,036	8,434
Total fair value of trade and other receivables	**81,488**	**93,466**	**104,091**	**102,436**

Subject to the nature of the business of KHD Group, the credit periods within the construction business are negotiated on a contract by contract basis and show credit periods of up to 120 days. For sales of goods and services, credit periods are ranged from 14 to 120 days during the Relevant Periods.

The ageing structure of trade receivables – net after allowance for doubtful debt is as follows:

	As at December 31,			As at June 30,
	2011	**2012**	**2013**	**2014**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
0 to 60 days	45,199	52,852	70,644	67,977
61 to 90 days	4,926	285	452	704
91 to 180 days	1,017	1,880	1,430	1,397
181 to 365 days	1,469	2,025	1,288	4,649
Over 365 days	2,532	2,375	761	1,589
Total	55,143	59,417	74,575	76,316

The following trade receivables were overdue more than 61 days as at the relevant end of reporting period and no valuation allowances were made because no material change in the credit standing of these debtors was identified:

	As at December 31,			As at June 30,
	2011	**2012**	**2013**	**2014**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Receivables overdue for more than 61 days without valuation allowance built thereon	9,944	6,565	3,931	8,339

Ageing structure of overdue receivables for which no valuation allowance was recognized:

	As at December 31,			As at June 30,
	2011	**2012**	**2013**	**2014**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
61 to 90 days	4,926	285	452	704
91 to 180 days	1,017	1,880	1,430	1,397
181 to 365 days	1,469	2,025	1,288	4,649
Over 365 days	2,532	2,375	761	1,589
Total	9,944	6,565	3,931	8,339

Overdue receivables are reviewed monthly. Specific bad debt reserves (valuation allowances) are recognized if there is objective evidence of impairment.

Movements in valuation allowances on trade receivables are as follows:

	Year ended December 31,			Six months ended June 30,
	2011	**2012**	**2013**	**2014**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Valuation Allowances as of beginning of the year/period	2,567	6,876	7,043	5,894
Addition	5,637	2,297	1,096	414
Utilization	(508)	(510)	(468)	(628)
Currency translation differences	(159)	(141)	(391)	111
Reversal	(661)	(1,479)	(1,386)	(429)
Valuation Allowances as of end of the year/period	6,876	7,043	5,894	5,362

Valuation allowances correspond to the net value (excluding VAT) of the impaired receivables.

KHD:

	As at December 31, 2011 EUR'000	As at December 31, 2012 EUR'000	As at December 31, 2013 EUR'000	As at June 30, 2014 EUR'000
Intercompany receivables within KHD Group	1,387	7,172	8,383	18,528
Less valuation allowances for impairment of receivables	–	–	–	–
Intercompany receivables – net	1,387	7,172	8,383	18,528
Financial receivables	242	185	281	154
Prepayments to suppliers	150	998	505	95
VAT receivables	2,154	883	2,350	585
Other receivables	3,938	–	–	0
Current trade and other receivables	7,871	9,238	11,519	19,362
Fair value of trade and other receivables				
Intercompany receivables – net	1,387	7,172	8,383	18,528
Prepayments to suppliers	150	998	505	95
Other financial and non-financial receivables	6,334	1,068	2,631	739
Total fair value of trade and other receivables	7,871	9,238	11,519	19,362

13. AMOUNT DUE FROM CUSTOMERS FOR CONTRACT WORK

KHD Group:

	As at December 31, 2011 EUR'000	As at December 31, 2012 EUR'000	As at December 31, 2013 EUR'000	As at June 30, 2014 EUR'000
Costs incurred to date for construction contracts	246,190	246,311	341,449	364,122
Proportionate profits under these contracts recognized to date	40,662	40,405	43,008	40,631
Total costs incurred and profits recognized	286,852	286,716	384,457	404,753
Less recognized contract losses	(1,021)	(967)	(2,007)	(2,437)
Less progress billings	(300,946)	(317,465)	(368,991)	(392,075)
Balance of construction contracts account	(15,115)	(31,716)	13,459	10,241
Less: Amount due to customers for contract work	(36,296)	(58,279)	(45,591)	(38,833)
Amount due from customers for contract work	21,181	26,563	59,050	49,074
Amount due to customers for contract work	(36,296)	(58,279)	(45,591)	(38,833)
Advances received under construction contracts (before related work is performed)	(6,063)	(7,686)	(5,619)	(11,463)
Amount due to customers for contract work	(42,359)	(65,965)	(51,210)	(50,296)

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

KHD Group:

Financial assets at fair value through profit or loss are fully comprised of equity securities, listed outside of Hong Kong (listed in: Vienna/Austria). Securities are recognized as financial assets at fair value through profit or loss. Changes in the amounts disclosed on the consolidated balance sheet mainly result of a corresponding fluctuation in value of the shares held, due to the evolution in the stock market prices over the Relevant Periods.

15. PLEDGED BANK DEPOSITS

KHD Group and the KHD:

For all Relevant Periods, the pledged bank deposits completely relate to guarantee deposits for performance security of constructions contracts.

16. CASH AND CASH EQUIVALENTS

KHD Group:

Cash and cash equivalents are comprised as follows for the relevant reporting periods:

	As at December 31,			As at June 30,
	2011	**2012**	**2013**	**2014**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Bank balances and cash on hand	149,175	125,610	77,222	103,021
Short-term bank deposits	133,445	156,463	122,844	99,010
	282,620	282,073	200,066	202,031
Annual interest rates for bank balances and deposits held	0.00% – 9.90%	0.00% – 10.10%	0.00% – 9.75%	0.00% – 9.40%

KHD:

Cash and cash equivalents are comprised as follows for the relevant reporting periods:

	As at December 31,			As at June 30,
	2011	**2012**	**2013**	**2014**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Bank balances and cash on hand	45,795	32,178	26,224	64,224
Short-term bank deposits	41,000	50,000	45,000	–
	86,795	82,178	71,224	64,224
Annual interest rates for bank balances and deposits held	0.00% – 2.10%	0.00% – 2.10%	0.00% – 0.65%	0.00% – 0.65%

17. EQUITY

KHD and KHD Group:

Following the latest capital increase completed in the year ended December 31, 2011, KHD's share capital amounts to €49,703,573 and is divided into 49,703,573 no-par-value bearer shares.

This capital increase that was based on a shareholder resolution passed during the Annual General Meeting on March 23, 2010, was successfully completed on February 16, 2011. The new no-par value bearer shares, with a notional amount in the share capital of €1.00 per share, were issued at a price of €4.53 per share. A total of 6,620,306 shares were issued to existing shareholders. Of the unsubscribed shares, 9,940,715 were subscribed by Max Glory Industries Ltd. (Max Glory), an indirect subsidiary of AVIC International Beijing Company Limited, Beijing/China. When the transaction was completed, the KHD share capital was increased by €16,561,021, from €33,142,552 to €49,703,573. The gross issue proceeds from the transaction amounted to around €75 million. Of the proceeds from the capital increase, €16,562 thousand went into the share capital and €58,461 into the share premium. Expenses directly related to the capital increase in the amount of €396 thousand were recognized as deductions from equity. The new shares were included into trading on the regulated market of the Frankfurt Stock Exchange on February 21, 2011.

Pursuant to Section 5 Paragraph 1 of the articles of association, the Management Board is authorized to increase KHD's share capital, with the approval of the Supervisory Board, on one or more occasions by up to a total of €10,255 against cash through the issue of up to 10,255 new no-par-value bearer shares, each representing €1.00 of the share capital ("authorized capital") until March 22, 2015. The shareholders generally have statutory subscription rights. Furthermore, the Management Board is authorized to determine the details of capital increases and their execution with the approval of the Supervisory Board.

KHD is authorized to acquire treasury shares in the overall amount of up to 10% of its share capital available at the time of the resolution to do so. Together with other shares which KHD has already acquired and still holds, the shares purchased by virtue of this authorization may not at any time exceed 10% of the KHD's share capital. This authorization became effective at the end of the Annual General Meeting on October 5, 2012, and remains valid until October 4, 2017.

At December 31, 2011, 2012 and 2013, KHD was holding 229,136 treasury shares. This corresponded to 0.46% of the shares comprising the share capital. The shares were acquired in order to manage the share price, and as a provision for any reconciliation of residual amounts that may be required in the context of capital increases. The shares were recognized in the balance sheet as at December 31, 2011, 2012 and 2013 at their acquisition cost of €0.965 per share. The share's stock market price was €6.46 as of December 31, 2013. The adjusting amounts of the treasury shares to equity in amount of €221 thousand is included as a debit to "other reserves" as stated in the consolidated balance sheets and balance sheets of KHD as at December 31, 2011, 2012 and 2013. During the six months ended June 30, 2014, KHD disposed all the treasury shares in return of a consideration of €1,477 thousand and recorded a credit to share premium of €1,256 thousand.

On December 10, 2013, the Management Board accepted the voluntary takeover offer from a group of bidders comprising AVIC International Engineering Holdings Pte. Ltd., Europe Project Management Pte. Ltd., Europe Technology Investment Pte. Ltd. and Europe Engineering Holdings Pte. Ltd. and sold all of its treasury shares. The economic transfer of these shares took place on January 7, 2014.

KHD Group:

Other reserves as disclosed in the consolidated balance sheets comprised the followings:

	As at December 31, 2011	As at December 31, 2012	As at December 31, 2013	As at June 30, 2014
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Treasury shares	(221)	(221)	(221)	–
Other comprehensive result for remeasurement of post-employment benefits (net of tax)	(1,208)	(4,321)	(4,022)	(4,893)
Currency translation differences recognized in equity	(2,229)	(3,210)	(6,579)	(5,770)
	(3,658)	(7,752)	(10,822)	(10,663)

The non-controlling interests relate solely to the minority shareholders of KHD Humboldt Wedag Industrial Services AG, Cologne/Germany.

KHD:

KHD's reserves available for distribution to equity owners as December 31, 2011, 2012 and 2013 and as at June 30, 2014 amount to €64.9 million, €63.3 million, €63.2 million and €64.0 million respectively.

Other reserves of KHD represent the amounts of treasury shares as stated in the table on KHD Group above at the end of each of the Relevant Periods.

18. PROVISIONS

KHD Group:

in € thousand	Warranty	Tax and litigation risks	Impending losses	Total
Provisions as of January 1, 2011	44,173	1,038	3,946	50,097
Addition	13,039	1,632	638	15,309
Release	(10,885)	(650)	(541)	(12,535)
Interest accrual	458	–	–	458
Currency translation effects	(955)	–	(169)	(1,124)
Utilization/reclassification	(4,969)	(2)	(2,509)	(7,961)
Provisions as of December 31, 2011	40,861	2,018	1,365	44,244
Additions	8,706	37	–	8,743
Release	(13,201)	(367)	–	(13,568)
Interest accrual	781	–	–	781
Currency translation effects	(446)	(65)	(47)	(558)
Utilization/reclassification	(7,044)	(288)	(270)	(7,602)
Provisions as of December 31, 2012	29,657	1,335	1,048	32,040

in € thousand	Warranty	Tax and litigation risks	Impending losses	Total
Additions	6,025	5	72	6,102
Release	(5,524)	(604)	(154)	(6,282)
Interest accrual	334	–	–	334
Currency translation effects	(1,653)	(192)	(112)	(1,957)
Utilization/reclassification	(4,097)	(23)	(121)	(4,241)
Provisions as of December 31, 2013	24,742	521	733	25,996
Additions	438	41	12	491
Release	(3,043)	–	–	(3,043)
Interest accrual	36	–	–	36
Currency translation effects	336	16	14	366
Utilization/reclassification	(2,485)	–	(12)	(2,497)
Provisions as of June 30, 2014	20,024	578	747	21,349

The current and non-current portion of provisions is split in the table below:

	As at December 31,			As at June 30,
	2011	2012	2013	2014
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Non-current	16,720	7,571	2,358	2,407
Current	27,524	24,469	23,638	18,942
	44,244	32,040	25,996	21,349

KHD:

Provisions of KHD are of current nature at end of each Relevant Periods. The evolution is as follows:

in € thousand	Tax and litigation risks	Total
Provisions as of January 1, 2011	305	305
Additions	11	11
Provisions as of December 31, 2011	316	316
Additions	18	18
Utilization/reclassification	(296)	(296)
Provisions as of December 31, 2012	38	38
Additions	5	5
Utilization/reclassification	(24)	(24)
Provisions as of December 31, 2013	19	19
Additions	41	41
Provisions as of June 30, 2014	60	60

19. RETIREMENT BENEFIT OBLIGATIONS

KHD Group:

The pension scheme granted to employees in the KHD Group relates exclusively to three group companies in Germany. The pension scheme is granted under defined benefit plans, which are covered by setting up pension benefit obligations. After the pension plans were frozen in 1996, it is no longer possible for employees to acquire additional vested rights to future pensions. The claims to payment of committed, non-forfeitable pension benefit obligations under the pension plans arise upon application by the beneficiaries, and through the provision of supporting evidence that the statutory pension may be drawn. The pension plans of the three Group companies are identical. They are designed as benefits for old-age pension, early retirement pension, and pension benefits to widows and orphans. Benefits to respective employees are dependent on date of entry, length of service, and income.

The total benefit obligations of KHD Group for at end of each Relevant Periods amount as follows:

	As at December 31, 2011	As at December 31, 2012	As at December 31, 2013	As at June 30, 2014
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Retirement benefit obligations (current and non-current)	21,749	25,903	24,690	25,560

The long term and short-term portion of the obligations are disclosed separately in the current and non-current liability captions of the balances sheet.

The pension plans typically expose the KHD Group to the following actuarial risks:

Interest rate change risk:

A decrease in the loan rate will lead to an increase in the plan obligation.

Longevity risk:

The present value of the defined benefit obligations arising from the plan is determined on the basis of the best possible estimate of the expected mortality of the employees participating in the plan, both during the term of the employment contract as well as after the end of the employment. An increase in the life expectancy of the employees participating in the plan will lead to an increase in the plan obligation.

The pension benefit obligations are not funded by a separate fund or in the form of plan assets, but are financed exclusively internally.

The most important actuarial assumptions made are as follows:

	As at December 31,			As at June 30,
	2011	**2012**	**2013**	**2014**
Discount rate	5.00%	3.00%	3.10%	2.60%
Pension trend	2.00%	2.00%	2.00%	2.00%
Employee turnover rate	0%	0%	0%	0%

The mortality tables 2005 G from Dr. Klaus Heubeck form the biometric basis for calculating these obligations.

The assumptions shown above reflect realistic expectations at the respective reporting date. A change in the parameters named above can lead to changes in the measurement. The effects of changes to the material actuarial assumptions in the scope of obligation at the end of the Relevant Periods can be clarified using the following sensitivity analyses:

- If the discount rate increases by 0.5%, the pension benefit obligations fall by €1,205 thousand. If the discount rate instead falls by 0.5%, the pension benefit obligations increase by €1,314 thousand.

- If the pension trend increases by 0.25%, the pension benefit obligations rise by €622 thousand. If the pension trend decreases by 0.25%, the pension benefit obligations fall by €599 thousand.

- If the life expectancy increases by one year for both men and women, the defined benefit obligation would increase by €1,442 thousand.

The above sensitivity analyses cannot be taken as representative of the actual change in the defined benefit obligations since it is unlikely that deviations from the assumptions made will arise independently of one another; this is because the assumptions are partly connected to each other.

The present value of the defined benefit obligations in the above sensitivity analyses was determined as of the relevant reporting dates using the projected unit credit method, the same method used to calculate the benefit-related obligations in the consolidated balance sheets.

The changes in the present value of the defined benefit obligations are as follows:

	Year ended December 31,			Six months ended June 30,
	2011	**2012**	**2013**	**2014**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Defined benefit obligations at beginning of the year/period	22,272	21,749	25,903	24,690
Interest cost	1,065	1,049	758	377
Benefits actually paid (total)	(1,499)	(1,517)	(1,525)	(797)
(Gains)/losses due to experience adjustments	15	(368)	(229)	–
Actuarial (gains)/losses due to change in actuarial assumptions	(104)	4,989	(217)	1,290
Defined benefit obligation at end of the year/period	21,749	25,903	24,690	25,560

Since there are no plan assets, the present value of the defined benefit obligations corresponds to net debt as of the reporting date. Interest expenses relating to the Relevant Periods as stated above are included in "administrative expenses" in the consolidated income statement.

For the Relevant Periods, the average term of the defined benefit obligation was as follows:

- June 30, 2014: 10.5 years;
- December 31, 2013: 10.5 years;
- December 31, 2012: 10.9 years;
- December 31, 2011: 10.0 years;

Cumulative revaluations recorded in other comprehensive income:

	As at December 31,			As at June 30,
	2011	**2012**	**2013**	**2014**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Opening balance – cumulative remeasurement gains (-)/losses	1,897	1,808	6,429	5,984
Actuarial gains (-)/losses	(89)	4,621	(445)	1,290
Closing balance – cumulative remeasurement gains (-)/losses	1,808	6,429	5,984	7,274

Evolution of defined benefit costs:

	As at December 31,			As at June 30,
	2011	2012	2013	2014
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Current service cost	–	–	–	–
Net interest expense	1,065	1,049	758	377
Actuarial (gains)/losses due to experience adjustments	15	(368)	(229)	–
Actuarial (gains)/losses due to change in actuarial assumptions	(104)	4,989	(216)	1,290
Actuarial (gains)/losses recognized in other comprehensive income	(89)	4,621	(445)	1,290
Defined benefit costs	976	5,670	313	1,667

Prospective pension payments from June 30, 2014 onwards are as follows:

in € thousand	
in 2014	794
in 2015	1,600
in 2016	1,595
in 2017	1,590
in 2018	1,581
2019 to 2023	7,630

20. TRADE AND OTHER PAYABLES

KHD Group:

	As at December 31,			As at June 30,
	2011	2012	2013	2014
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Current financial liabilities				
Trade payables	64,875	62,588	77,868	70,671
Other current liabilities	6,854	7,798	6,457	5,597
Current financial liabilities	71,729	70,386	84,325	76,268
Other liabilities				
Tax and social security	149	123	591	1,061
Trade and other payables	71,878	70,509	84,916	77,329

KHD group pays its liabilities on the due date as agreed with vendors. The credit periods for liabilities, particularly for purchases of goods and services, are ranged from 14 to 90 days.

As at the end of the Relevant Periods, the ageing analysis of the trade and other payables is as follows:

	As at December 31,			As at June 30,
	2011	2012	2013	2014
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Within 1 year	64,786	63,389	82,634	73,968
Between 1 and 2 years	207	593	208	1,349
Between 2 and 3 years	2,277	1,217	374	134
Over 3 years	4,608	5,310	1,700	1,878
Trade and other payables	71,878	70,509	84,916	77,329

KHD:

	As at December 31,			As at June 30,
	2011	2012	2013	2014
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Current financial liabilities				
Trade payables	323	149	408	125
Intercompany liabilities	9,134	1,381	18,770	15,996
Other current liabilities	3,596	1,473	1,229	997
Current financial liabilities	13,053	3,003	20,407	17,118
Other liabilities				
Tax and social security	52	21	34	754
Trade and other payables	15,263	3,024	20,441	17,872

As at the end of each of the Relevant Periods, the ageing analysis of the trade and other payables is as follows:

	As at December 31,			As at June 30,
	2011	2012	2013	2014
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Within 1 year	13,757	2,719	19,892	17,095
Between 1 and 2 years	44	25	50	312
Between 2 and 3 years	484	52	90	31
Over 3 years	978	228	409	434
Trade payables and intercompany liabilities	15,263	3,024	20,441	17,872

21. OTHER NON-CURRENT LIABILITIES

KHD Group:

Other non-current liabilities are predominantly related to obligations (e.g. warranty type obligations), that have crystallized under specific claims by vendors or customers, that will however only fall due for settlement or execution later than 12 months after the end of each Relevant Period.

22. AMOUNTS DUE TO CUSTOMERS FOR CONTRACT WORK

KHD Group:

This item contains commitments under construction contracts which are presented in accordance with IAS 11. These commitments represent the net liability of the amounts explained in Note 12. Furthermore, this item includes advances paid by customers upon acceptance of the contract before the related work was performed by the KHD Group, recognized in accordance with IAS 11.

23. REVENUE

Analysis of revenue by category:

	Year ended December 31,			Six months ended June 30,	
	2011	**2012**	**2013**	**2013**	**2014**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* (unaudited)	*EUR'000*
Construction contracts	219,856	199,708	225,258	97,274	101,268
Others	9,370	13,838	24,366	14,177	13,541
	229,226	213,546	249,624	111,451	114,809

24. OTHER INCOME

	Year ended December 31,			Six months ended June 30,	
	2011	**2012**	**2013**	**2013**	**2014**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* (unaudited)	*EUR'000*
Dividend income	47	47	54	–	47
Others	928	1,215	686	575	305
	975	1,262	740	575	352

25. OTHER GAINS (LOSSES) – NET

	Year ended December 31,			Six months ended June 30,	
	2011	**2012**	**2013**	**2013**	**2014**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* (unaudited)	*EUR'000*
Gain on disposals of property, plant and equipment	9	51	5	–	3
Foreign currency exchange gains	815	92	323	46	15
Foreign currency exchange losses	(196)	(424)	(62)	(1)	(121)
Income from foreign exchange forward contracts	607	46	–	146	–
Losses from foreign exchange forward contracts	(550)	–	(119)	–	(104)
Gain from business combination achieved in stages	2,427	–	–	–	–
Gains/(losses) on securities	(833)	723	(147)	(334)	(36)
Other gains	459	–	2,130	–	–
	2,738	488	2,130	(143)	(243)

The gain from business combinations achieved in stages in amount of €2,427 thousand for the year ended December 31, 2011 relates to the gain from re-measuring the previously held 50% stake in KHD OOO that was accounted for under application of the equity method to fair value at the acquisition date.

Other gains are related to income from the release of a prior period restructuring reserve in amount of €459 thousand in the year ended December 31, 2011, and income from a contingent purchase price payment related to the sale of the workshop in Cologne/Germany in 2009 in amount of €2,130 thousand in the year ended December 31, 2013.

26. FINANCE COSTS – NET

	Year ended December 31,			Six months ended June 30,	
	2011	**2012**	**2013**	**2013**	**2014**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* (unaudited)	*EUR'000*
Interest income	5,507	3,927	2,612	1,316	1,336
Foreign exchange gain on financing activities	123	339	312	62	165
Other finance income	–	–	26	–	–
Finance income	5,630	4,266	2,950	1,378	1,501
Interest related to provisions and other non-current liabilities	(702)	(1,165)	(421)	(154)	(129)
Foreign exchange loss on financing activities	(193)	(623)	(783)	(53)	(216)
Other finance expenses	(90)	(200)	–	–	(43)
Finance cost	(985)	(1,988)	(1,204)	(207)	(388)
	4,645	2,278	1,746	1,171	1,113

27. INCOME TAX EXPENSE

The income tax expense for the Relevant Periods presented in the Financial Information is comprised as follows:

	Year ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* (unaudited)	*EUR'000*
Current tax expense	(11,925)	(3,776)	(2,337)	(652)	1,111
Deferred tax income	4,890	2,014	648	(759)	(1,582)
Tax expense for the year/period	(7,035)	(1,762)	(1,689)	(1,411)	(471)

The accounting profit multiplied by the applicable tax rate is reconciled to actual tax expense as follows:

	Year ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* (unaudited)	*EUR'000*
Profit (loss) before income tax	20,540	8,790	2,425	4,042	(169)
Average tax rate (in %)	32.45	32.45	32.45	32.45	32.45
Expected tax expense	(6,666)	(2,852)	(787)	(1,312)	55
Effects of tax-free income	647	–	117	–	–
Effects of non-tax-deductible expenses	(862)	(188)	(72)	(27)	(24)
Effects of unutilized tax losses not recognized as deferred tax assets in current or prior years	510	2,472	(683)	138	55
Effects of subsidiaries' divergent tax rates	(48)	(14)	(81)	(76)	(44)
Adjustments for previous years' taxes recognized in the current period	93	(1,094)	(77)	–	(504)
Other non-tax-effective additions and deductions	(709)	(86)	(106)	(134)	(9)
Tax expense for the year/period	(7,035)	(1,762)	(1,689)	(1,411)	(471)

Tax rates that differ from the average Group tax rate primarily relate to the USA and Russia. The applicable tax rates for these countries are as follows (Unchanged over the Relevant Periods): USA 38%, Russia 20%.

The effective KHD Group taxation rate for the Relevant Periods is as follows:

	Year ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013 (unaudited)	2014
Effective tax rate (in %)	34.70	20.07	69.65	34.91	(278.70)

28. EXPENSES BY NATURE

	Year ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
				(unaudited)	
Cost of material and supplies	128,445	107,332	157,375	62,171	64,911
Cost of purchased services	16,765	20,931	22,062	9,840	14,745
Freight and insurance	6,711	10,208	9,341	4,429	2,629
Travel costs	5,513	5,598	4,892	2,362	2,474
Cost of bank guaranty for construction contracts	1,499	1,877	2,205	1,023	1,284
Employee benefit expenses	41,400	44,025	43,471	22,327	23,867
Cost of depreciation, maintenance and rent	5,410	5,815	6,935	3,370	3,163
Other cost	12,642	13,013	5,519	3,482	3,127
	218,385	208,799	251,800	109,004	116,200

29. EMPLOYEE BENEFIT EXPENSES

	Year ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
				(unaudited)	
Wages and salaries	36,200	38,198	37,951	19,337	20,871
Social security contributions and costs, including pension costs	5,200	5,827	5,520	2,990	2,996
	41,400	44,025	43,471	22,327	23,867

Employee benefit expenses as depicted above include employer contributions to defined contribution type post-employment benefit schemes as follows:

	Year ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
				(unaudited)	
Statutory pensions insurance in Germany	1,813	2,061	1,997	999	1,018
Expenses for contractually defined contribution plans	404	378	372	186	188
	2,217	2,439	2,369	1,185	1,206

30. DIRECTORS' EMOLUMENTS

a) Directors emoluments

The following table is providing an overview on the key data concerning the members of the Management Board of KHD (Vorstand), which are considered being the "Directors" of KHD for purpose of presentation in this Financial Information:

Name	Management Board member since	Management Board contract until	Contract of employment with KHD since
Jouni Olavi Salo	December 11, 2008	December 10, 2014	April 1, 2010
Yizhen Zhu	April 1, 2011	April 1, 2015	April 2, 2011
Ralph Quellmalz**	April 30, 2013	April 30, 2016	May 1, 2013
Manfred Weinandy	April 1, 2010	September 7, 2011	March 29, 2010

The total remuneration for members of the KHD Management Board amounted for the Relevant Periods is detailed by individual in the tables below, broken down according to the person and their fixed and variable remuneration components.

Six months ended June 30, 2014:

in €	Jouni Olavi Salo	Yizhen Zhu	Ralph Quellmalz
Fixed compensation	187,500	100,000	110,000
Variable compensations	150,000	60,000	60,000
Non-cash benefits	27,829	8,466	9,646
Other	105,105	0	3,374
Total	470,434	168,466	183,020

Six months ended June 30, 2013 (unaudited):

in €	Jouni Olavi Salo	Yizhen Zhu	Ralph Quellmalz*
Fixed compensation	187,500	90,000	36,667
Fixed bonus	93,750	22,500	18,750
Non-cash benefits	26,859	11,960	710
Other	20,262	0	1,096
Total	328,371	124,460	57,223

* The Management Board compensation for Mr. Quellmalz shown in the table above relates to a period of two months only.

Financial year ended December 31, 2013:

in €	Jouni Olavi Salo	Yizhen Zhu	Ralph Quellmalz*
Fixed compensation	375,000	180,000	146,667
Fixed bonus	187,500	45,000	75,000
Non-cash benefits	53,718	23,919	2,842
Other	55,368	–	4,385
Total	671,586	248,919	228,894

* The Management Board compensation for Mr. Quellmalz shown in the table above relates to a period of eight months only.

Financial year ended December 31, 2012:

in €	Jouni Olavi Salo	Yizhen Zhu
Fixed compensation	375,000	160,000
Variable compensation		
– for the 2012 financial year	281,906	54,367
– for the assessment period 2010 – 2012	119,456	–
Non-cash benefits	51,005	12,851
Other	36,028	–
Total	863,395	227,218

Financial year ended December 31, 2011:

in €	Jouni Olavi Salo	Yizhen Zhu	Manfred Weinandy
Fixed compensation	375,000	135,000	123,750
Variable compensation	210,938	33,750	–
Non-cash benefits	67,989	6,173	–
Other	31,529	–	11,936
Compensation following revocation of appointment	–	–	258,176
Non-cash benefits following revocation of appointment	–	–	24,082
Total	685,456	174,923	417,944

b) Five highest paid individuals

The five individuals whose emoluments were the highest in KHD Group do include all members of the Management Board during the Relevant Periods, whose emoluments are reflected in the analysis presented above. The emoluments payable to the five highest paid individuals for the years ended December 31, 2011, 2012 and 2013 and six months ended June 30, 2013 and 2014 are as follows:

	Year ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* (unaudited)	*EUR'000*
Basic salaries, bonuses, allowances and benefits in kind	1,702	1,736	1,707	809	1,271

The emoluments fell within the following bands:

	Number of individuals				
	Year ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013 (unaudited)	2014
Emolument bands in HK$					
– 1,000,000 – 1,500,000	–	–	–	4	1
– 1,500,001 – 2,000,000	1	1	–	–	2
– 2,000,001 – 2,500,000	2	3	–	–	–
– 2,500,001 – 3,000,000	–	–	4	–	–
– 3,000,001 – 3,500,000	–	–	–	–	1
– 3,500,001 – 4,000,000	–	–	–	1	–
– 4,000,001 – 4,500,000	1	–	–	–	–
– 5,000,001 – 5,500,000	–	–	–	–	1
– 6,500,001 – 7,000,000	1	–	–	–	–
– 7,000,001 – 7,500,000	–	–	1	–	–
– 8,500,001 – 9,000,000	–	1	–	–	–
	5	5	5	5	5

31. EARNINGS AND DIVIDEND PER SHARE

Earnings per Share

Since February 17, 2011, the number of ordinary shares issued amounts to 49,474,437 as a result of the capital increase.

	Year ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013 (unaudited)	2014
Net profit (loss) attributable to equity owners of KHD (in € thousand)	13,456	6,923	733	2,610	(754)
Weighted average number of shares outstanding	47,358,307	49,474,437	49,474,437	49,474,437	49,703,573
Basic (undiluted) and diluted earnings per share (in €)	0.28	0.14	0.01	0.05	(0.02)

There were no potential dilutive ordinary shares outstanding during the Relevant Periods.

Dividend per Share

According the articles of association, KHD's Annual General Meeting of shareholders passes a resolution concerning the appropriation of net retained profit. The net dividend payment for the Relevant Periods as approved in the Annual General Meeting of the relevant subsequent years was as follows:

- Year ended December 31, 2011 (paid out in 2012) EUR/Share 0.12
- Year ended December 31, 2012 (paid out in 2013) EUR/Share 0.09
- Year ended December 31, 2011 (no dividend) EUR/Share 0.00

32. CASH GENERATED FROM (USED IN) OPERATIONS

	Year ended December 31,			Six months ended June 30,	
in € thousand	**2011**	**2012**	**2013**	**2013**	**2014**
				(unaudited)	
Profit (loss) for the year/period	13,505	7,028	736	2,631	(640)
Income tax expense	7,035	1,762	1,689	1,411	471
Net finance income	(4,645)	(2,278)	(1,746)	(1,171)	(1,113)
Amortisation and depreciation of non-current assets	1,675	2,519	2,194	1,004	922
Gain on disposal of property, plant and equipment	(9)	(51)	(5)	–	(3)
(Increase)/decrease in trade receivables and financial assets	(10,214)	574	(19,802)	7,646	52
(Increase)/decrease in inventories and amount due from customers for contract work	802	(2,463)	(32,842)	(21,058)	12,028
(Increase)/decrease in payments made in advance and other financial assets	9,298	(15,593)	9,540	(3,806)	2,384
Increase/(decrease) in trade and other payables and in commitments under construction contracts	(44,881)	22,242	(355)	(5,265)	(8,985)
Increase/(decrease) in retirement benefit obligations	(428)	(455)	(1,213)	(324)	(420)
Increase/(decrease) in provisions and non-current liabilities	(3,775)	(15,362)	(7,701)	(4,125)	(5,235)
Other non-cash-transactions	(2,312)	(1,198)	998	523	(337)
Dividends received (including cash dividends from investments accounted for under application of the equity method)	47	5,108	163	109	47
Cash generated from (used in) operations	(33,902)	1,833	(48,344)	(22,425)	(829)

33. TOTAL FEES CHARGED BY THE AUDITORS FOR THE FINANCIAL YEAR

The total fees charged by the auditors Deloitte & Touche GmbH Wirtschaftsprüfungs-gesellschaft for the Relevant Periods are comprised as follows:

	Year ended December 31,			Six months ended June 30,*	
	2011	2012	2013	2013	2014
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* (unaudited)	*EUR'000*
Financial statement audit services	459	391	348	208	167
Tax advisory services	7	8	23	14	6
Other services	32	38	6	6	1
	498	437	377	228	174

* Amounts disclosed on the periods ended June 30, 2013 and 2014 respectively are basically comprising the half year portion of annual audit fees relating to the statutory audit requirement as accrued for by KHD Group.

34. COMMITMENTS AND CONTINGENT LIABILITIES AND ASSETS

KHD Group:

Future minimum payments for non-cancelable operating leases and rent contracts primarily arising from lease contracts for buildings:

	As at December 31,			As at June 30,
	2011	2012	2013	2014
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Within one year	2,454	2,050	2,007	1,817
Between two and five years	6,978	4,789	4,060	3,159
after five years	1,433	981	657	582
Total lease and rental commitments	10,865	7,820	6,724	5,558

Contingent Liabilities

Contingent liabilities arising from guarantees as part of normal business transactions are explained in more detail in the additional notes on financial instruments.

The KHD Group's total purchase commitments as at December 31, 2011; 2012 and 2013 and as at June 30, 2014 amount to €89.5 million; €34.7 million; €93.5 million and €88.8 million, respectively.

Contingent Assets

As of June 30, 2014 and December 31, 2013, all receivables were accounted for in the consolidated balance sheets.

As at December 31, 2012 and 2011 the following contingent asset that materialized within the fiscal year 2013 in amount of €2,130 thousands after the relevant criteria were met, was to be reported: As part of the sale of HW's workshop in Cologne-Kalk, Germany, to an Indian buyer as at October 7, 2009, a contingent purchase consideration of a maximum of €2,850 thousand was agreed beyond the purchase consideration paid. The contingent purchase consideration was depending on the occurrence of specific utilization-related criteria. Based on measurement of this contingent component of the maximum possible purchase consideration – that became due four years after the transaction date – was not to be recognized in the Group balance sheets as of December 31, 2012 and 2011.

KHD:

Future minimum payments for non-cancelable operating leases and rent contracts:

	As at December 31,			As at June 30,
	2011	**2012**	**2013**	**2014**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Within one year	5	5	5	5
Between two and five years	17	18	7	7
after five years	–	–	–	–
Total lease and rental commitments	22	23	12	12

Contingent Liabilities

Contingent liabilities arising from guarantees as part of normal business transactions are explained in more detail in the additional notes on financial instruments.

KHD's total purchase commitments as at December 31, 2011; 2012 and 2013 and as at June 30, 2014 amount to €0.0 million; €0.0 million; €1.1 million and €1.3 million, respectively.

Contingent Assets

No contingent assets to report at the end of the Relevant Periods for KHD.

35. ADDITIONAL NOTES ON FINANCIAL INSTRUMENTS

KHD Group:

Financial risk factors

In its position as a globally operating Group, KHD Group is exposed to various financial risks (currency, interest rate, default, credit, and liquidity risks) which may have a significant impact on KHD Group's net assets, financial position, and result of operations.

Capital Management

The primary objective of capital management at the KHD Group is to ensure that the Group's ability to service debts is maintained in the future and that its financial standing is preserved.

Financial security is largely measured using the equity ratio. The components of this key performance indicator are equity and total assets as reported in the consolidated financial statements. The equity ratio is used as a key performance indicator to communicate with investors, analysts, banks, and rating agencies.

KHD Group can generally manage its capital structure through distributing dividends, reducing capital and/or issuing new shares, as well as through issuing up financial instruments qualified as equity in accordance with IFRS. The aim is to achieve a capital structure that is appropriate to the business risk.

KHD is subject to the minimum capital requirements applicable to German stock corporations. Compliance with these requirements is monitored continuously. KHD was in compliance with these requirements in through the Relevant Periods.

	As at December 31,			As at June 30,
	2011	**2012**	**2013**	**2014**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Equity	232,324	229,290	222,450	223,166
Total assets	431,920	435,679	418,085	404,503
Equity ratio (in %)	53.79	52.63	53.21	55.17

Market risk

Currency risk

In the case of foreign exchange risks, a differentiation should be made between currency risks related to the execution of projects in different currency areas and risks arising from translation of individual KHD Group companies' financial statements denominated in a foreign currency at various reporting dates. As part of the execution of projects, exchange-rate risks are determined on the basis of budgeted cash flows and minimized by using derivative financial instruments. The derivative financial instruments utilized exclusively comprise foreign exchange forward contracts. The risk related to assets and liabilities denominated in foreign currencies as recognized by KHD Group is set forth in the table below:

	As at December 31,			As at June 30,
	2011	**2012**	**2013**	**2014**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Assets and liabilities denominated in foreign currency translated to carrying amounts stated in EUR	5,170	16,854	1,461	2,528
Change in group earnings following a 10% variation in exchange rates	354	1,138	99	171

The individual financial statements prepared by the foreign subsidiaries are translated into Euro in line with the functional currency principle. The KHD's functional currency is the Euro. Assets and liabilities are translated at the closing rate at the end of the period. Currency translation differences resulting from translating the assets and liabilities of foreign subsidiaries denominated in local currencies into KHD Group's functional currency may have an impact on KHD Group equity. Due to annual net profits and equity denominated in foreign currencies, an impact on KHD Group equity may arise from different relevant foreign currencies as follows:

	As at December 31,			As at June 30,
	2011	2012	2013	2014
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
USD	1,671	4,652	2,778	2,913
RUB	540	1,203	1,036	499
INR	18,234	17,090	16,987	19,079
Other foreign currency	2,381	495	42	(55)
Total currency risk	22,826	23,440	20,843	22,436
Change in group equity following a 10% variation in exchange rates	2,283	2,344	2,084	2,244

Price risk

KHD Group reports securities in its balance sheet and is exposed to standard market price risk with respect to securities. In view of the fact that price and performance is set out in individual contracts, KHD Group is not exposed to commodity price risk.

Credit risk and default risk

KHD Group is not exposed to significant credit risks. The risk of credit concentration with regard to receivables is generally diminished as receivables are spread out worldwide, reflecting KHD Group's customer structure. Credit risk is also mitigated through the payment terms the KHD Group agrees with its customers, notably progress billings and advance payments that avoid excessively high levels of outstanding receivables. Internal guidelines ensure that products are generally sold to customers with appropriate credit ratings. The risk of counterparty default is managed through regular monitoring and reviews of the trade receivables and the structure of receivables. At the KHD Group, receivables from export contracts are to a large extent secured against default risks by letters of credit, as well as through letters of comfort, guarantees, and cover notes, which also include export credit agencies (e.g. Hermes).

Securities for receivables amounted as follows over the Relevant Periods:

	As at December 31,			As at June 30,
	2011	2012	2013	2014
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Securities for receivables	18,050	26,286	12,381	11,626

The default risk arising from financial assets relates to the risk of counterparty default and is therefore limited to the positive carrying amounts of the respective financial assets.

Credit and default risks are addressed through valuation allowances made for outstanding receivables that have become doubtful.

Liquidity risk

KHD Group has been pursuing a conservative, forward-looking policy of liquidity hedging for many years and has a very high level of cash and cash equivalents.

In order to avoid financial risks from the plant engineering business, construction contracts are executed through progress billings and customer payments made in advance, which led to a net cash inflow as of the end of the period. By means of financial and liquidity planning, cash and cash equivalents are available in such a way that KHD Group is at all times able to fully meet its payment obligations. The majority of current liabilities reported as of the end of the period are payable within 60 days.

Within the scope of its normal business transactions, KHD Group has commitments due to advance guarantees, performance bonds, and guarantees for warranty obligations. KHD Group does not anticipate any material cash outflows due to these commitments. A bank guarantee facility, which allows individual KHD Group companies to provide bank guarantees for their customers worldwide, is in place with a consortium of banks. Under the aforementioned guarantee facility as well as under additional bank guarantee facilities, KHD Group has provided bank guarantees within the scope of its normal business activities over the Relevant Periods as follows:

	As at December 31,			As at June 30,
	2011	**2012**	**2013**	**2014**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Guarantees provided by banks to customers	96,600	112,200	93,500	85,900

Interest rate risk

KHD Group holds assets that are affected by changes in market interest rates over the course of time. In the event that market interest rates had risen or fallen by 50 basis points, KHD Group's earnings as for each of the Relevant Periods would have been higher or lower, respectively as follows:

	As at December 31,			As at June 30,
	2011	**2012**	**2013**	**2014**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Change of KHD Group's earnings in the event of market interest rates would have risen or fallen by 50 basis points	1,027	955	771	771

Net earnings per category

The net earnings per category of financial assets and liabilities are as follows:

	Financial assets		**Financial liabilities**		**Total**
in € thousand	**Fair value through profit or loss**	**Amortized cost**	**Fair value through profit or loss**	**Amortized cost**	
2011					
Expenses due to valuation allowances on financial assets	–	(6,277)	–	–	(6,277)
Interest income/expense	–	5,101	–	–	5,101
Other net earnings	(781)	1,292	–	–	511
Net earnings 2011	(781)	116	0	0	(665)

in € thousand	Financial assets Fair value through profit or loss	 Amortized cost	Financial liabilities Fair value through profit or loss	 Amortized cost	Total
2012					
Expenses due to valuation allowances on financial assets	–	(2,297)	–	–	(2,297)
Interest income/expense	–	3,522	–	–	3,522
Other net earnings	825	914	–	–	1,739
Net earnings 2012	825	2,139	0	0	2,964
2013					
Expenses due to valuation allowances on financial assets	–	(1,096)	–	–	(1,096)
Interest income/expense	–	2,476	–	–	2,476
Other net earnings	(212)	1,181	–	–	969
Net earnings 2013	(212)	2,561	0	0	2,349
Six months ended June 30, 2013 (unaudited)					
Expenses due to valuation allowances on financial assets	–	(615)	–	–	(615)
Interest income/expense	–	1,296	–	–	1,296
Other net earnings	(141)	842	–	–	701
Net earnings six months ended June 30, 2013	(141)	1,523	0	0	1,382
Six months ended June 30, 2014					
Expenses due to valuation allowances on financial assets	–	(414)	–	–	(414)
Interest income/expense	–	1,336	–	–	1,336
Other net earnings	(93)	275	–	–	182
Net earnings six months ended June 30, 2014	(93)	1,197	0	0	1,104

Net earnings include in particular interest income and expense, income and expenses from translating monetary items denominated in foreign currency, market value changes of securities, and expenses for valuation allowances on financial assets.

List of Financial Assets and Liabilities by Category

December 31, 2011	Financial assets			Financial liabilities				
in € thousand	Fair value through profit or loss	Amortized cost	Not in IAS 39 application area	Fair value through profit or loss	Amortized cost	Not in IAS 39 application area	Carrying amount	Fair value
Trade and other receivables	–	61,995	19,493	–	–	–	81,488	–
Financial assets at fair value through profit or loss	888	–	–	–	–	–	888	888
Derivative financial instruments	28	–	–	–	–	–	28	28
Pledged bank deposits	–	12,642	–	–	–	–	12,642	–
Cash and cash equivalents	–	282,620	–	–	–	–	282,620	–
Total financial assets	916	357,257	19,493	–	–	–	377,666	916
Other non-current liabilities	–	–	–	–	–	11,142	11,142	–
Trade and other payables	–	–	–	–	71,729	149	71,878	–
Derivative financial instruments	–	–	–	–	–	–	–	–
Total financial liabilities	–	–	–	–	71,729	11,291	83,020	–

December 31, 2012	Financial assets			Financial liabilities				
in € thousand	Fair value through profit or loss	Amortized cost	Not in IAS 39 application area	Fair value through profit or loss	Amortized cost	Not in IAS 39 application area	Carrying amount	Fair value
Trade and other receivables	–	62,007	31,459	–	–	–	93,466	–
Financial assets at fair value through profit or loss	1,428	–	–	–	–	–	1,428	1,428
Derivative financial instruments	376	–	–	–	–	–	376	376
Pledged bank deposits	–	453	–	–	–	–	453	–
Cash and cash equivalents	–	282,073	–	–	–	–	282,073	–
Total financial assets	1,804	344,533	31,459	–	–	–	377,796	1,804
Other non-current liabilities	–	–	–	–	–	7,901	7,901	–
Trade and other payables	–	–	–	–	70,386	123	70,509	–
Derivative financial instruments	–	–	–	83	–	–	83	83
Total financial liabilities	–	–	–	83	70,386	8,024	78,493	83

December 31, 2013	Financial assets			Financial liabilities				
in € thousand	Fair value through profit or loss	Amortized cost	Not in IAS 39 application area	Fair value through profit or loss	Amortized cost	Not in IAS 39 application area	Carrying amount	Fair value
Trade and other receivables	–	81,693	22,398	–	–	–	104,091	–
Financial assets at fair value through profit or loss	1,163	–	–	–	–	–	1,163	1,163
Derivative financial instruments	191	–	–	–	–	–	191	191
Pledged bank deposits	–	28,103	–	–	–	–	28,103	–
Cash and cash equivalents	–	200,066	–	–	–	–	200,066	–
Total financial assets	1,354	309,862	22,398	–	–	–	333,614	1,354
Other non-current liabilities	–	–	–	–	–	6,183	6,183	–
Trade and other payables	–	–	–	–	84,325	591	84,916	–
Derivative financial instruments	–	–	–	144	–	–	144	144
Total financial liabilities	–	–	–	144	84,325	6,774	91,243	144

June 30, 2014	Financial assets			Financial liabilities				
in € thousand	Fair value through profit or loss	Amortized cost	Not in IAS 39 application area	Fair value through profit or loss	Amortized cost	Not in IAS 39 application area	Carrying amount	Fair value
Trade and other receivables	–	83,267	19,169	–	–	–	102,436	–
Financial assets at fair value through profit or loss	1,057	–	–	–	–	–	1,057	1,057
Derivative financial instruments	–	–	–	–	–	–	–	–
Pledged bank deposits	–	25,997	–	–	–	–	25,997	–
Cash and cash equivalents	–	202,031	–	–	–	–	202,031	–
Total financial assets	1,057	311,295	19,169	–	–	–	331,521	1,057
Other non-current liabilities	–	–	–	–	–	5,634	5,634	–
Trade and other payables	–	–	–	–	76,268	1,061	77,329	–
Derivative financial instruments	–	–	–	105	–	–	105	105
Total financial liabilities	–	–	–	105	76,268	6,695	83,068	105

The fair values of financial assets and financial liabilities were determined according to the following hierarchy:

- The fair values of the listed securities that are held for trading are determined by reference to quoted market prices.
- The fair values of derivatives are calculated using quoted market prices or based on discounted cash flow analyses, using corresponding yield curves for the term to maturity for the instrument concerned.

Non-current financial assets accrue interest at common market conditions. The carrying amounts reported as of the reporting date in general correspond to the fair values.

Financial assets and financial liabilities	Fair value December 31, 2011	December 31, 2012	December 31, 2013	June 30, 2014	Level	Measurement method	significant unobservable input(s)	relationship of significant unobservable inputs to fair value
Derivatives	Financial assets: €28 thousand	Financial assets: €376 thousand	Financial assets: €191 thousand	Financial assets: €0 thousand	level 2	Discounted cash flow: derivatives are measured based on interest yield curves, which are derived from interest rates with corresponding terms and conditions.	N/A	N/A
	Financial liabilities: €0 thousand	Financial liabilities: €83 thousand	Financial liabilities: €144 thousand	Financial liabilities: €105 thousand				
Securities	Financial assets: €888 thousand	Financial assets: €1,428 thousand	Financial assets: €1,163 thousand	Financial assets: €1,057 thousand	level 1	listed price on active market	N/A	N/A

Securities held for trading

Securities held for trading amounted as follows for the Relevant Periods:

	As at December 31, 2011	2012	2013	As at June 30, 2014
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Securities held for trading (valued at fair value through profit or loss)	888	1,428	1,163	1,057
Change in group equity following a 10% variation in security market prices	84	136	110	101

Receivables

Overdue KHD Group receivables, including receivables for which valuation allowances were made, are detailed in the table below:

	As at December 31, 2011	2012	2013	As at June 30, 2014
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Overdue receivables	16,670	13,787	17,393	13,692
Risk after deduction of securities (letters of credit and Hermes credit insurance coverage)	7,738	13,231	4,978	4,907

The receivables for which valuation allowances have been made are generally more than 90 days overdue.

Derivatives

The derivative financial instruments utilized exclusively comprise foreign exchange forward contracts. These are measured at fair value according to IAS 39. The net balance of those derivatives carried at fair value as well as an analysis of the risk exposure subject to fluctuation in the exchange rate hedged by these derivatives is laid down for the Relevant Periods in the table below:

	As at December 31,			As at June 30,
	2011	**2012**	**2013**	**2014**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Net balance of FX forward contracts at fair value	28	293	46	(105)
Change in group equity following a 10% variation in exchange rates hedged by these derivatives	51	982	732	767
Total amount of underlying transaction allocated to foreign exchange forward contracts	700	14,500	10,800	11,400

KHD:

Financial risk factors

KHD is exposed to various financial risks (currency, interest rate, default, credit, and liquidity risks) which may have a significant impact on the KHD's net assets, financial position, and result of operations.

Currency risk

The risk related to assets and liabilities denominated in foreign currencies as recognized by KHD is set forth in the table below:

	As at December 31,			As at June 30,
	2011	**2012**	**2013**	**2014**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Assets and liabilities denominated in foreign currency translated to carrying amounts stated in EUR	–	6,726	7,491	17,544
Change in KHD's earnings following a 10% variation in exchange rates	–	455	506	1,185

Credit risk and default risk

KHD is not exposed to significant credit risks, as receivables primarily relate to receivables from group companies or fiscal authorities. The remaining risk of counterparty default is managed through regular monitoring and reviews of the trade receivables and the structure of receivables.

Credit and default risks are addressed through valuation allowances made for outstanding receivables that have become doubtful.

Liquidity risk

KHD has been pursuing a conservative, forward-looking policy of liquidity hedging for many years and has a very high level of cash and cash equivalents. By means of financial and liquidity planning, cash and cash equivalents are available in such a way that KHD is at all times able to fully meet its payment obligations.

Within the scope of its normal business transactions, KHD Group companies are having commitments due to advance guarantees, performance bonds, and guarantees for warranty obligations, which are provided to a major part via KHD. KHD does not anticipate any material cash outflows due to these commitments. A bank guarantee facility, which allows individual KHD Group companies to provide bank guarantees for their customers worldwide, is in place with a consortium of banks. Under the aforementioned guarantee facility as well as under additional bank guarantee facilities, KHD has provided bank guarantees through KHD group companies as follows:

	As at December 31,			As at June 30,
	2011	**2012**	**2013**	**2014**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Guarantees provided by banks to customers (via KHD group companies)	96,577	99,389	80,325	85,916

In addition to bank guarantees supported by KHD as stated above, the following commitments are made to KHD group companies:

	As at December 31,			As at June 30,
	2011	**2012**	**2013**	**2014**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Commitments to group companies other than bank guarantees to customers	36,023	37,211	79,375	79,375

Interest rate risk

KHD holds assets that are affected by changes in market interest rates over the course of time. In the event that market interest rates had risen or fallen by 50 basis points, KHD's earnings as for each of the Relevant Periods would have been higher or lower, respectively as follows:

	As at December 31,			As at June 30,
	2011	**2012**	**2013**	**2014**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
KHD's earnings in the event of market interest rates would have risen or fallen by 50 basis points	334	277	334	303

List of Financial Assets and Liabilities by Category

December 31, 2011	Financial assets			Financial liabilities				
in € thousand	Fair value through profit or loss	Amortized cost	Not in IAS 39 application area	Fair value through profit or loss	Amortized cost	Not in IAS 39 application area	Carrying amount	Fair value
Trade and other receivables	–	1,629	6,242	–	–	–	7,871	–
Derivative financial instruments	–	–	–	–	–	–	–	–
Pledged bank deposits	–	12,189	–	–	–	–	12,189	–
Cash and cash equivalents	–	86,795	–	–	–	–	86,795	–
Total financial assets	–	100,613	6,242	–	–	–	106,855	–
Trade and other payables	–	–	–	–	13,053	52	15,263	–
Derivative financial instruments	–	–	–	–	–	–	–	–
Total financial liabilities	–	–	–	–	13,053	52	15,263	–

December 31, 2012	Financial assets			Financial liabilities				
in € thousand	Fair value through profit or loss	Amortized cost	Not in IAS 39 application area	Fair value through profit or loss	Amortized cost	Not in IAS 39 application area	Carrying amount	Fair value
Trade and other receivables	–	7,357	1,881	–	–	–	9,238	–
Derivative financial instruments	244	–	–	–	–	–	244	244
Pledged bank deposits	–	–	–	–	–	–	–	–
Cash and cash equivalents	–	82,178	–	–	–	–	82,178	–
Total financial assets	244	89,535	1,881	–	–	–	91,660	244
Trade and other payables	–	–	–	–	3,003	21	3,024	–
Derivative financial instruments	–	–	–	–	–	–	–	–
Total financial liabilities	–	–	–	–	3,003	21	3,024	–

December 31, 2013	Financial assets			Financial liabilities				
in € thousand	Fair value through profit or loss	Amortized cost	Not in IAS 39 application area	Fair value through profit or loss	Amortized cost	Not in IAS 39 application area	Carrying amount	Fair value
Trade and other receivables	–	8,664	2,855	–	–	–	11,519	–
Derivative financial instruments	191	–	–	–	–	–	191	191
Pledged bank deposits	–	27,650	–	–	–	–	27,650	–
Cash and cash equivalents	–	71,224	–	–	–	–	71,224	–
Total financial assets	191	107,538	2,855	–	–	–	110,584	191
Trade and other payables	–	–	–	–	20,407	34	20,441	–
Derivative financial instruments	–	–	–	5	–	–	5	5
Total financial liabilities	–	–	–	5	20,407	34	20,446	5

June 30, 2014	Financial assets			Financial liabilities				
in € thousand	Fair value through profit or loss	Amortized cost	Not in IAS 39 application area	Fair value through profit or loss	Amortized cost	Not in IAS 39 application area	Carrying amount	Fair value
Trade and other receivables	–	18,682	680	–	–	–	19,362	–
Derivative financial instruments	–	–	–	–	–	–	–	–
Pledged bank deposits	–	25,544	–	–	–	–	25,544	–
Cash and cash equivalents	–	64,224	–	–	–	–	64,224	–
Total financial assets	–	108,450	680	–	–	–	109,130	–
Trade and other payables	–	–	–	–	17,118	754	17,872	–
Derivative financial instruments	–	–	–	95	–	–	95	95
Total financial liabilities	–	–	–	95	17,118	754	17,967	95

The fair values of financial assets and financial liabilities were determined according to the following hierarchy:

- The fair values of the listed securities that are held for trading are determined by reference to quoted market prices.

- The fair values of derivatives are calculated using quoted market prices or based on discounted cash flow analyses, using corresponding yield curves for the term to maturity for the instrument concerned.

Non-current financial assets accrue interest at common market conditions. The carrying amounts reported as of the reporting date in general correspond to the fair values.

Financial assets and financial liabilities	Fair value December 31, 2011	December 31, 2012	December 31, 2013	June 30, 2014	Level	Measurement method	significant unobservable input(s)	relationship of significant unobservable inputs to fair value
Derivatives	Financial assets: €0 thousand	Financial assets: €244 thousand	Financial assets: €191 thousand	Financial assets: €0 thousand	level 2	Discounted cash flow: derivatives are measured based on interest yield curves, which are derived from interest rates with corresponding terms and conditions.	N/A	N/A
	Financial liabilities: €0 thousand	Financial liabilities: €0 thousand	Financial liabilities: €5 thousand	Financial liabilities: €95 thousand				

Receivables

KHD did not hold any overdue receivables at the end of each of the Relevant Periods.

Derivatives

The derivative financial instruments utilized exclusively comprise foreign exchange forward contracts. These are measured at fair value according to IAS 39. The net balance of those derivatives carried at fair value as well as an analysis of the risk exposure subject to fluctuation in the exchange rate hedged by these derivatives is laid down for the Relevant Periods in the table below:

	As at December 31, 2011	2012	2013	As at June 30, 2014
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Net balance of FX forward contracts at fair value	–	244	186	(95)
Change in KHD's equity following a 10% variation in exchange rates hedged by these derivatives	–	451	503	740
Total amount of underlying transaction allocated to foreign exchange forward contracts	–	6,700	7,400	11,000

36. LITIGATION

Arbitration claim against a customer in South America

On December 20, 2013, Humboldt Wedag Inc., Norcross/USA ("HWUS") brought an arbitration claim against a customer before the International Chamber of Commerce ("ICC"). The arbitration proceedings will take place in Lisbon, Portugal. The arbitration claim aims to make the customer pay outstanding receivables of USD5 million and reimburse the bank guarantee of USD3.2 million unfairly called in. The arbitration claim also aims to make the customer pay compensation of USD2.7 million to HWUS, in case the contract is canceled, or to compensate HWUS for consequential damage resulting from the cancellation.

Arbitration claim of a customer in South America against HWUS and KHD

On December 20, 2013, HWUS received an arbitration claim that a customer in South America has submitted to the ICC. The arbitration claim aims to determine that the cancellation of the contract with HWUS by the customer is effective and that HWUS and KHD should be sentenced to jointly pay USD9.4 million as a reduction of the contractually agreed price and USD5.2 million as compensation for maintenance costs and reputation loss suffered. The arbitration claim also aims either to win indemnity as if the contract had not been concluded (negative interest) or to win indemnity as if the contract had been fulfilled as agreed (positive interest).

Considering that the contract between HWUS (vendor) and the customer includes clauses excluding compensation for consequential damages and setting a value for the upper limit of total liability for the vendor – these clauses being effective in the view of HWUS's and KHD's legal representatives in the arbitration proceedings – HWUS and KHD assume that they will prevail on the issue of indemnity.

In the meantime, the ICC has confirmed the appointment of the arbitrator proposed by HWUS and combined both arbitration claims into a single arbitration. The arbitration proceedings will continue over the coming months.

37. RELATED PARTY DISCLOSURES

KHD is controlled by the Company, which indirectly holds 89.02% equity interests in KHD via wholly-owned subsidiaries. The Company is controlled by AVIC International Holding Corporation, a state controlled company established in the People's Republic of China which directly and indirectly hold 75% of the Company's shares. The remaining 25% of the shares are widely held. Companies controlled by AVIC International Holding Corporation are jointly referred to as AVIC within context of this report.

In addition to the related party information shown elsewhere in the financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between KHD Group and its related parties and the balances arising from related party transactions:

Transactions with AVIC group companies

There has been a cooperation agreement with AVIC since 2010, underpinned by the capital interests amounting to 20% of Max Glory Industries Limited (Max Glory) in KHD.

In 2012, the cooperation with AVIC yielded joint projects in Malaysia, Venezuela, and Turkey, among other places. Through the AVIC procurement center in Beijing, the KHD Group exploits the cost advantages offered by the Chinese supply market and ensure competitive prices for equipment and services.

In March 2012, the KHD Group received a €100 million order from Straits Cement (external customer) to construct a fully integrated cement production facility in Malaysia, with a daily production capacity of 5,000 tons. As KHD's partner, AVIC supplies and constructs the entire steel structure as well as provide various electrical and mechanical packages, which represents approximately 60% of the above order value. This 60% will be channeled through AVIC. KHD will not realize any additional gross profit from this pass-through business.

Also in 2012, the AVIC-KHD partnership was awarded its first turnkey (EPC) contract in Venezuela. Invecem Cement has chosen AVIC as the general contractor for a new line with a capacity of 2,400 tons per day at the San Sebastian cement plant. As AVIC's subcontractor, KHD will supply process technology expertise, key equipment components, as well as engineering and supervision services. The order is worth around €19 million.

In December 2012, the KHD Group obtained an order with a volume of approximately €7 million in Turkey as a subcontractor of AVIC. The order with AVIC involves the construction of a 5,000-ton cement plant for SÖNMEZ Cimento. KHD's scope of supply includes engineering services and cement production equipment, training for the on-site team, and supervision of erection and commissioning.

Within the scope of the order for the delivery and installation of two roller presses in Malaysia, AVIC was commissioned as the KHD Group's subcontractor for €2.4 million in the 2012 financial year.

Income and expenses from transactions with AVIC group companies

	Year ended December 31,			Six months ended June 30,	
	2011	**2012**	**2013**	**2013**	**2014**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* (unaudited)	*EUR'000*
Income	5	5,618	18,052	8,608	1,485
Expenses	678	3,428	35,392	6,790	8,313

The AVIC expenses from transactions involve contract costs arising from the aforementioned contracts.

Balances with AVIC group companies

	As at December 31,			As at June 30,
	2011	**2012**	**2013**	**2014**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Trade and other receivables	50	19,178	7,217	3,860
Amount due from customer for contract work	0	0	0	164
Current assets	50	19,178	7,217	4,024
Trade and other payables	188	21	411	894
Amount due to customer for contract work	0	1,260	1,260	0
Current Liabilities	188	1,281	1,671	894

Key management compensation

The key management personnel of KHD group as defined in terms of IAS 24 comprised the members of the Management Board of KHD as described in Note 30 above, as well as the members of the Supervisory Board as to be established under the rulings of the German stock corporation act (Aktiengesetz).

The total remuneration granted to key management personnel for performing their duties under the German stock corporation act is summarized in the table below:

	Year ended December 31,			Six months ended June 30,	
	2011	**2012**	**2013**	**2013**	**2014**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* (unaudited)	*EUR'000*
Management Board (Directors) compensations	1,278	1,091	1,149	510	822
Supervisory Board remuneration	291	269	317	157	142

No compensation was paid to former Management Board or Supervisory Board members or their remaining dependents for their activities in the parent company and subsidiaries. There are no pension commitments with respect to this group of individuals.

In the 2013 financial year, KHD concluded a consultancy contract with NASENDA, Douglas, Isle of Man, a company whose shares are held by the Supervisory Board member Seppo Kivimäki. In accordance with the contractual agreement, €60 thousand (previous year: €0 thousand) was recorded by KHD as an expense for consulting services in the 2013 financial year; €45 thousand of this amount was paid out as of December 31, 2013.

As of December 31, 2013, liabilities to NASENDA amount to €15 thousand.

38. EVENTS AFTER THE REPORTING PERIOD

No significant events occurred subsequent to June 30, 2014 and up to the date of this report.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by KHD Group in respect of any period subsequent to June 30, 2014 and up to the date of this report.

IV. CONSENT FOR PUBLICATION BY THE MANAGEMENT BOARD

By Management Board resolution dated September 18, 2014, the board of directors has formally given consent that the Financial Information for the Relevant Periods contained in this report may be used for filing purposes in Hong Kong.

Yours faithfully,

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Tissen)
Wirtschaftsprüfer

(Neu)
Wirtschaftsprüfer

The following is an unaudited pro forma financial information of the Resulting Group ("Unaudited Pro Forma Financial Information") comprising unaudited pro forma consolidated balance sheet of the Group and KHD Group, which have been prepared on the basis of the notes set out below for the purpose of illustrating the effects of the Acquisition as if the Acquisition had taken place on 31 December 2013.

The Unaudited Pro Forma Financial Information has been prepared using the accounting policies consistent with those of the Group as set out in the annual report of the Company for the year ended 31 December 2013.

This Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Resulting Group had the Acquisition been completed as at 31 December 2013 or at any future date. The Acquisition has been completed as at 27 May 2014 and the financial results of the Acquisition have been included in the interim report of the Company for the six months ended 30 June 2014.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this circular.

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE RESULTING GROUP AS AT 31 DECEMBER 2013

	Audited consolidated balance sheet of the Group as at 31 December 2013	Pro Forma Adjustments					Unaudited pro forma consolidated balance sheet of the Resulting Group as at 31 December 2013
		Audited consolidated balance sheet of KHD as at 31 December 2013	Others				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note 1	Note 2	Note 3	Note 4	Note 5	Note 6	
ASSETS							
Non-current assets							
Land use rights	1,438,645	–	–	–	–	–	1,438,645
Exploration and extraction rights	836,543	–	–	–	–	–	836,543
Goodwill	385,435	43,458	–	290,321	–	–	719,214
Intangible assets	244,530	22,563	–	640,518	–	–	907,611
Property, plant and equipment	8,536,709	21,687	–	–	–	–	8,558,396
Investment properties	2,153,150	–	–	–	–	–	2,153,150
Construction-in-progress	1,879,385	–	–	–	–	–	1,879,385
Investments accounted for using the equity method	4,386,692	758	96,621	(477,865)	–	–	4,006,206
Trade and other receivables	248,040	–	–	–	–	–	248,040
Available-for-sale financial assets	291,090	–	–	–	–	–	291,090
Deferred income tax assets	311,635	41,320	–	21,788	–	–	374,743
Other non-current assets	2,046,166	–	–	(1,862,740)	–	–	183,426
	22,758,020	129,786	96,621	(1,387,978)	–	–	21,596,449
Current assets							
Inventories	4,614,870	44,772	–	–	–	–	4,659,642
Properties under development	2,317,086	–	–	–	–	–	2,317,086
Trade and other receivables	10,368,510	876,332	–	–	(47,824)	–	11,197,018
Financial assets at fair value through profit or loss	–	9,791	–	–	–	–	9,791
Amounts due from customers for contract work	1,493,175	497,136	–	–	–	–	1,990,311
Derivative financial instruments	5,405	1,608	–	–	–	–	7,013
Income tax assets	–	39,459	–	–	–	–	39,459
Pledged bank deposits	641,426	236,596	–	–	–	–	878,022
Cash and cash equivalents	4,802,843	1,684,335	–	–	–	(33,802)	6,453,376
	24,243,315	3,390,029	–	–	(47,824)	(33,802)	27,551,718
Total assets	47,001,335	3,519,815	96,621	(1,387,978)	(47,824)	(33,802)	49,148,167

	Audited consolidated balance sheet of the Group as at 31 December 2013	Audited consolidated balance sheet of KHD as at 31 December 2013	Pro Forma Adjustments — Others				Unaudited pro forma consolidated balance sheet of the Resulting Group as at 31 December 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	
EQUITY							
Capital and reserves attributable to owners of the Company							
Share capital	1,110,632	418,453	–	(418,453)	–	–	1,110,632
Share premium	1,294,633	503,795	–	(503,795)	–	–	1,294,633
Perpetual subordinated convertible securities	2,781,674	–	–	–	–	–	2,781,674
Other reserves	(404,201)	(91,109)	(9,990)	91,109	–	–	(414,191)
Retained earnings	3,535,079	1,034,001	106,611	(1,034,001)	–	(33,802)	3,607,888
	8,317,817	1,865,140	96,621	(1,865,140)	–	(33,802)	8,380,636
Non-controlling interests	4,399,803	7,644	–	247,528	–	–	4,654,975
Total equity	12,717,620	1,872,784	96,621	(1,617,612)	–	(33,802)	13,035,611
LIABILITIES							
Non-current liabilities							
Borrowings	6,182,333	–	–	–	–	–	6,182,333
Deferred income tax liabilities	624,760	17,503	–	229,634	–	–	871,897
Deferred income on government grants	570,576	–	–	–	–	–	570,576
Trade and other payables	44,871	52,054	–	–	–	–	96,925
Retirement and other supplemental benefit obligations	42,869	194,493	–	–	–	–	237,362
Provisions	–	19,852	–	–	–	–	19,852
Other non-current liabilities	956,152	–	–	–	–	–	956,152
	8,421,561	283,902	–	229,634	–	–	8,935,097

	Audited consolidated balance sheet of the Group as at 31 December 2013	Audited consolidated balance sheet of KHD as at 31 December 2013	Pro Forma Adjustments — Others				Unaudited pro forma consolidated balance sheet of the Resulting Group as at 31 December 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	
Current liabilities							
Trade and other payables	12,697,401	714,899	–	–	(47,824)	–	13,364,476
Amounts due to customers for contract work	194,180	431,132	–	–	–	–	625,312
Borrowings	12,751,554	–	–	–	–	–	12,751,554
Derivative financial instruments	–	1,212	–	–	–	–	1,212
Current income tax liabilities	214,355	3,511	–	–	–	–	217,866
Retirement and other supplemental benefit obligations	4,664	13,369	–	–	–	–	18,033
Provisions	–	199,006	–	–	–	–	199,006
	25,862,154	1,363,129	–	–	(47,824)	–	27,177,459
Total liabilities	34,283,715	1,647,031	–	229,634	(47,824)	–	36,112,556
Total equity and liabilities	47,001,335	3,519,815	96,621	(1,387,978)	(47,824)	(33,802)	49,148,167
Net current assets	(1,618,839)	2,026,900	–	–	–	(33,802)	374,259
Total assets less current liabilities	21,139,181	2,156,686	96,621	(1,387,978)	–	(33,802)	21,970,708

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

1. The audited consolidated balance sheet of the Group as at 31 December 2013 is extracted without adjustment from the audited consolidated financial statements of the Group for the year ended 31 December 2013.

2. The audited consolidated balance sheet of KHD as at 31 December 2013 is extracted from the audited consolidated financial information of KHD, as set out in Appendix I to this circular. The amounts denominated in EUR have been translated, for the purpose of illustration only, into RMB at EUR1.00 = RMB8.4189.

3. The pro forma adjustments represent the re-measurement of the Group's previously held 20% equity interests in KHD to fair value in accordance IFRS No. 3, "Business combinations" and reclassification of the Group's share of other comprehensive income of KHD Group to profit or loss upon derecognition of the previously held 20% equity interests in KHD. For the purpose of the Unaudited Pro Forma Financial Information, the Directors have estimated the fair values of the Group's previously held 20% equity interests in KHD as at 30 April 2014 based on a valuation report (the "Valuation Report") dated 15 August 2014 which was prepared by the independent valuer, KPMG AG Wirtschaftsprüfungsgesellschaft. Based on the Valuation Report, the fair value of the Group's previously held 20% equity interests in KHD was calculated by multiplying the corresponding number of shares amounting to 9,940,715 by the market price of each share as at 30 April 2014 which is EUR5.71 per share. The Directors were in the opinion that there is no material difference on the fair value of the Group's previously held 20% equity interests in KHD between 31 December 2013 and 30 April 2014. The fair value gain of RMB106,611,000 was recorded in retained earnings in the pro forma adjustment. The fair value gain is calculated as follows:

	RMB'000
Fair value of the previously held 20% equity interest in KHD	477,865
Less: the carrying amount of the previously 20% equity interest in KHD held by the Group as at 31 December 2013 (Note 4(b))	(381,244)
Add: reclassification of the Group's share of other comprehensive income of KHD to profit or loss upon derecognition of the previously held 20% equity interests in KHD.	9,990
Fair value gain	106,611

This recognition of fair value gain in relation to KHD is based on the assumption that the Acquisition had been completed at 31 December 2013. It has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Resulting Group had the Acquisition been completed as at 31 December 2013 or at any future date. The completion date of the Acquisition is 27 May 2014 and the actual fair value gain of the Acquisition have been included in the interim report of the Company for the six months ended 30 June 2014.

4. The pro forma adjustments represent:

   (a) recognising the excess of the fair value of identifiable assets acquired, and the liabilities assumed over the book value of the assets and the liabilities of KHD Group. The fair value of identifiable assets acquired and liabilities assumed in KHD Group is determined in accordance with IFRS No. 3, "Business Combinations". For the purpose of the Unaudited Pro Forma Financial Information, the directors of the Company have estimated the fair values of the identifiable assets and liabilities of KHD Group as at 30 April 2014 based on the Valuation Report. The Directors were in the opinion that there are no material differences on the fair values of the identifiable assets and liabilities of KHD Group between 31 December 2013 and 30 April 2014.

   (b) derecognising the Group's previously held 20% equity interests of RMB477,865,000 in KHD, representing the sum of the carrying amount of investment in KHD of RMB381,244,000 as at 31 December 2013 and fair value gain of RMB96,621,000 (Note 3).

(c) recognition of goodwill of RMB290,321,000 measured as the excess of (i) over the total amount of (ii) and (iii) below:

(i) the aggregate of consideration transferred as stated in the following tables;

(ii) the net amounts of the identifiable assets acquired and the liabilities attributed to owners of the Company assumed as stated in the following tables; and

(iii) the adjustment of eliminating the goodwill of RMB43,458,000 which had been recognised in the consolidated balance sheet of KHD as at 31 December 2013.

The following table summarises the consideration paid for acquisition of 89.02% equity interests in KHD, the fair value of assets acquired, liabilities assumed and the goodwill recognised:

Consideration	*RMB'000*
Cash *	1,862,740
Fair value of the previously held 20% equity interest in KHD before the Acquisition	477,865
Total consideration	2,340,605

	RMB'000
Intangible assets	663,081
Property, plant and equipment	21,687
Investments accounted for using the equity method	758
Deferred income tax assets	63,108
Inventories	44,772
Trade and other receivables	876,332
Financial assets at fair value through profit or loss	9,791
Amounts due from customers for contract work	497,136
Derivative financial instruments	1,608
Income tax assets	39,459
Pledged bank deposits	236,596
Cash and cash equivalents	1,684,335
Deferred income tax liabilities	(247,137)
Provisions	(218,858)
Trade and other payables	(766,953)
Retirement and other supplemental benefit obligations	(207,862)
Amounts due to customers for contract work	(431,132)
Derivative financial instruments	(1,212)
Current income tax liabilities	(3,511)
Total identifiable net assets	**2,261,998**
Non-controlling interests **	(255,172)
Goodwill ***	333,779
Total	**2,340,605**

* Cash consideration of RMB1,862,740,000 has been paid in 2013 and recognised as other non-current assets in the Group's audited consolidated annual financial statements for the year ended 31 December 2013. Other non-current asset of the same amount was eliminated in this pro forma adjustment.

The amounts of cash consideration, identifiable assets acquired and the liabilities attributed to owners of the company assumed are originally denominated in EUR. Such amounts have been translated, for the purpose of illustration only, into RMB at EUR1.00 = RMB8.4189.

** Non-controlling interests is calculated as follows:

	RMB'000
Total identifiable net assets of KHD	2,261,998
Less: the identifiable net assets of KHD attributable to non-controlling interests of KHD Group	(7,644)
Total identifiable net assets of KHD attributable to owners of KHD Group	2,254,354
The shareholding of non-controlling interests of KHD upon completion of the Acquisition	10.98%
	247,528
The non-controlling interests in audited consolidated balance sheet of KHD as at 31 December 2013	7,644
Total non-controlling interests	255,172

*** the pro forma adjustment on goodwill amounting to RMB290,321,000 is derived by deducting the goodwill of RMB333,779,000 arising from the Acquisition as reflected in the table above by the goodwill of RMB43,458,000 which had been recognised in the consolidated balance sheet of KHD as at 31 December 2013.

(d) elimination of KHD's share capital, share premium, other reserves and retained earnings amounting to RMB418,453,000, RMB503,795,000, RMB91,109,000 and RMB1,034,001,000, respectively.

This recognition of goodwill, and assets and liabilities in relation to KHD is based on the assumption that the Acquisition had been completed at 31 December 2013. It has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Resulting Group had the Acquisition been completed as at 31 December 2013 or at any future date. The completion date of the Acquisition is 27 May 2014 and the financial results of the Acquisition have been included in the interim report of the Company for the six months ended 30 June 2014.

5. Elimination of inter-company balances between the Group and KHD Group.

6. Recognition of estimated transaction cost amounting to RMB33,802,000. The total estimated transaction cost amounted to RMB81,555,000, of which RMB47,753,000 has been incurred and was recorded in the profit or loss of the Group's consolidated financial statements for the year ended 31 December 2013, transactions costs of RMB33,802,000 are expected to be incurred in the year 2014 and reflected in the pro forma adjustment.

7. Apart from the above, no other adjustment has been made to reflect any trading results or other transaction of the Group and the KHD Group entered into subsequent to 31 December 2013. In particular, the Unaudited Pro Forma Financial Information has not taken into account the completion of the acquisition of certain companies and businesses other than the Acquisition by the Group pursuant to other transactions in this circular, the three acquisition agreements dated 16 November 2011 as disclosed in the Company's circular dated 23 December 2011 and the framework agreements dated 1 November 2013 as disclosed in the Company's circular dated 30 January 2014.

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Supplemental Circular.

羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION INCLUDED IN A CIRCULAR

TO THE DIRECTORS OF AVIC INTERNATIONAL HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of AVIC International Holdings Limited (the "Company") and its subsidiaries (together, the "Group"), and KHD Humboldt Wedag International AG (the "KHD") and its subsidiaries (together, the "KHD Group") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated balance sheet as at 31 December 2013 and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages 1 to 7 in Appendix II of the circular (the "Circular") dated 20 September 2014 of the Company, in connection with the acquisition of 69.02% equity interest in KHD (the "Acquisition") by the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages 1 to 7 in Appendix II to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the Acquisition on the Group's financial position as at 31 December 2013 as if the Acquisition had taken place at 31 December 2013. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial statements for the year ended 31 December 2013, which has been audited and published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant complies with ethical requirements and plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transactions had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition at 31 December 2013 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 20 September 2014

FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three years ended 31 December 2011, 2012 and 2013 are disclosed in the annual reports of the Company for the years ended 31 December 2011, 2012 and 2013 respectively, there was no qualified audit opinion expressed on the financial statements of the Group for the three years ended 31 December 2013.

The unaudited consolidated interim financial results of the Group for the six months ended 30 June 2014 are disclosed in the interim report of the Company for the six months ended 30 June 2014.

The said annual reports and interim report of the Company are published on both the website of the Stock Exchange (http://www.hkexnews.hk) and the website of the Company.

INDEBTEDNESS STATEMENT

Borrowings

As at the close of business on 31 August 2014, being the latest practicable date for the purpose of this indebtedness statement, the Resulting Group had total borrowings of RMB21,320,802,000 details of which are as follows:

	Secured	Unsecured		Total
		Guaranteed	Unguaranteed	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current				
Bank borrowings	2,081,772	402,478	5,437,183	7,921,433
Debentures	–	998,419	–	998,419
Related party borrowings	–	874,431	750,000	1,624,431
	2,081,772	2,275,328	6,187,183	10,544,283
Current				
Bank borrowings	419,614	580,941	7,958,284	8,958,839
Third party borrowings	40,000	–	4,000	44,000
Related party borrowings	80,590	241,000	1,452,090	1,773,680
	540,204	821,941	9,414,374	10,776,519
	2,621,976	3,097,269	15,601,557	21,320,802

The secured borrowings of RMB2,621,976,000 as at 31 August 2014 were secured by land use rights, buildings, construction-in-progress, mining rights and equipments.

Contingent liabilities

As at the close of business on 31 August 2014, being the latest practicable date for the purpose of this indebtedness statement, the Resulting Group has the following financial guarantees outstanding:

Guarantor	Guarantor's relationship with the Group	Guarantee	Guarantee's relationship with the Group	Outstanding amounts guaranteed *'000*
China National Aero-Technology Beijing Company Limited (中國航空技術北京有限公司)	Subsidiary of the Group	Taizhou AVIC Shipbuilding Heavy Industry Limited (泰州中航船舶重工有限公司)	Associated Company	RMB762,169
China National Aero-Technology Xiamen Company Limited (中國航空技術廈門有限公司)	Subsidiary of the Group	Xiamen Tianma Microelectronics Company Limited (廈門天馬微電子有限公司)	The guarantor holds 6% equity interests in the guarantee	RMB140,000
China National Aero-Technology Xiamen Company Limited (中國航空技術廈門有限公司)	Subsidiary of the Group	Radiance Catico Offshore Pte.ltd	Associated Company	USD26,413
China National Aero-Technology Beijing Company Limited (中國航空技術北京有限公司)	Subsidiary of the Group	Zhengli Ocean Engineering Company Limited (正力海洋工程有限公司)	Third party	RMB39,060
China National Aero-Technology International Engineering Company Limited (中國航空技術國際工程有限公司)	Subsidiary of the Group	CATIC Construction Engineering Company Limited (中航建築工程有限公司)	Controlled by the same company	RMB36,750

* The English names of these companies represent management's best efforts at translating the Chinese names of these companies as no English names have been registered or available.

On 20 December 2013, Humboldt Wedag Inc., Norcross/USA("HWUS"), one subsidiary of the Resulting Group, received an arbitration claim that a customer in South America has submitted to the International Chamber of Commerce ("ICC"). The arbitration claim aims to determine that the contract with HWUS by the customer is effective and that HWUS and KHD should be sentenced to jointly pay the compensations amounting to USD14,600,000. The arbitration claim also aims either to win indemnity as if the contract had not been concluded (negative interest) or to win indemnity as if the contract had been fulfilled as agreed (positive interest). For more details, please find the Note 36 in the Appendix I.

Save as disclosed above and apart from intra-group liabilities, the Resulting Group did not have any outstanding debt securities issued and outstanding or authorized or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowing including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, material hire purchase commitments, mortgages and charges, material contingent liabilities and guarantees outstanding at the close of business on 31 August 2014.

STATEMENT OF SUFFICIENCY OF WORKING CAPITAL

Taking into account the expected completion of the Acquisition and the financial resources available to the Resulting Group including the internally generated funds and the available banking facilities, the Directors are of the opinion that the Resulting Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this Supplemental Circular.

FINANCIAL AND TRADING PROSPECTS OF THE RESULTING GROUP

Financial effects of the Acquisition of KHD

Immediately before the Acquisition, the Group held approximately 20.00% of the issued share capital of KHD. Following the completion of the acquisition of the Sale Shares and the end of acceptance periods of the Offer and the exercise of all options under the Options Agreements, the Group, in aggregate, holds approximately 89.02% of the issued share capital of KHD. KHD becomes a subsidiary of the Group.

(1) Effects on total assets

As at 31 December 2013, the audited total assets of the Group was approximately RMB47,001,335,000. As illustrated in the unaudited pro forma financial information set out in the Appendix II of this Supplemental Circular, had the acquisition of the shareholding in KHD been completed on 31 December 2013, the total assets of the Group would increase to RMB49,148,167,000.

(2) Effects on the equity

As at 31 December 2013, the audited total equity and the equity attributable to equity holders of the Group were approximately RMB12,717,620,000 and RMB8,317,817,000, respectively. As illustrated in the unaudited pro forma financial information set out in the Appendix II of this Supplemental Circular, had the acquisition of the shareholding in KHD been completed on 31 December 2013, the total equity and the equity attributable to equity holders of the Company would be RMB13,035,611,000 and RMB8,380,636,000, respectively.

(3) Effects on the gearing ratio

As at 31 December 2013, the audited total assets and total liabilities of the Group were approximately RMB47,001,335,000 and RMB34,283,715,000, respectively. As illustrated in the unaudited pro forma financial information set out in the Appendix II of this Supplemental Circular, had the acquisition of the shareholding in KHD been completed on 31 December 2013, the total assets and total liabilities of the Group would be RMB49,148,167,000 and RMB36,112,556,000, respectively, representing a decrease of the gearing ratio from originally approximately 55% to approximately 51%.

Goodwill

According to the Unaudited Pro Forma Financial Information, the Group would have recognised goodwill of RMB333,779,000 from the Acquisition as if the acquisition has been completed at 31 December 2013. The management of the Group performed review on the preliminary impairment testing on the estimated goodwill arising from the Acquisition. For the purpose of the testing, the estimated amount of goodwill is allocated to the cash-generating unit which engages in the cement EPC (Engineering Procurement Construction) business and plant services in different locations around the world. Its recoverable amount is determined based on a value in use calculation, covering a detailed 3-year budget plan. The discount rate applied to the cash flow projection ranges from 9.5% to 12.1%. Cash flow beyond the 3-year period is extrapolated using the estimated growth rate of 3% which does not exceed the projected long-term average growth rate of the global cermet industry. Based on the results of the testing, the management considers that there is no impairment of the cash generating unit of the cement EPC business and plant services in different locations around the world attributed to the estimated goodwill as at 31 December 2013.

FINANCIAL AND BUSINESS PROSPECT OF THE RESULTING GROUP

Looking forward to 2014, the global economy will continue to be in the in-depth re-balancing adjustment period. The domestic economy is undergoing rapid structural adjustment with relatively strong downward pressure. Given the complex macro-economic circumstances and the pressure arising from the transformation of service in the e-commerce era and reshaped business model, the Group will adhere to the strategy of "Development-in-focus, Effectiveness Enhancement, Structural Adjustment and Risk Control", insist on the inherent strategy and development objectives, pursue the leading position in the industry, intensify business transformation and escalation, facilitate international development and professional restructuring and integration while seizing future development opportunities in key industries in an active manner. By targeting at becoming the leader in the industry, the Company will continuously promote business model innovation, enhance competitiveness and refine management as well as apply innovative management tools and means in order to facilitate effectiveness and efficiency of core businesses and further improve the business, asset and liability structure of the Company. The transformation of the current mechanism will be further enhanced to improve precaution and control towards major risks and strengthen the momentum for sustainable development.

The Group will capitalize on the opportunity of increasing the shareholding of Germany Humboldt Cement Equipment Company ("German Humboldt") and perform resources integration and management integration so as to build a development model of "China's speed and cost + Germany's technology and brand" as well as establish a united cement engineering procurement center and a technology centre to fully demonstrate the professionalism and brand value of Germany Humboldt, paving the way for the Group's cement EPC business to rank top positions in the world. The power station EPC business will focus on project development and planned construction and optimize business model, focus on securing the control over the Group's projects and providing mainly packaging services while actively identifying market opportunities. Businesses such as medical equipment and services and machinery vehicles will carry out expansion, duplication and operation based on major target markets such as Africa.

The Board expected that, following the completion of acquisition of KHD and the obtain of control, the Group will take full advantage of the brand of the company to provide after-sales services and supply spare parts to current cement production lines by leveraging on the strong international market network and cements production lines and the core technology in the aspect of equipment production of KHD. In addition, integrating the marketing advantages of the current cement EPC business of the Group, it will explore the international cement EPC market together and promote the upgrade of cement EPC business of the Group so as to create greater benefits for the Shareholders.

The Group will also continue to adhere to its flat management structure and develop each subsidiary into specialized enterprise with industrial competitive advantages. The Board and the core management of the Company will focus on strategic management and resources allocation.

MATERIAL ADVERSE CHANGE

The Directors confirm that there was no material adverse change in the financial or trading position of the Resulting Group since 31 December 2013 (being the date to which the latest published audited accounts of the Company were made up).

RESPONSIBILITY STATEMENT

This Supplemental Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors having made all reasonable enquiries confirm that to the best of their knowledge and belief the information contained in this Supplemental Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Supplemental Circular misleading.

LITIGATION

Save as disclosed in the paragraph headed "Litigation" in appendix III to the Circular, so far as the Directors are aware, there is no litigation or claims of material importance pending or threatened against any member of the Resulting Group as at the Latest Practicable Date.

MATERIAL CONTRACTS

In addition to those disclosed in the paragraph headed "Material Contracts" in appendix III to the Circular, the following contracts have been entered into by the Resulting Group (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this Supplemental Circular:

(a) the general construction contract between Wuxi Shennan Electric Circuit Company Limited (無錫深南電路有限公司) and Jiangsu Suyang Construction Company Limited (江蘇蘇陽建設有限公司) dated 26 June 2014 pursuant to which Wuxi Shennan Electric Circuit Company Limited (無錫深南電路有限公司) conditionally agreed to engage Jiangsu Suyang Construction Company Limited (江蘇蘇陽建設有限公司) for carrying out construction works in relation to the phase one of the construction of the semiconductor packaging substrate project (半導體封裝基板項目) located in Wuxi city, Jiangsu Province at the maximum contract sum of RMB370,211,572.76;

(b) the assets acquisition agreement dated 30 April 2014 in relation to the acquisition of an aggregate of 70% equity interest in Shanghai Tian Ma Microelectronics Co., Ltd. with the Company, Shanghai Zhangjiang (Group) Co., Ltd., Shanghai State-owned Assets Operation Co., Ltd. and Shanghai Optical Communications Corporation for an aggregate consideration of RMB1,241,816,300;

(c) the assets acquisition agreement dated 30 April 2014 in relation to the acquisition of an aggregate of 40% equity interest in Chengdu Tian Ma Microelectronics Co., Ltd. with Chengdu Industrial Group Company Limited and Chengdu Gaoxin Investment Group Company Limited for an aggregate consideration of RMB582,660,800;

(d) the assets acquisition agreement dated 30 April 2014 in relation to the acquisition of 90% equity interest in Wuhan Tian Ma Microelectronics Co., Ltd. with Hubei Province Technology Investment Group Company Limited for a consideration of RMB1,670,477,500;

(e) the assets acquisition agreement dated 30 April 2014 in relation to the acquisition of an aggregate of 100% equity interest in Shanghai AVIC Opto-electronics Limited with AVIC International and AVIC Shenzhen for an aggregate consideration of RMB1,685,682,300;

(f) the assets acquisition agreement dated 30 April 2014 in relation to the acquisition of an aggregate of 100% equity interest in Shenzhen AVIC Opto-electronics Limited with AVIC International and AVIC Shenzhen for an aggregate consideration of RMB315,764,900;

(g) the capital increase agreement dated 28 April 2014 in relation to the capital increase of a total of RMB83,570,711.70 registered capital of in Guangdong International Building Industrial Co., Ltd. entered into between the Company and AVIC Trust Company Limited; and

(h) the guarantee agreement dated 25 April 2014 in relation to the provision of guarantee to pay all secured indebtedness regarding loan facilities in a principal amount of RMB49,000,000 provided by Taizhou Branch of Bank of Communication Co., Ltd. to Taizhou CATIC Shipbuilding Heavy Industry Limited entered into between AVIC Beijing and Taizhou Branch of Bank of Communication Co., Ltd.

EXPERTS

(a) The following are the qualifications of the experts who have given opinion or advice contained in this Supplemental Circular:

Name	Qualification
Deloitte Germany	Certified Public Accountants, Germany
PricewaterhouseCoopers	Certified Public Accountants, Hong Kong

(b) As at the Latest Practicable Date, each of Deloitte Germany and PricewaterhouseCoopers did not have any shareholding in any member of the Resulting Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(c) Each of Deloitte Germany and PricewaterhouseCoopers has given and has not withdrawn its written consent to the issue of this Supplemental Circular, with inclusion of its letter and references to its name in the form and context in which it appears.

(d) As at the Latest Practicable Date, each of Deloitte Germany and PricewaterhouseCoopers had no interest in any asset which have been since 31 December 2013 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to, any member of the Resulting Group.

MISCELLANEOUS

Save as otherwise stipulated in the Circular or in this Supplemental Circular, in the event of any inconsistency between the English version and the Chinese version, the English version shall prevail.

DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at Suites 2001–2006, 20th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong from the date of this Supplemental Circular up to 14 days thereafter:

(a) the accountants' report on KHD from Deloitte Germany, the text of which is set out in Appendix I to this Supplemental Circular;

(b) the report from PricewaterhouseCoopers on the unaudited pro forma financial information of the Resulting Group, the text of which is set out in Appendix II to this Supplemental Circular;

(c) the written consents of Deloitte Germany and PricewaterhouseCoopers referred to in the paragraph headed "Experts" in this appendix;

(d) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;

(e) the articles of association of the Company;

(f) the annual reports of the Company for each of the years ending 31 December 2011, 2012 and 2013;

(g) the interim report of the Company for the six months ended 30 June 2014;

(h) a copy of each circular issued by the Company pursuant to the requirements set out in Chapter 14 and/or Chapter 14A of the Listing Rules since 31 December 2013;

(i) the Circular; and

(j) this Supplemental Circular.