



**Dutech Holdings Limited**

ANNUAL REPORT 2017

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## ABOUT DUTECH

Incorporated in Singapore on 2 November 2006, Dutech Holdings Limited (the “Company” or “Dutech”) and its subsidiaries (the “Group”) has developed into a global leading manufacturer of high security products. The Group’s UL-and CEN-certified products include ATM safes, banking safes, commercial safes, and cash handling systems. The Group also designs and manufactures intelligent terminals including Ticket Vending Machines (TVM) and parking machines.

The Group’s headquarters is located in Shanghai, which serves as the center for research and development, marketing, customer service, corporate development, and financial planning. Its manufacturing and service facilities are strategically located in China, the Philippines, Germany, the UK and the USA.

In recognition of its outstanding capabilities, the Group has received numerous awards, amongst them the “200 Best Companies under US\$1 Billion in Sales” by Forbes Asia Magazine in 2008, the “Best 50 Chinese Companies in the next 30 Years” by Founder Magazine in 2008, the “Quality Supplier” by Scientific Games in 2014, the “21 Century China best business model selection” in 2014, and the “Best Suppliers” by Wincor Nixdorf, the “Golden Award” by Diebold in 2013, 2014 and 2015.

The Group is proud of its strong research and development capabilities, vertically integrated solutions and large-scale operations, which enable it to offer high quality products to its customers at competitive prices with demanding lead time. The Group has a global market presence in all major countries. Our reputable customers include Hitachi, Diebold-Nixdorf, Liberty Safe & Security Products Inc., Tractor Supply Co., Glory Ltd., SGI, Aldi and Deutsche Bahn.

The Company was listed on the Mainboard of the Singapore Exchange on 2 August 2007.



# CHAIRMAN'S MESSAGE

On behalf of the Board of Directors of Dutech Holdings Limited (“Dutech” or the “Group”), I am pleased to present the Group’s annual report for the financial year ended 31 December 2017 (“FY2017”).



## DEAR SHAREHOLDERS

On behalf of the Board of Directors of Dutech Holdings Limited (“Dutech” or the “Group”), I am pleased to present the Group’s annual report for the financial year ended 31 December 2017 (“FY2017”).

It was a difficult year for the Group both in terms of the economic climate as well as internal challenges. Our business environment continued to remain competitive with downward pressure on ATM safes sales due to the growing prevalence of e-payment and rising raw material costs such as steel, exacerbated by the unexpected appreciation of the RMB against USD.

Against this trying backdrop, the Group continued to make improvements across our operations and coupled with efficacious cost management and productivity enhancements, we closed the year on a profitable note.

## FINANCIAL REVIEW

The Group achieved revenue of RMB1,656.5 million in FY2017 which was 19.2% higher than the RMB1,390.2 million revenue for the financial year ended 31 December 2016 (“FY2016”). The revenue increase was attributed to higher sales from the Business Solutions Segment which grew 59.3% to RMB861.1 million, offset by lower sales from the High Security Segment which decreased by 6.4% to RMB795.4 million.

The Group’s total gross profit increased marginally by 2.9% to RMB417.1 million while gross profit margin rate declined 4.0% to 25.2% from 29.2%, due to lower margins for both business segments caused by higher raw materials costs and the change in product mix. The Group’s profit before tax decreased 58.2% to RMB67.2 million while net profit after tax dropped 49.0% to RMB64.3 million. The decline in

profit was mainly attributed to the drops of gross margin rate and the increases in Administration Expenses including R&D expenses mainly from the inclusion of Metric Group Holding Ltd (“METRIC UK”) and Almex (both became subsidiaries of the Group in October 2016). The Group also incurred foreign exchange loss of RMB3.4 million compared to a gain of RMB12.3 million previously. Consequently, earnings per share was down from RMB35.37 cents in FY2016 to RMB18.02 cents in FY2017.

Our balance sheet continued to remain healthy with a net asset position of RMB875.4 million and net asset value at RMB245.5 cents per share as at 31 December 2017. The Group generated operating cash flow of RMB33.3 million in the year and our cash and cash equivalents stood at RMB298.2 million against total borrowings of RMB216.6 million.



## BUSINESS REVIEW

Dutech is a global leading manufacturer of high security products with two core businesses: the High Security Segment, and the Business Solutions Segment which comprises our subsidiaries Almex, Krauth Technology GmbH (“Krauth”), METRIC UK and Deutsche Mechatronics GmbH (“DTMT”) as well as the Group’s previous Semiconductor Segment.

As a leading Original Design Manufacturer (“ODM”) and the largest producer in Asia in terms of sales and production capacity, we supply a wide range of high security products such as ATM safes, banking safes, commercial safes, and cash handling systems. Additionally, we have extended our capabilities to include the development and manufacture of intelligent terminals including Ticketing and Vending Machines (“TVM”) and parking machines. Headquartered in Shanghai, China, our production facilities in China and Germany are Underwriters Laboratories (“UL”) and CEN certified. We have established presence in all major markets including the US, Europe, and the Asia-Pacific region to serve our global clientele.

### Augmenting higher value-adding intelligent terminal business with the turnaround of DTMT

Since 2013, the Group has broadened our reach into the intelligent terminal business, developing products such as gaming and ticketing machines to expand our market base and to improve our product mix with higher value-adding products. To this end, we acquired DTMT, a German electromechanical solutions provider in 2014 to augment our intelligent terminal business.

One of the key highlights for the Group in FY2017 is the encouraging turnaround of DTMT which turned in a profit after two years of restructuring. We will continue to leverage DTMT’s technological capabilities to grow our spectrum in the intelligent terminal business in Europe.

### On track in transforming from hardware manufacturer to solutions provider

The advent of digital technologies is changing the way businesses operate in nearly every industry and the dramatic growth in intelligent device adoption are driving many traditional hardware manufacturers to acquire critical capabilities in designing and developing solutions to differentiate themselves from the competition and to drive greater profitability.

It is imperative that Dutech embark on the journey to transform ourselves from a hardware manufacturer to a solutions provider. In as early as 2014, the Group went on a M&A trail starting with the acquisition of DTMT, followed by Krauth, METRIC Group Holding Ltd. and Almex in 2016. All these companies are developers and producers of solution products such as auto-ticketing machines, ticket validators and ticketing systems, mobile data collection systems and parking machines, which would serve to grow our product lines, secure new customers and broaden our market base to mitigate the decline in hardware safes sales.

### Driving integration; Improving operational efficiencies

In the year, we have been working on improving the performance of our companies, particularly Almex’s turnaround, as well as the integration of our newly acquired subsidiaries through streamlining of our resources to eliminate redundancies and to reduce overheads.

We have also been partnering closely with our subsidiaries to unlock operational synergies by leveraging their expertise in engineering solutions and facilities in German to jointly develop new innovative products. Coupled with Dutech’s cost-effective manufacturing capabilities, this would enable us to have the leading edge in producing superior and cost-effective products to better serve our customers and capture new market segments.



# CHAIRMAN'S MESSAGE



## R&D and Quality remains our founding cornerstone

R&D and quality are paramount in the field of high security solutions we operate in and even more so in keeping with today's rapidly changing technology and the increasing demands of our customers.

To stay ahead, we invested heavily in R&D with a 66.0% increase in expenditure from RMB33.5 million in FY2016 to RMB55.6 million in FY2017, to pursue higher security standards and the development of smart solutions for TVM and parking systems. As testament to our commitment in R&D innovation and quality standards, we were awarded 28 patents and an additional eight certifications by UL as well as 10 certifications by ECBS (European Certification Body).

## OUTLOOK AND FUTURE PLANS

The global economy is expected to remain on its growth path with the United States projected to have the strongest growth, although downside risks such as increasing protectionism, rising interest rates and inflation, and political tensions remain. Nonetheless, we are optimistic that by making the necessary adjustments as well as continuously refreshing our business initiatives, we are well-positioned to tackle any intermittent challenges:

### Growing global market presence through e-commerce

We will continue to intensify our efforts to grow our global market presence by ramping up online sales of high security products of Format, one of our German subsidiaries. Since the launch of Format's e-commerce site, online sales have been encouraging with a 43.0% increase to Euro12.0 million in FY2017. Increasingly, e-commerce is an important sales channel as it enabled us to tap the huge potential of an international market efficiently.

### Pipeline of new product development

The Group is developing a next generation of smart handholders which can be connected to SAP systems to allow end-users to perform end-to-end transactions including barcode scanning, ticketing and debit card or credit card payment. The product is used widely across different industries such as logistics, retail and public transportation. In addition, we are developing a new generation of cashless TVM.

Over the longer term, the Group will strengthen our leadership position in the high security solutions and self-service terminals industry by adhering to our overarching growth strategies of moving up the value chain and expansion into new markets. To this end, the Group will continue to expand our intelligent terminal business such as the development and manufacture of smart machines for ticketing and fare, parking and gaming. We will also continue to grow in tandem with our customers by expanding into regions where they operate in order to provide them with value-added turnkey solutions.

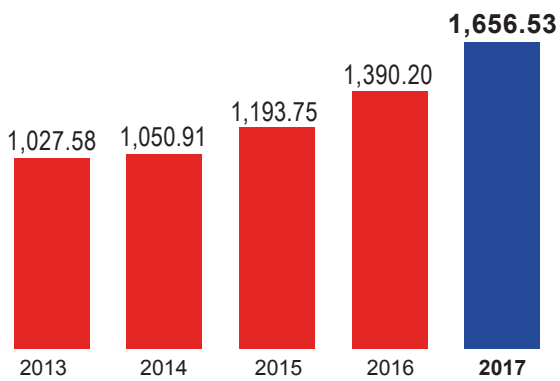
## APPRECIATION

In ending, I would like to record my gratitude to our staff and management for their dedication and hard work in this challenging year. My appreciation also goes out to the Board of Directors for their strategic counsel, business insights and overall stewardship of the Group and to our customers and business associates for their support. I would like to warmly thank you, our shareholders, for your continued belief in Dutech. We will continue to work hard to deliver sustainable long-term returns for all our stakeholders.

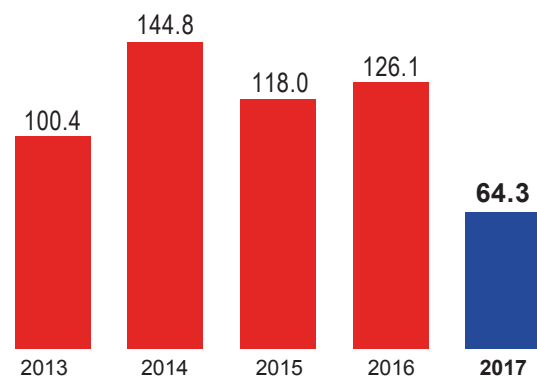
**Johnny Liu**  
Chairman & CEO

# FINANCIAL HIGHLIGHTS

## REVENUE (RMB Million)

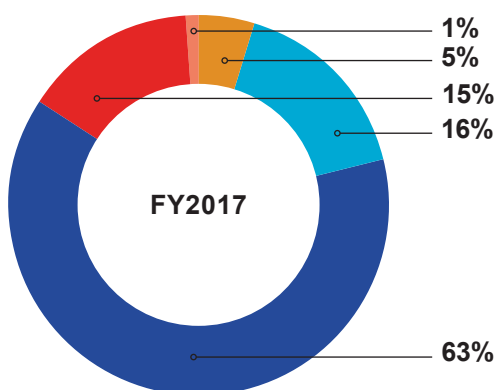


## PROFIT ATTRIBUTABLE TO SHAREHOLDERS (RMB Million)



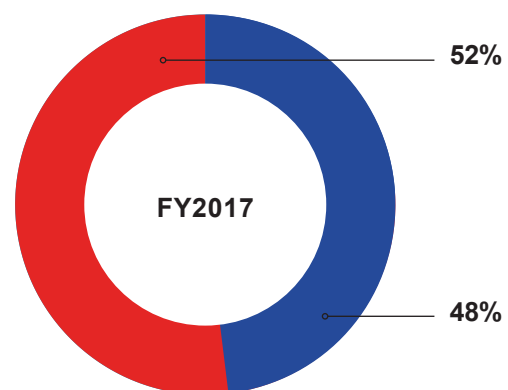
\* Excluding the one-off bargain purchase of RMB55.9 million in FY2014 arising from the acquisition of DTMT, the profit attributable to shareholders was RMB88.9 million in FY2014.

## REVENUE BY GEOGRAPHICAL REGION



- PRC
- NORTH & SOUTH AMERICA
- EUROPE
- ASIA PACIFIC
- AFRICA

## REVENUE BY PRODUCTS



- HIGH SECURITY
- BUSINESS SOLUTIONS

## DIRECTORS' PROFILE

**DR. JOHNNY LIU** is the Executive Chairman, CEO and Controlling Shareholder of Dutech, and is responsible for the business direction, strategies and development of our Group. Dr. Liu was appointed as a Director on 2 November 2006 and was last re-elected on 28 April 2015. Prior to founding our Group, Dr. Liu has had 11 years of managerial experience, having worked in Thermal Dynamics Corp. USA as Vice President of International Operations from 1993 to 2001, and as Chief Operation Officer of Asia for Murray Inc. from 2001 to 2003. Dr. Liu obtained his bachelor and master degree from Shanghai Jiaotong University in 1983 and 1986 respectively and subsequently obtained his doctorate from Auburn University, Alabama, USA in August 1993. From 1999 to 2001, he was a guest professor in Shanghai Jiaotong University, and a registered Professional Engineer with "the State Board of Registration for Professional Engineers and Land Surveyors" in the state of California, USA. He has over 20 publications and co-invented 6 patents. In 2008, he was honored as "Top Ten Young Chinese Enterprisers" by Foreign and Overseas Chinese Affairs Office. Dr. Liu also serves as President of Nantong Overseas Chinese Entrepreneurs Association (南通市侨商会会长) and member of Hi-Tech Committee of National Association of Thousand Talents Program (国家千人计划).

Dr. Liu is the brother of Mr. Liu Bin, Executive Vice-Chairman of the Board and a controlling shareholder of the Company.

**MR. LIU BIN** is the Executive Vice-Chairman of our Board of Directors. Mr. Liu was appointed as a Director on 26 March 2007 and was last re-elected on 28 April 2015. He is the Vice Chairman of Tri Star Inc. since 2005 and the contact person with the local regulatory and tax authorities in Nantong in relation to the regulatory compliance aspects of our business.

Prior to joining our Group, Mr. Liu was the General Manager of Tongya ReDianNengYuan Limited Company from 1997 to 2000, and was the General Manager of Nantong Wiedson from 2000 to 2002. Mr. Liu also sits on the board of directors of Nantong Wiedson Hi-Wits Precision Co., Ltd.

Mr. Liu is the brother of Dr. Johnny Liu, Executive Chairman and CEO of the Company and a controlling shareholder of the Company.

**MR. TANG SEE CHIM** was appointed as an Independent Director on 21 May 2007 and was last re-appointed on 27 April 2016. He is the Chairman of the Audit Committee and member of the Nominating Committee and Remuneration Committee of the Company. Mr. Tang is an advocate and solicitor of the Supreme Court of Singapore and is presently the consultant to the law firm of Messrs David Lim & Partners LLP.

He holds a BSc (Econ) (Hons) degree from the London School of Economics (University of London), and is a Barrister-at-law of the Middle Temple (London). He has co-authored three books entitled Directors' Duties and Liabilities, Your Rights as a Consumer, and Contract Law.

He is a director of Wang Bian Pte Ltd. and honorary legal advisor to Ren Ci Community Hospital, Singapore Hospice Council and Nanyang Girls' High School.

Mr. Tang does not have any relationships including immediate family relationships with the Directors, the Company or its 10% shareholders as defined in the Code of Corporate Governance 2012.

**MR. GRAHAM MACDONALD BELL** was appointed as an Independent Director with effect from 4 June 2007 and was last re-elected on 27 April 2016. Mr. Bell is the Chairman of the Nominating Committee and member of Audit Committee and Remuneration Committee of the Company. He is Chairman of Graham Bell & Associates Pte Ltd., a boutique consultancy and private equity company and a director of Graham Bell & Associates Limited. Mr. Bell is also a director of a marine claims and average adjustments consultancy company.

Mr. Bell has more than 30 years of managerial experience and has managed public listed companies including Rothmans International Ltd. and its subsidiaries where he served as Chairman and Managing Director from 1993 to 2000. He previously served on the board of Singapore Government statutory board, Sentosa Development Corporation; the sports sub-committee of the Singapore Totalisator Board; and on the Executive Committee of the hospitality division of one of the largest property developers in Singapore.

Mr. Bell does not have any relationships including immediate family relationships with the Directors, the Company or its 10% shareholders as defined in the Code of Corporate Governance 2012.



**MR. CHEN ZHAOHUI, GEORGE**

was appointed as an Independent Director with effect from 4 June 2007 and was last re-elected on 27 April 2016. He is the Chairman of the Remuneration Committee and member of Audit Committee and Nominating Committee of the Company. Mr. Chen was a manufacturing engineer with Thermal Components Inc. from 1992 to 1995. Subsequently, he joined Genie Industries Inc., a company in the business of producing material lifts, portable aerial work platforms, scissor lifts and self-propelled telescopic and articulated booms, as Senior Manufacturing Engineer. He was the Chief Representative of Genie Industries Shanghai Representative Office from 1997 to December 2009. In January 2010, he joined Trimble Navigation Limited and Trimble Electronic Products (Shanghai) Co., Ltd., a leading provider of advanced positioning solutions that maximize productivity and enhance profitability, as General Manager for China.

Mr. Chen obtained his Bachelor in Mechanical Engineering degree from Shanghai University in 1988, and subsequently pursued a Master of Science degree in Manufacturing Systems Engineering from Auburn University. Whilst in Auburn University, he published an article on "FEM (Finite Element Method) Modeling in Metal Cutting" for Manufacturing Review, an American Society of Mechanical Engineers publication. Mr. Chen also holds a Master of Business Administration (MBA) degree from Auburn University. Mr. Chen is actively involved in the Association of Equipment Manufacturers ("AEM"), an international trade and business development resource for companies that manufacture equipment, products and services used worldwide in the construction, agricultural, mining, forestry, and

utility fields. Mr. Chen was elected as the Vice Chairman of the AEM China Advisory Committee in 2004.

Mr. Chen does not have any relationships including immediate family relationships with the Directors, the Company or its 10% shareholders as defined in the Code of Corporate Governance 2012.

**DR. HEDDA JULIANA IM BRAHM-DROEGE**

was appointed as an Independent, Non-Executive Director with effect from 1 October 2014 and was re-elected as a Director on 26 April 2017. Dr. im Brahm-Droege is a member of the Remuneration Committee. She holds a doctoral degree in economics from the University of Bonn, Germany.

Dr. im Brahm-Droege is the co-founder and the Deputy Chairperson of the supervisory board of Droege Group AG. Droege Group AG (renamed from Droege International Group AG, see: [www.droege-group.com](http://www.droege-group.com)) is an independent Advisory and Investment Company. Furthermore, Dr. im Brahm-Droege is the Chairperson of the Advisory Board of the Rheingold Art Collection and she is a member of the Erich Gutenberg Association. In addition to that she holds various board positions in art related as well as charitable organizations.

Dr. im Brahm-Droege is the spouse of Mr. Walter P. J. Droege who is a former member of the Board of Directors and also an existing substantial shareholder of Dutech.

**MR. CHRISTOPH HARTMANN**

is nominated by Droege Group AG, which is a substantial shareholder of Dutech as a Non-Executive Director. The appointment was effective from 1 December 2011 and he was re-designated as an Independent Director on 30 September 2014. He was re-elected as a Director on 26 April 2017. He is a member of the Audit Committee of the Company. He holds a degree in Business Economics and has been working for Droege Group AG, Düsseldorf (Germany) since 2007 where he is responsible for the portfolio management of Droege Group AG's investments.

Mr. Hartmann has been the Vice Chairman of the Supervisory Board of METRIC mobility solutions AG (formerly Hoefft & Wessel AG), Hannover, a company listed in Germany until May 21, 2015.

From 1990 to 2006 Mr. Hartmann was an Executive Director of a major international bank based in Germany and was responsible for the portfolio and exit management of the industrial Equity Investments and Private Equity Funds Investments.

Mr. Hartmann does not have any relationships including immediate family relationships with the Directors, the Company or its 10% shareholders as defined in the Code of Corporate Governance 2012.

# KEY MANAGEMENT

## MR. WINSON CHEN WENKUN

is our Chief Operating Officer and is responsible for the Group's business operations. Mr. Chen obtained his Masters in Engineering Machinery from Jilin University of Technology, China in 1991. He has been an accredited engineer with Fujian Personnel Bureau since 1994. He was awarded a Post-Experience Certificate in Engineering Business Management from University of Warwick, UK in 1998.

Mr. Chen has vast experience in the field of engineering and technology. Prior to joining the Group, he was the Chief Engineer of Linde (Germany) – Xiamen Forklift Truck Co., Ltd. from 1995 to 1999. Subsequently, he joined Shanghai Ingersoll-Rand (USA) Air Compressor Co., Ltd. as Technical Director from 1999 to 2001, and was the Vice President of Murray (USA) Inc. China Operation from 2001 to 2003.

## MS. DONIA DONG JUNXIA

is our acting Chief Financial Officer ("Acting CFO"), and she oversees the Dutech Group's financial functions including accounting, internal controls, financial and management reporting. Ms. Dong obtained her Bachelor of Economics with a major in audit from Beijing Economics University in 1990. She has been a Certified Public Accountant with the Ministry of Finance of the People's Republic of China since 2001. She got postgraduate diploma in corporate finance and investment management from the University of Hong Kong in 2013.

Prior to joining the Group, Ms. Dong was the Finance Director for Guangdong Huiyingtong Entertainment City from 1997 to 1999 and the Finance Manager for Shanghai Teck Hock SMEC Glassfibre Co., Ltd. from 1999 to 2000. She was CFO for TSI from 2000 to 2002. From 2003 to 2006, she worked in Mayway as Financial Controller. From 2006 to 2015, Ms. Dong worked as our Group Financial Controller.

**MS. JESSICA SHI YI** is our Vice President for International. She is responsible for global marketing & sales, the US & European business development and operations.

After graduating with Bachelor of Science and Technology in 1997, Ms. Shi worked at the Bank of China as Management Trainee. She left to pursue MBA from Fudan University in 2000. Subsequently, she joined Murray Inc.'s Shanghai Representative Office as Business Manager.

She has been with the Group since 2003. From 2003 to 2015, Ms. Shi worked as Sales Director of our Group. During this period, she had attended Executive Educational Program from Wharton Business School, University of Pennsylvania in 2008.

## MR. GE CHAO FENG

is our Managing Director in charge of Asia operation included China facilities and Philippines plant. He is responsible for production, supply chain management, production organization, quality assurance, timely delivery and all daily operation. Mr. Ge obtained his Bachelors of Engineering in Henan University of Science and Technology in 1988. He graduated from Industrial Management Program for CMBA from Shanghai Jiaotong University in 2008.

Prior to joining our Group, Mr. Ge worked for Pingdingshan Xing Zhou Machinery Company from 1988 to 2003 and held the positions as Technical Director and Chief Engineer. During this period, he was awarded as "Outstanding Young Technology Expert in Pingdingshan City" and his achievement in R&D won "Second Prize in Science Progress Reward".

## MR. JIMMY TANG JIA MING

is our Deputy General Manager responsible for IT, legal affairs, public relationships, administration and management of our facilities and equipment. Mr. Tang obtained his Bachelors in Business Administration from Baruch College in New York City, USA in 1999.

Prior to joining our Group in 2016, Mr. Tang worked as Route Development Manager for Fracht FWO Inc. from 2003 to 2010 and Director of Operation for JS VEIK Technology and Materials Co., Ltd. from 2010 to 2013. He worked for Jiangsu Dongjian Hi-Tech Materials Co., Ltd. as General Manager from 2013 to 2015.

Mr. Tang had resigned as Deputy General Manager of the Company with effect from 14 July 2017 to pursue other interests and new opportunities.

## DR. POPOF WU BO

is our Chief Technology Officer ("CTO") and is responsible for the technology, research and development. Dr. Wu obtained his Bachelor of Engineering Mechanics from Tsinghua University in 2000. He got his doctorate in Mechanical Engineering in University of Lille, France in 2003. After that, he worked in Nuclear Energy Commissariat Paris for the European projects of linear colliders.

Dr. Wu has rich experience in the field of research & development. Prior to joining the group, he worked as a Program Manager in OTIS Elevator Shanghai Engineering Center from 2006 to 2010 and the Product Engineering Manager in STANLEY GMT (SH) from 2010 to 2015. He was the R&D director of BST elevator door systems Co., Ltd. from 2015 to 2017.

# CORPORATE GOVERNANCE REPORT

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The Board of Directors and Management of Dutech Holdings Limited (the “Company”) are committed to continually enhancing shareholder value by maintaining high standards of corporate governance, business integrity and professionalism in all its activities.

The Company’s corporate governance practices conform to and are compliant with the Code of Corporate Governance 2012 (the “Code”) and the Listing Manual of Singapore Exchange Securities Trading Limited (“SGX-ST”). This Report sets out the corporate governance processes of the Company and its subsidiaries (the “Group”) with specific reference to the principles of the Code.

## BOARD MATTERS

### Principle 1: Board’s Conduct of its Affairs

The Company is led by an effective board comprising a majority of non-executive Directors. Each Director brings to the Board his skills, experience and insights, which together with strategic networking relationships, serves to further the interests of the Company. At all times, the Directors are collectively and individually obliged to act in good faith and consider the best interests of the Company.

The Board of Directors (the “Board”) oversees the affairs of the Company and is accountable to the shareholders for the management of the Group’s business and its performance. The Board works with Management to achieve this and the Management remains accountable to the Board.

The main responsibilities of the Board include the following:

- provide entrepreneurial leadership and guidance and put in place an effective management team;
- approve broad policies, set strategies and objectives of the Group;
- review and approve the financial performance of the Group including its quarterly and full year financial results announcements, annual audited financial statements, proposals of dividends and the Directors’ Statement thereto;
- review at least annually the adequacy and effectiveness of the Group’s risk management and internal control system; and
- approve business plans and annual budgets, major funding including capital management proposals, major investment and disposal proposals.

The approval of the Board is required for matters as follows:

- (i) Matters in relation to the overall strategy and management of the Group;
- (ii) Material changes to the Group’s management and control structure;
- (iii) Matters involving financial reporting and dividends;
- (iv) Major/strategic acquisitions and disposal of investments not in the ordinary course of business; and
- (v) Matters which require Board approval as specified under the Listing Manual of SGX-ST, Companies Act, Cap. 50 or other relevant laws and regulations.

To assist the Board to effectively discharge its oversight duties and functions, the Board has delegated certain duties to various Board committees. These committees, namely the Audit Committee (“AC”), Nominating Committee (“NC”) and Remuneration Committee (“RC”) functions within clearly defined terms of reference and operating procedures, which are reviewed by the Board on a regular basis. The Board also closely monitors the effectiveness of each committee.

The Board is scheduled to meet at least four times a year and where necessary, hold additional meetings to address significant issues that may arise. Important matters concerning the Group are also put to the Board for its decision by way of written resolutions. The Company’s Constitution provides for meetings to be held via telephone conference.

# CORPORATE GOVERNANCE REPORT

The attendance of the Directors at Board and Board committees meetings held during financial year ended 31 December 2017 ("FY2017") are set out below:

Type of Meetings	Board	Audit Committee	Nominating Committee	Remuneration Committee
Total No. Held	4	4	1	1
<b>Attendance</b>				
Dr. Johnny Liu, Executive Chairman & CEO	4	N.A.	N.A.	N.A.
Mr. Liu Bin, Executive Vice-Chairman	4	N.A.	N.A.	N.A.
Mr. Tang See Chim, Lead Independent Director	4	4	1	1
Mr. Graham Macdonald Bell, Independent Director	4	4	1	1
Mr. Chen Zhaohui, George, Independent Director	3	3	1	1
Mr. Christoph Hartmann, Independent Director	4	4	N.A.	N.A.
Dr. Hedda Juliana im Brahm-Droege, Independent Director	4	N.A.	N.A.	1

N.A.: Not Applicable

A formal letter is provided to each director upon his appointment, setting out the director's duties and disclosure obligations. The Company also conducts an orientation programme for newly appointed director(s) to familiarise them with the business activities, strategic directions, policies and corporate governance practices of the Group. There were no newly appointed directors during the financial year. Directors are provided with briefings and updates from time to time by professional advisers, auditor and management on relevant practices, new laws, rules and regulations, directors' duties and responsibilities, corporate governance, changes in accounting standards and risk management issues applicable or relevant to the performance of their duties and responsibilities as Directors.

Directors are also informed and encouraged to attend relevant training programmes organised by the Singapore Institute of Directors and may suggest training topics, the funding of which will be provided by the Company.

During FY2017, Directors were briefed by the external auditor on the developments in financial reporting and governance standards. News releases issued by the SGX-ST which are relevant to the Directors are also circulated to the Board for information. The Directors are also informed about matters such as the internal code with regard to dealings in the Company's shares as they are privy to price sensitive information.

## Principle 2: Board Composition and Balance

The Board presently comprises seven Directors, two of whom are Executive Directors and the remaining five are independent.

As a group, the Directors bring with them a broad range of industry knowledge, expertise and experience in areas such as legal, accounting, finance and management. The diversity of the Directors' experience allows for the useful exchange of ideas and views as well as provide for effective decision-making. Key information regarding the Directors, including directorships or chairmanships both present and those held over the preceding three years in other listed companies and other principal commitments are set out in pages 20 to 21 of this Annual Report.

The NC reviews the size and composition of the Board and the Board Committees annually. The NC considers the present board size and composition appropriate taking into account the business and scale of operations. It is of the view that the Board and Board Committees, comprises Directors who have the relevant skills and knowledge, expertise and experiences as a group for discharging the Board's duties. The NC has reviewed the declaration of independence provided by each of the Non-Executive Director for FY2017 in accordance with the Code's guidelines and determined that Mr. Tang See Chim, Mr. Graham Macdonald Bell, Mr. Chen Zhaohui, George, Mr. Christoph Hartmann and Dr. Hedda Juliana im Brahm-Droege be considered independent and noted that more than half of the Board comprises Non-Executive Independent Directors. Particular scrutiny is applied in assessing the continued independence of Directors having served beyond 9 years from the date of his/her appointment. Mr. Tang See Chim, Mr. Graham Macdonald Bell and Mr. Chen Zhaohui, George have served the Company for a period exceeding nine years.



# CORPORATE GOVERNANCE REPORT

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The NC recognizes that an individual's independence cannot be determined arbitrarily on the basis of a set of period of time. In determining the independence of a Director, the Board takes into consideration among others Guideline 2.3 of the Code in which the Board may consider a Director independent if he has no relationship with the Company, its related corporations, its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere with his exercise of independent business judgement. The affected directors had recused themselves from the review.

The Board has observed their performance at Board meetings and other occasions and has no reasons to doubt their independence in the course of discharging their duties. They continue to express their viewpoints, debate issues and objectively scrutinize and challenge Management. They also seek clarification and amplification as deemed required in discharging their duties as Independent Directors. Hence, the Board is of the view that Mr. Tang See Chim, Mr. Graham Macdonald Bell and Mr. Chen Zhaohui, George should still be considered independent despite having been on the Board for more than nine years as there are no circumstances which might affect their judgement.

Furthermore, the Board also notes that none of the affected independent directors had any interested party transactions with the Group or the substantial shareholders that might affect their independence. The Board wishes to retain them for their combined strength of character, objectivity and wealth of useful and relevant experience which would enable them to be effective Independent Directors, notwithstanding their long tenure. While recognising the benefits of the experience and stability brought by long-standing Independent Directors, the Board remains committed to the progressive renewal of board membership.

The Board and Management engage in open and constructive debate for the furtherance and achieving strategic objectives. All Board members are provided with relevant and sufficient information on a timely basis and Non-Executive Directors may challenge Management's assumptions and also extend guidance to Management, in the best interest of the Group.

Management will brief Directors on prospective deals and potential developments in the early stages, before formal Board approval is sought. Board papers are provided to directors a week in advance of the meeting to afford the Directors sufficient time to review the Board papers prior to the meeting. If a Director is unable to attend a Board or Board committee meeting, the Director may nevertheless provide his/her comments to the Chairman or relevant Board committee Chairman separately.

### **Principle 3: Chairman and Chief Executive Officer**

Dr. Johnny Liu, a controlling shareholder of the Company, assumes the roles of Executive Chairman and Chief Executive Officer ("CEO") of the Company. He plays a vital role in developing and expanding the business of the Group and has provided strong leadership and vision to the Group. Given the size of the Group's current business operations and nature of its activities, the Board is of the view that it is not necessary to separate the roles of the Chairman and CEO. The Board is of the view that there are sufficient safeguards and checks in place to ensure that Management is accountable to the Board as a whole. The three Board Committees, all of whom comprised of Independent Directors, are all chaired by Independent Directors.

In accordance with the recommendations of the Code, Mr. Tang See Chim has been appointed as the Lead Independent Director, to lead and co-ordinate the activities of the Independent Directors. The Lead Independent Director will be available to shareholders where they have concerns which contact through normal channels of the Chairman or Chief Financial Officer ("CFO") have failed to resolve or for which such contact is inappropriate.

In view of the above, the Directors are of the view that there are sufficient safeguards and checks in place to ensure that the process of decision making by the Board is independent and is based on collective decision making without Dr. Liu being able to exercise considerable concentration of power or influence.

In consultation with the Directors, the Executive Chairman approves meeting schedules of the Board, agendas for Board meetings and is advised of meeting of Board Committees.

The Independent Directors hold informal meeting session on a need basis without the presence of Management and other directors and the Lead Independent Director provides feedback to the Chairman as appropriate.

# CORPORATE GOVERNANCE REPORT

## Principle 4: Board Membership

The NC comprises three Independent Directors:

Graham Macdonald Bell	(Chairman)
Tang See Chim	(Member)
Chen Zhaohui, George	(Member)

The NC was established for the purpose of ensuring that there is a formal and transparent process for all board appointments.

The principal duties of the NC include the following:

- Identifying candidates and making recommendations for all Board appointments and re-nomination or continuation in office of any Director;
- to make recommendations to the Board on all board, CEO and CFO appointments and re-nomination of Board members having regard to the Director's contribution and performance;
- to determine annually the independence of Directors, bearing in mind the relationships which would deem a Director not to be independent; and
- to evaluate the performance of the Board and the contributions from the Directors on a year-to-year basis.

The search and nomination process for new Directors will be through search companies, contacts and recommendations that go through the normal selection process, to cast its net as wide as possible for the right candidates. New Directors are appointed after the NC has reviewed and nominated them for appointment. Such new Directors submit themselves for re-election at the next Annual General Meeting ("AGM") of the Company held following their appointment.

The NC will seek to refresh the Board membership progressively and in an orderly manner, to avoid losing institutional memory. The NC reviews the succession and development plans for key management personnel.

At each AGM, at least one-third of the directors are subject to retirement by rotation. Each member of the NC will abstain from voting on any resolution (if applicable) in respect of the assessment of his/her re-nomination as Director.

The NC has reviewed and recommended for the re-election of the following Directors of the Company at the forthcoming AGM:

- Dr. Johnny Liu, retiring pursuant to Article 107; and
- Mr. Liu Bin, retiring pursuant to Article 107.

The NC recommends all appointments and re-nominations of Directors to the Board after taking into account the respective Director's contributions in terms of experience, business perspective, management skills, individual expertise and pro-activeness in participation of meetings. This is to ensure that the decisions made by the Board are well considered, balanced and are in the best interests of the Company.

The dates of initial appointment and last re-election of each Director are set out as follows:

Name of Director	Appointment	Date of initial appointment	Date of last re-election
Dr. Johnny Liu	Executive Chairman and CEO	2 November 2006	28 April 2015
Mr. Liu Bin	Executive Vice-Chairman	26 March 2007	28 April 2015
Mr. Tang See Chim	Independent Director	21 May 2007	27 April 2016
Mr. Graham Macdonald Bell	Independent Director	4 June 2007	27 April 2016
Mr. Chen Zhaohui, George	Independent Director	4 June 2007	27 April 2016
Mr. Christoph Hartmann	Independent Director	1 December 2011	26 April 2017
Dr. Hedda Juliana im Brahm-Droege	Independent Director	1 October 2014	26 April 2017

# CORPORATE GOVERNANCE REPORT

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Based on the attendance of the Directors and their contributions at meetings of the Board and Board Committees and their time commitment to the affairs of the Company, the NC believes that the Directors continue to meet the demands of the Group and are able to discharge their duties adequately. The Board is of the view that setting a maximum number of listed company board representations would not be meaningful as the contributions of the Directors would depend on many factors such as whether they were in full time employment and their other responsibilities. If a quantitative number of directorships was imposed, the NC might have omitted outstanding individuals who despite the demands on their time had the capacity to participate and contribute as new members of the Board. The NC will assess each Director relative to his or her abilities and known commitments and responsibilities. The Board does not have alternate directors as recommended by Guideline 4.5 of the Code.

The Company will continue to disclose each Director's listed company board directorships and principal commitments which may be found in the "Further Information on Board of Directors" section in the Annual Report.

## **Principle 5: Board Performance**

The NC assesses the effectiveness of the Board as a whole and the contribution by each Director to the effectiveness of the Board on an annual basis.

In its assessment of the Board effectiveness, the NC takes into consideration the frequency of the Board meetings, the rate at which issues raised are adequately dealt with and the reports from the various Board Committees.

The NC has conducted an evaluation of the Board performance as a whole in respect of FY2017, participated by all Directors. This process involves the completion of a questionnaire by Board members seeking their views on various aspects of Board performance such as Board size and composition, Board information and accountability, Board processes, effectiveness of risk management and internal controls system. A summary of the findings is prepared based on the completed questionnaire and is reviewed and deliberated by the NC and Board members. The Chairman of the NC confers with the Chairman of the Board on the findings and appropriate follow-up actions are taken as necessary.

The Board is satisfied that all Directors have discharged their duties adequately for FY2017 and expects that the Directors will continue to discharge their duties adequately in FY2018.

## **Principle 6: Access to Information**

The Board members are provided with adequate and timely information prior to Board meetings and on an on-going basis. Draft agendas for Board and Board Committee meetings are circulated to the Executive Directors and Board Committee Chairman respectively, in advance, in order for them to suggest items to be included in the agenda and/or review the usefulness of the items in the proposed agenda.

The Board has separate and independent access to the Group's senior management and the advice and services of the Company Secretary. Requests for information from the Board are dealt with promptly. The Board is informed of all material events and transactions as and when they occur. The Board can request for key management personnel attendance at Board or Board Committees meetings to provide additional insight on matters being discussed and to respond to any queries from Directors as and when deemed necessary.

Under the Constitution of the Company, the decision to appoint or remove the Company Secretary can only be taken by the Board as a whole. The Company Secretary attends all Board meetings and ensures that Board procedures and applicable rules and regulations are complied with.

The Board may also take independent professional advice as and when necessary to enable it to discharge its responsibilities effectively, such cost will be borne by the Company.

# CORPORATE GOVERNANCE REPORT

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## REMUNERATION MATTERS

### Principle 7: Procedures for Developing Remuneration Policies

### Principle 8: Level and Mix of Remuneration

The RC comprises of four Independent Directors:

Chen Zhaohui, George	(Chairman)
Tang See Chim	(Member)
Graham Macdonald Bell	(Member)
Dr. Hedda Juliana im Brahm-Droege	(Member)

The principal duties of the RC include the following:

- a. to review and recommend to the Board a framework of remuneration for the Board and key management personnel of the Group;
- b. to determine the specific remuneration packages for the Executive Directors; and
- c. to administer the Dutech Group Performance Share Plan.

The remuneration policy for key executives is based largely on the Group's performance and the responsibilities and performance of each individual key management personnel. In setting remuneration packages, the RC takes into consideration the pay and employment conditions within the industry and local practices. The RC recommends the remuneration packages of key management personnel for Board's approval. The members of the RC, who each have numerous years of experience in senior management positions and/or on the board of other listed companies, collectively have strong management experience and expertise on remuneration matters. Where necessary, the RC members may seek expert advice inside and/or outside the Company on the remuneration of all Directors and management. In the event of such advice being sought, existing relationship, if any, between the Company and its appointed remuneration consultants will not affect the independence and objectivity of the remuneration consultants. No remuneration consultants were engaged by the Company in FY2017 as the Company is of the view that the annual review by the RC is currently sufficient to ensure the continued relevance of its remuneration packages to the Group's strategic business objectives and alignment with market practices.

The two Executive Directors have each entered into separate service agreements with the Company. The service agreements cover the terms of employment, salaries and other benefits.

The RC reviews the terms of compensation and employment for Executive Directors and key management personnel at the time of their respective employment or renewal (where applicable) including considering the Company's obligations in the event of termination of services to ensure such contracts of service contain fair and reasonable termination clauses which are not overly generous.

Independent Directors do not have service agreements. They receive Directors' fees, in accordance with their level of contribution taking into account factors such as effort and time spent for serving on the Board and Board Committees as well as the responsibilities of the Directors and the need to pay competitive fees to attract, retain and motivate the Directors. These fees are subject to shareholders' approval at the AGM.

No director is involved in deciding his own remuneration, except in providing information and documents if specifically requested by the RC to assist in its deliberations.

The Dutech Group Performance Share Plan (the "Share Plan") was approved during the Company's initial public offering. Through the Share Plan, the Company seeks to foster a greater ownership culture within the Group by aligning the interests of the Group executives and associated company executives with the interests of shareholders. The aggregate number of shares to be issued pursuant to the Share Plan shall not exceed 15% of the total issued shares of the Company. To-date, the Company has not implemented the Share Plan.



# CORPORATE GOVERNANCE REPORT

## Principle 9: Disclosure of Remuneration

Information on the remuneration of Directors of the Company for FY2017 is as follows:–

Name of Directors	Remuneration S\$	Salary %	Bonus %	Fees %	Other Benefits %	Total %
Johnny Liu	270,219	52	19	–	29	100
Liu Bin	106,600	58	42	–	–	100
Tang See Chim	79,200	–	–	100	–	100
Graham Macdonald Bell	79,200	–	–	100	–	100
Chen Zhaohui, George	79,200	–	–	100	–	100
Christoph Hartmann	79,200	–	–	100	–	100
Dr. Hedda Juliana im Brahm-Droege	79,200	–	–	100	–	100

Information on the remuneration band of the key management personnel of the Company for FY2017 is as follows:–

Remuneration Band & Name of Key Management Personnel	Salary %	Bonus %	Fees %	Other Benefits %	Total %
<b>Below S\$250,000</b>					
Winson Chen Wen Kun	76	20	–	4	100
Donia Dong Junxia	71	21	–	8	100
Jessica Shi Yi	79	16	–	5	100
Ge Chao Feng	71	23	–	6	100
Dr. Popof Wu Bo <sup>1</sup>	78	15	–	7	100
Jimmy Tang Jia Ming <sup>2</sup>	100	–	–	–	100

1. Appointed as CTO with effect from 2 May 2017

2. Resigned as Deputy General Manager with effect from 14 July 2017

Information on key management personnel is set out in the “Key Management” section of the annual report.

The Board does not believe it is in the interest of the Company to disclose the remuneration of key management personnel for FY2017 having regard to the highly competitive human resource environment.

The remuneration of the Executive Directors and key management personnel comprises a basic salary component and a variable component. The variable component comprises annual bonus computed based on the performance of the Group as a whole which is link to financial targets set and other aspects of performance which include new markets and new products development, as well as individual performance.

For FY2017, there were no termination, retirement and post-employment benefits granted to Directors, the CEO and key management personnel other than the payment in lieu of notice in the event of termination in their respective employment contracts. There are no provisions in the Executive Directors and Key Management contracts, to allow the Company to reclaim incentive components of remuneration in exceptional circumstances of misstatement of financial results, or misconduct resulting in financial loss to the Company.

Except for Dr. Johnny Liu and Mr. Liu Bin, there are no employees within the Group who are immediate family members of a Director or the CEO whose remuneration exceeds S\$50,000 during the financial year.

# CORPORATE GOVERNANCE REPORT

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## ACCOUNTABILITY AND AUDIT

### Principle 10: Accountability

The Board accounts to the shareholders through providing timely information relating to the financial and operations of the Group as well as any issues faced by the Group regularly and as and when required through announcement releases to the SGX-ST.

The Board also reviews the legal and regulatory compliance reports from Management to ensure compliance with the relevant legislative and regulatory requirements. The Management provides the Board with management accounts and such explanation and information on a regular basis and as the Board may require from time to time, to enable the Board to make a balanced and informed assessment of the Company's performance, position and prospects.

### Principle 11: Risk Management and Internal Controls

The Management and the Board regularly assess and review the Group's business and operational environment in order to identify areas of significant business risks and to determine the Group's levels of risk tolerance and risk policies as well as appropriate measures to control and mitigate these risks.

The Board has received assurance from the CEO and Acting CFO:

- (a) that financial records have been properly maintained and the financial statements give a true and fair view of the company's operations and finances; and
- (b) that the company's risk management and internal control systems are adequate and effective.

Based on the internal controls established and maintained by the Group, work performed by the internal and external auditors, and reviews performed by Management, various Board Committees and the Board, the Board (with concurrence of the AC) are of the opinion that the Group's risk management and internal control systems addressing financial, operational, compliance and information technology controls, were adequate and effective as at 31 December 2017.

The Board notes that the system of internal controls and risk management established by the Company provides reasonable, but not absolute, assurance that the Company will not be adversely affected by any event that can be reasonably foreseen as it strives to achieve its business objectives. However, the Board also notes that no system of internal controls and risk management can provide absolute assurance in this regard, or absolute assurance against the occurrence of material errors, poor judgement in decision-making, human error, losses, fraud or other irregularities.

### Principle 12: Audit Committee

The AC comprises of four Independent Directors:

Tang See Chim	(Chairman)
Graham Macdonald Bell	(Member)
Chen Zhaohui, George	(Member)
Christoph Hartmann	(Member)

The Board is of the view that the members of the AC have sufficient accounting and financial management expertise and experience to discharge the AC's functions.

The duties of the AC include the following:

- to review with the external auditors the audit plan and the results of the external auditors' examination and evaluation of the system of internal controls;
- to review with the internal auditors their audit plan, the adequacy of the internal audit procedures and their evaluation of the effectiveness of the overall internal control systems, including financial, operational and compliance controls and risk management;

# CORPORATE GOVERNANCE REPORT

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- to review the quarterly and full year results announcements of the Company prior to submission to the Board so as to ensure the integrity of the financial results announcements to be released via SGXNet;
- to review the consolidated financial statements of the Group and the external auditors' report on those financial statements before the submission to the Board of Directors for approval;
- to review the co-operation given by the Management to the auditors;
- to consider the appointment and re-appointment of external auditors;
- to review and approve interested person transactions;
- to undertake such other reviews and project as may be requested by the Board, and to report to the Board its findings from time to time on matters arising and requiring the attention of the AC; and
- to generally undertake such other functions and duties as may be required by statute or the SGX-ST Listing Manual, and by such amendments made thereto from time to time.

The primary responsibility of the AC is to provide support and assistance to the Board in ensuring that a high standard of corporate governance is maintained at all times. The AC has full access to and co-operation by all management personnel and has full discretion to invite any Director and/or key management personnel to attend its meetings and reasonable resources to enable it to discharge its functions properly.

The AC has reviewed the overall scope of the external and internal audit and the assistance given by the Company's officers to the auditors. It met with the Company's auditors to discuss the results of their examination and evaluation of the Company's system of internal accounting controls. The AC meets with the external and internal auditors, without the presence of management, at least once a year.

The AC has discussed the key audit matters with Management and the external auditor. The AC concurs with the basis and conclusions included in the Auditor's Report with respect to the key audit matters. For more information on the key audit matters, please refer to page 24 to 25 of this Annual Report.

The AC has also put in place procedures to provide employees of the Group with well defined and accessible channels to report on suspected fraud, corruption, dishonest practices or other similar matters relating to the Group, and for the independent investigation of any reports by employees and appropriate follow up action. Details of the whistle blowing policy have been made available to all employees. The aim of the whistle blowing policy is to encourage the reporting of such matters in good faith, with the confidence that persons making such reports will be treated fairly, and to the extent possible, be protected from reprisal. The employees and any concerned parties who have a business relationship with the Company and who are aware of any possible improprieties may raise any concern directly with the AC Chairman.

The AC has conducted an annual review of the non-audit services provided by the external auditors to satisfy itself that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors. Details of the aggregate amount of fees paid to the external auditors for FY2017 and a breakdown of the fees paid in total for audit and non-audit services respectively, can be found on page 77. The Company complies with the requirements of Rules 712 and 715 of the Listing Manual of the SGX-ST.

During the financial year, the AC reviewed the quarterly financial statements prior to approving or recommending their release to the Board; the external audit plan and the results of the external audit performed; the internal audit plan and report of the Group; non-audit services rendered by the external auditors as well as the independence and objectivity of the external auditors. Management's assessment of fraud risks, adequacy of the whistle blower arrangements and complaints, if any, are also reviewed by the AC.

None of the members nor the Chairman of the AC are former partners or directors of the Group's auditing firm.

## **Principle 13: Internal Audit**

The AC approves the hiring, removal, evaluation and compensation of the professional service firm to which the internal audit function was outsourced. The internal auditors have unfettered access to all the Company's documents, records, properties and personnel, including access to the AC.

# CORPORATE GOVERNANCE REPORT

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During the year, the AC has collectively decided on the appointment of BDO LLP (“BDO”) in place of Foo Kon Tan Advisory Services Pte Ltd (“FKT”) to outsource the Group’s internal audit function in China and UK, to Fritz und Mark and Ebner Stolz Mönning Bachem GmbH & Co. KG in Germany in order to satisfy and comply with the requirements of best practices set out in the Code.

During FY2017, BDO had undertaken a review on the principal subsidiaries of the Group in China and UK, namely Tri Star Inc., Tri Star Technology Co. Ltd. and Metric Group Holdings Ltd. Fritz und Mark and Ebner Stolz Mönning Bachem GmbH & Co. KG had undertaken reviews on the subsidiaries in Germany, namely Krauth Technology GmbH, Almex GmbH and Deutsche Mechatronics GmbH respectively.

The internal auditors carried out its function in accordance with the standards set by nationally or internationally recognized professional bodies including the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors. The internal auditors report directly to the AC and make recommendations on their findings.

The Group’s external auditors also contribute an independent perspective on the internal control systems over financial reporting and annually report their findings to the AC.

The AC annually reviews the adequacy and effectiveness of the internal audit function to ensure that the internal audits are performed effectively. The AC is satisfied that the internal auditors are staffed by qualified and experienced personnel.

## **Principle 14: Shareholders’ rights**

## **Principle 15: Communication with Shareholders**

## **Principle 16: Conduct of Shareholder meetings**

The Board strives to ensure that all material information is disclosed to the shareholders in an adequate and timely basis. The Board informs and communicates with shareholders through annual reports, announcement releases through SGX-ST, advertisement of notice of general meetings and at general meetings of the Company.

Shareholders are encouraged to attend the AGM of the Company to ensure a greater level of shareholder participation and for them to be kept up to date as to the strategies and goals of the Group. At AGM of the Company, shareholders will be given opportunity to air their views and ask questions regarding the Company and the Group. Shareholders are also informed of the rules, including voting procedures that govern the AGM.

To facilitate participation by the shareholders, the Company’s Constitution allow a shareholder to appoint not more than two proxies to attend and vote at general meetings. Currently, the Company’s Constitution do not allow a shareholder to vote in absentia as the authentication of a shareholder identity information and other related security issues still remain a concern.

With the introduction of the multiple proxies regime under the Singapore Companies (Amendment) Act 2014, investors who hold the Company’s shares through a nominee company or custodian bank or through a CPF agent bank may attend and vote at each AGM.

The Company provides for separate resolutions at general meetings on each distinct issue. All the resolutions at the general meetings are single item resolutions. Detailed information on each item in the AGM agenda is in the explanatory notes to the AGM Notice in the Annual Report.

The Directors, including the Chairperson of the AC, NC and RC, or members of the respective Board Committees standing in for them, as well as the external auditors will be present and available to address questions at general meetings of the Company. The Board avail themselves after general meetings to solicit and understand the view of the shareholders.

The Company Secretary prepares minutes of general meetings, which capture the essence of the comments or queries from shareholders and responses from the Board and management. These minutes are available to shareholders upon their request.



# CORPORATE GOVERNANCE REPORT

The Company does not have a formal investor relations policy. Pertinent information is regularly conveyed to the shareholders through SGXNet.

Resolutions are, as far as possible, structured separately and may be voted on independently. All voting is by poll and conducted in the presence of independent scrutineers for greater transparency and efficiency in the voting process. The results of the poll voting, showing the number of votes cast for and against each resolution and the respective percentages, are announced through SGXNet after the AGM. As the number of shareholders who attend the general meetings are not large, it is not cost effective to have voting by electronic polling.

There is no formal dividend policy adopted by the Company. The Company declared and paid an interim dividend of S\$0.01 per share for FY2017 on 23 June 2017. The Board, having further reviewed the cashflow position and contingent liability of the Group, did not recommend any payment of final dividend for FY2017.

## INTERESTED PERSON TRANSACTIONS

The Company monitors all its interested person transactions closely and all interested person transactions are subject to review by the AC.

The aggregate value of interested person transactions entered into during the year which fall under Chapter 9 of the Listing Manual of the SGX-ST are as follows:

Name of Interested Person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted during the financial year under review under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)
<i>Nantong Mayway Products Corp.</i>	<i>Rental for land and buildings: RMB3.8 million</i>	<i>NIL</i>

## DEALINGS IN SECURITIES

The Company has adopted an internal code with regard to dealings in securities to provide guidance for its Directors and employees in compliance with Rule 1207(19) of the Listing Manual of the SGX-ST.

The Company's code provides that Directors and employees of the Group are prohibited from dealing in securities of the Company when they are in possession of any unpublished material price-sensitive information of the Group. The Company's code also prohibits the Directors and employees from trading in the Company's securities during the period commencing one month and two weeks before the date of announcement of the Company's full year or quarterly results respectively and ending on the date of announcement of the relevant results.

Directors and employees are also required to observe insider trading laws at all times even when dealing in securities within the permitted trading period. In addition, the Directors and employees are expected not to deal in the Company's securities for short-term considerations.

## MATERIAL CONTRACTS

There were no material contracts of the Company or its subsidiaries (not being contracts entered into in the ordinary course of business) involving the interests of the chief executive officer, each director or controlling shareholders, either still subsisting at the end of the financial year or if not then subsisting, entered into since the end of the previous financial year.

# CORPORATE GOVERNANCE REPORT

## Further Information on Board of Directors

Name of Director	Appointment	Current Directorships/Principal Commitments	Directorships over Past 3 years
Dr. Johnny Liu	Executive Chairman and CEO	<ul style="list-style-type: none"> <li>– Duowei Electromechanical (Tongzhou) Co., Ltd.</li> <li>– Nantong Mayway Products Corp.</li> <li>– Spectacular Bright Corp.</li> <li>– Tri-Star Holdings Inc.</li> <li>– Tri Star International Co., Ltd.</li> <li>– Tri Star Shanghai Electronics</li> <li>– TSI Metals Corp.</li> </ul>	– Nil
Mr. Liu Bin	Executive Vice-Chairman	<ul style="list-style-type: none"> <li>– Willalpha International Limited</li> <li>– Wellfield Investment Holdings Pte Limited</li> <li>– Nantong Mayway Products Corp.</li> <li>– Nantong Wiedson Hi-Wits Precision Co., Ltd.</li> <li>– Kewell Products Corporation</li> </ul>	<ul style="list-style-type: none"> <li>– Nantong Hi-Wits Electron Irradiation Technology Co., Ltd.</li> <li>– Jiangsu Zhongke Hi-wits Technology Development Corp.</li> </ul>
Mr. Tang See Chim	Independent Director  Board Committee(s) served on:  <ul style="list-style-type: none"> <li>– Audit Committee (Chairman)</li> <li>– Nominating Committee</li> <li>– Remuneration Committee</li> </ul>	<ul style="list-style-type: none"> <li>– Jutha Phakakrong Shipping Company Private Limited</li> <li>– Nanyang International Educations (Holdings) Ltd</li> <li>– Wang Bian Pte Ltd</li> </ul>	<ul style="list-style-type: none"> <li>– City Developments Limited</li> <li>– Nanyang Girls' High School Ltd.</li> <li>– Anne Product Carriers (Pte) Ltd.</li> </ul>
Mr. Graham Macdonald Bell	Independent Director  Board Committee(s) served on:  <ul style="list-style-type: none"> <li>– Nominating Committee (Chairman)</li> <li>– Audit Committee</li> <li>– Remuneration Committee</li> </ul>	<ul style="list-style-type: none"> <li>– Asian Alchemy Ltd</li> <li>– Churchmead Group Ltd</li> <li>– Display Enterprises Ltd</li> <li>– Graham Bell &amp; Associates Ltd</li> <li>– Graham Bell &amp; Associates Pte Ltd</li> <li>– The Glengarry Group Ltd</li> <li>– The Lemuria Group Ltd</li> <li>– Marine Claims Office of Asia Pte Ltd</li> <li>– Premium Gain International Pte Ltd</li> </ul>	– Nil
Mr. Chen Zhaohui, George	Independent Director  Board Committee(s) served on:  <ul style="list-style-type: none"> <li>– Remuneration Committee (Chairman)</li> <li>– Audit Committee</li> <li>– Nominating Committee</li> </ul>	<ul style="list-style-type: none"> <li>– Trimble Navigation Limited</li> <li>– Trimble Electronic Products (Shanghai) Co., Ltd.</li> <li>– Zhongtie Trimble Digital Engineering and Construction Limited Company</li> <li>– Trimble Leading Electronic Technology (Shanghai) Co., Ltd.</li> <li>– GT (Beijing) Co., Ltd.</li> </ul>	<ul style="list-style-type: none"> <li>– Zhongtie Trimble Digital Engineering and Construction Limited Company</li> <li>– Yamei Electronics Technology Co., Ltd.</li> <li>– Actronic Trading (Shanghai) Co., Ltd.</li> </ul>

# CORPORATE GOVERNANCE REPORT

Name of Director	Appointment	Current Directorships/Principal Commitments	Directorships over Past 3 years
Mr. Christoph Hartmann	Independent Director  Board Committee(s) served on: – Audit Committee	– Droege Group AG* (*Holding Company with numerous group companies) – Droege Real Estate Holding GmbH* (*Holding Company with numerous group companies) – Special Energy Holding GmbH – Special Multi-Channel Holding GmbH (formerly Special Purpose Eins Holding GmbH) – Special Technology Holding GmbH – Special Purpose Drei Holding GmbH – Helis S.A – Special Care Holding GmbH	– METRIC mobility solutions AG (formerly Höft & Wessel AG)
Dr. Hedda Juliana im Brahm-Droege	Independent Director  Board Committee(s) served on: – Remuneration Committee	– Droege Group AG – Sammlung Rheingold GbR – KID-Stiftung – Erich-Gutenberg Arbeitsgemeinschaft e.V. – Grafikstiftung Neo Rauch – Gesellschaft der Freunde der Kunstsammlung Nordrhein-Westfalen e.V. – Helis S.A. – Droege Real Estate Spain S.L. – Dr. im Brahm Immobilien Management GmbH – Stiftung Kunst und Musik Dresden	– Nil

**DIRECTORS'  
STATEMENT**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

The directors present their statement to the members together with the audited financial statements of Dutech Holdings Limited (the "Company") and subsidiaries (the "Group") for the financial year ended 31 December 2017 and the statement of financial position of the Company as at 31 December 2017.

In the opinion of the directors,

- (a) the statement of financial position of the Company and the consolidated financial statements of the Group as set out on pages 28 to 96 are drawn up so as to give a true and fair view of the financial position of the Company and of the Group as at 31 December 2017 and of the financial performance, changes in equity and cash flows of the Group for the financial year then ended; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The board of directors has, on the date of this statement, authorised these financial statements for issue.

**Directors**

The directors of the Company in office at the date of this statement are as follows:

Dr. Johnny Liu  
Liu Bin  
Tang See Chim  
Graham Macdonald Bell  
Chen Zhaohui, George  
Christoph Hartmann  
Dr. Hedda Juliana im Brahm-Droege

**Directors' interests in shares or debentures**

According to the register kept by the Company for the purposes of Section 164 of the Singapore Companies Act, Cap. 50, none of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

	Direct interests			Deemed interests		
	At 1 January 2017	At 31 December 2017	At 21 January 2018	At 1 January 2017	At 31 December 2017	At 21 January 2018
<b>Company</b>						
<i>Ordinary shares</i>						
Dr. Johnny Liu	–	–	–	152,438,956	152,438,956	152,438,956
Liu Bin	–	–	–	56,282,864	56,282,864	56,282,864
Graham Macdonald Bell	–	–	–	17,000	17,000	17,000

By virtue of Section 7 of the Singapore Companies Act, Cap. 50, Dr. Johnny Liu is deemed to have an interest in the whole of the share capital of the Company's wholly owned subsidiaries.

**Arrangements to enable directors to acquire benefits by means of the acquisition of shares and debentures**

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

**Share options**

During the financial year, no options to take up unissued shares of the Company or any subsidiaries were granted and no shares were issued by virtue of the exercise of options to take up unissued shares of the Company or any subsidiaries. There were no unissued shares of the Company or any subsidiaries under option at the end of the financial year.

# DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## Audit committee

The members of the Audit Committee at the end of the financial year are as follows:

Tang See Chim	(Chairman)
Graham Macdonald Bell	(Independent Director)
Chen Zhaohui, George	(Independent Director)
Christoph Hartmann	(Independent Director)

The Audit Committee carried out its functions in accordance with Section 201B (5) of the Singapore Companies Act, Cap. 50, the Listing Manual of the Singapore Exchange Securities Trading Limited and the Code of Corporate Governance.

In performing those functions, the Audit Committee reviewed:

- the scope and the results of internal audit procedures with the internal auditors;
- the audit plan of the Company's independent auditors and any recommendations on internal accounting controls arising from the statutory audit;
- the assistance given by the Company's management to the independent auditors;
- the periodic results announcements prior to their submission to the Board of Directors for approval;
- the statement of financial position of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2017 prior to their submission to the Board of Directors, as well as the independent auditors' report on the statement of financial position of the Company and the consolidated financial statements of the Group; and
- interested person transactions (as defined in Chapter 9 of the Listing Manual of the Singapore Exchange Securities Trading Limited).

Further details regarding the Audit Committee are disclosed in the Corporate Governance Report.

## Independent auditors

The independent auditors, Crowe Horwath First Trust LLP, have expressed their willingness to accept re-appointment as auditors of the Company.

## On behalf of the Board of Directors

**DR. JOHNNY LIU**  
Director

**LIU BIN**  
Director

29 March 2018



# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DUTECH HOLDINGS LIMITED

## Report on the Audit of the Financial Statements

### *Opinion*

We have audited the financial statements of Dutech Holdings Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 28 to 96, which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the “Act”) and Singapore Financial Reporting Standards in Singapore (“FRSs”) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date.

### *Basis for Opinion*

We conducted our audit in accordance with Singapore Standards on Auditing (“SSAs”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (“ACRA”) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (“ACRA Code”) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Key Audit Matter*

Key audit matter is the matter that, in our professional judgement, was of most significance in our audit of the financial statements of the current period. The matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DUTECH HOLDINGS LIMITED

## Key Audit Matter (Continued)

<b>Impairment of intangible assets</b> (Refer to following notes to the financial statements ~ Note 14 "Intangible assets" and Note 2 "Critical accounting estimates, assumptions and judgements")	
<b>Key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>During the year, a subsidiary, Almex GmbH ("Almex") continued to register losses and failed to secure a major contract, triggering the indication of impairment of its intangible assets. As at 31 December 2017, the total intangible assets recorded in Almex amounted to RMB11.4 million, after recognising an impairment loss of RMB7.9 million in the Group's profit or loss.</p> <p>Management assessed the impairment of these intangibles assets based on value-in-use calculations using cash flow projections approved by the management. The recoverable amount of the cash-generating unit ("CGU") is compared with the carrying amount of the CGU to determine whether there is any impairment loss.</p> <p>We focused on this area because of the significant judgements required in estimating the expected future cash flows.</p>	<p>Our audit procedures included, amongst others, evaluating the methodical and mathematical accuracy of the model used for the impairment testing, the appropriateness of the assumptions, and the methodology used by management to prepare its cash flow forecasts.</p> <p>In particular, we performed the following:</p> <ul style="list-style-type: none"> <li>challenged the robustness of the key assumptions used to determine the value-in-use, cash flow forecasts and the discount rates based on our understanding of the CGU and by comparing them with publicly available data, where possible;</li> <li>challenged the reasonableness of sales growth rates by performing the following:               <ul style="list-style-type: none"> <li>compared against the past entity's and industry's growth rates, and the country's gross domestic product growth rates, including the trend of government spending in the relevant industry; and</li> <li>performed sensitivity analysis and stress-test to assess the impact on the recoverable amount of the CGU resulting from reasonably possible changes to the sales growth rates.</li> </ul> </li> <li>compared actual performance in 2017 to previous assumptions applied to understand the quality of the estimates and address the risk of bias.</li> </ul> <p>We found that the assumptions and estimates used in the discounted cash flow projections were within an acceptable range. We also considered the disclosures in the consolidated financial statements to be appropriate.</p>

## Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

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

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

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DUTECH HOLDINGS LIMITED

## ***Responsibilities of Management and Directors for the Financial Statements***

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

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

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

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

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

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

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

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DUTECH HOLDINGS LIMITED

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

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

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

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

## **Report on Other Legal and Regulatory Requirements**

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

The engagement partner on the audit resulting in this independent auditor's report is Tan Teck Zhen.

## **Crowe Horwath First Trust LLP**

Public Accountants and  
Chartered Accountants  
Singapore

29 March 2018

# STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"))

	Note	Group		Company	
		2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
<b>EQUITY</b>					
<b>Capital and reserves attributable to equity holders of the Company</b>					
Share capital	3	154,623	154,623	154,623	154,623
Capital reserve	4	33,056	33,056	–	–
Statutory reserve	5	60,965	60,639	–	–
Merger deficit	6	(13,029)	(13,029)	–	–
Revenue reserve	7	623,313	577,880	114,798	2,364
Translation (deficit)/reserve	8	16,189	12,587	(2,467)	10,990
Fair value reserve	9	310	136	–	–
<b>TOTAL EQUITY</b>		<b>875,427</b>	<b>825,892</b>	<b>266,954</b>	<b>167,977</b>
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	10	326,601	289,665	–	–
Land use rights	11	59,500	60,850	–	–
Subsidiaries	12	–	–	92,517	48,625
Associates	13	7,510	7,093	–	–
Intangible assets	14	76,820	81,456	–	–
Held-to-maturity investments	15	–	6,268	–	–
Deferred tax assets	16	19,360	19,885	–	–
		<b>489,791</b>	<b>465,217</b>	<b>92,517</b>	<b>48,625</b>
<b>Current assets</b>					
Inventories	17	373,661	274,299	–	–
Trade receivables	18	307,872	260,850	6,826	5,704
Other receivables, deposits and prepayments	19	10,581	9,849	332	310
Advances to suppliers		35,339	35,053	–	1,126
Due from subsidiaries (trade & non-trade)	20	–	–	217,892	152,610
Available-for-sale financial assets	21	16,748	10,596	–	–
Held-to-maturity investments	15	–	3,561	–	–
Cash and bank balances	22	298,219	295,006	11,846	32,725
Derivative financial instruments	23	–	1,427	–	–
		<b>1,042,420</b>	<b>890,641</b>	<b>236,896</b>	<b>192,475</b>
<b>TOTAL ASSETS</b>		<b>1,532,211</b>	<b>1,355,858</b>	<b>329,413</b>	<b>241,100</b>

The accompanying notes are an integral part of the financial statements.



# STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"))

	Note	Group		Company	
		2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade payables	24	160,972	110,355	1,858	2,816
Other payables and accruals	24	151,944	153,335	1,548	1,363
Borrowings	25	185,200	106,872	–	–
Due to a related party (trade)	20	243	242	–	–
Due to subsidiaries (trade & non-trade)	20	–	–	58,212	67,050
Derivative financial instruments	23	608	–	–	–
Income tax payable		6,464	9,566	841	1,894
		<b>505,431</b>	<b>380,370</b>	<b>62,459</b>	<b>73,123</b>
<b>Non-current liabilities</b>					
Deferred tax liabilities	16	24,618	40,139	–	–
Other payables	24	3,503	2,961	–	–
Deferred income	26	12,450	13,214	–	–
Pension liability	27	79,364	76,423	–	–
Borrowings	25	31,418	16,859	–	–
		<b>151,353</b>	<b>149,596</b>	<b>–</b>	<b>–</b>
<b>TOTAL LIABILITIES</b>		<b>656,784</b>	<b>529,966</b>	<b>62,459</b>	<b>73,123</b>
<b>NET ASSETS</b>		<b>875,427</b>	<b>825,892</b>	<b>266,954</b>	<b>167,977</b>

The accompanying notes are an integral part of the financial statements.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"))

	Note	2017 RMB'000	2016 RMB'000
<b>Revenue</b>	28	<b>1,656,534</b>	1,390,210
Cost of sales		<b>(1,239,409)</b>	(984,731)
Gross profit		<b>417,125</b>	405,479
Other income	29	<b>28,808</b>	28,858
Selling and distribution expenses		<b>(80,507)</b>	(68,987)
Administrative expenses		<b>(274,011)</b>	(193,276)
Finance income		<b>1,767</b>	1,122
Finance costs		<b>(10,069)</b>	(6,623)
Finance costs, net	31	<b>(8,302)</b>	(5,501)
Other expenses	32	<b>(16,366)</b>	(6,198)
Share of profits of associates	13	<b>417</b>	125
<b>Profit before tax</b>	33	<b>67,164</b>	160,500
Income tax	34	<b>(2,905)</b>	(34,396)
<b>Profit for the year</b>		<b>64,259</b>	126,104
<b>Other comprehensive income:</b>			
<u>Items that may be reclassified subsequently to profit or loss</u>			
Currency translation differences arising from consolidation		<b>3,602</b>	17,171
Available-for-sale financial assets			
– Changes of fair value	21	<b>419</b>	130
– Reclassification upon realisation of investment		<b>(245)</b>	–
		<b>3,776</b>	17,301
<u>Items that will not be reclassified subsequently to profit or loss</u>			
Re-measurement (losses)/gains on defined benefit pension scheme	27	<b>(1,271)</b>	7,527
Movement of deferred tax relating to pension deficit	16	<b>209</b>	(1,330)
		<b>(1,062)</b>	6,197
<b>Other comprehensive income, net of tax</b>		<b>2,714</b>	23,498
<b>Total comprehensive income for the year</b>		<b>66,973</b>	149,602
<b>Profit attributable to:</b>			
Equity holders of the Company		<b>64,259</b>	126,104
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Company		<b>66,973</b>	149,602
<b>Earnings per share (cents)</b>			
Basic and diluted	35	<b>18.02</b>	35.37

The accompanying notes are an integral part of the financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"))

## 2017

### Group

	Attributable to equity holders of the Company							Total equity RMB'000
	Share capital	Capital reserve	Statutory reserve	Merger deficit	Revenue reserve	Translation (deficit)/ reserve	Fair value reserve	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<b>Balance at 1 January 2017</b>	<b>154,623</b>	<b>33,056</b>	<b>60,639</b>	<b>(13,029)</b>	<b>577,880</b>	<b>12,587</b>	<b>136</b>	<b>825,892</b>
Profit for the financial year	-	-	-	-	64,259	-	-	64,259
Other comprehensive income, net of tax	-	-	-	-	(1,062)	3,602	174	2,714
Total comprehensive income for the financial year	-	-	-	-	63,197	3,602	174	66,973
Transfer to statutory reserve (Note 5)	-	-	326	-	(326)	-	-	-
Dividends on ordinary shares (Note 36)	-	-	-	-	(17,438)	-	-	(17,438)
Total distributions to owners	-	-	326	-	(17,764)	-	-	(17,438)
<b>Balance at 31 December 2017</b>	<b>154,623</b>	<b>33,056</b>	<b>60,965</b>	<b>(13,029)</b>	<b>623,313</b>	<b>16,189</b>	<b>310</b>	<b>875,427</b>

## 2016

### Group

<b>Balance at 1 January 2016</b>	168,067	33,056	56,221	(13,029)	473,335	(23,873)	6	693,783
Effect of change in functional currency	(13,444)	-	-	-	(5,845)	19,289	-	-
	154,623	33,056	56,221	(13,029)	467,490	(4,584)	6	693,783
Profit for the financial year	-	-	-	-	126,104	-	-	126,104
Other comprehensive income, net of tax	-	-	-	-	6,197	17,171	130	23,498
Total comprehensive income for the financial year	-	-	-	-	132,301	17,171	130	149,602
Transfer to statutory reserve (Note 5)	-	-	4,418	-	(4,418)	-	-	-
Dividends on ordinary shares (Note 36)	-	-	-	-	(17,493)	-	-	(17,493)
Total distributions to owners	-	-	4,418	-	(21,911)	-	-	(17,493)
<b>Balance at 31 December 2016</b>	<b>154,623</b>	<b>33,056</b>	<b>60,639</b>	<b>(13,029)</b>	<b>577,880</b>	<b>12,587</b>	<b>136</b>	<b>825,892</b>

The accompanying notes are an integral part of the financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"))

	Note	2017 RMB'000	2016 RMB'000
<b>Cash flows from operating activities</b>			
Profit before tax		67,164	160,500
Adjustments:			
Amortisation of land use rights	11	1,350	1,317
Amortisation of intangible assets	14	16,450	7,965
Amortisation of deferred government grants	26	(764)	(1,324)
Depreciation of property, plant and equipment	10	28,349	24,244
Impairment of intangible assets	14	7,908	–
Gain on disposal of held-to-maturity investment	31	(221)	–
Loss/(Gain) on disposal of property, plant and equipment	29/32	589	(379)
Fair value loss/(gain) on forward contract	23	2,035	(1,427)
Loss on settlement of forward contracts, net	23	456	168
Interest expenses	31	10,069	6,623
Interest income	31	(1,767)	(1,122)
Government grant	29	(8,004)	–
Loss/(Gain) on foreign exchange, net		6,313	(7,486)
Share of profits of associates	13	(417)	(125)
Gain on bargain purchase arising from the acquisition of businesses		–	(4,352)
Write back of contingent consideration	24C	(1,527)	–
Write back of other liabilities	29	(934)	–
Reversal of long term unclaimed payable	29	(658)	–
Operating profit before working capital changes		126,391	184,602
Inventories		(98,333)	(27,703)
Trade receivables		(41,035)	(15,421)
Other receivables, deposits and prepayments		(296)	(6,902)
Advances to suppliers		513	(14,822)
Trade payables		47,730	16,990
Other payables and accruals		890	(13,663)
Pension liability		(2,588)	(528)
Due to a related party (trade)		–	(187)
Cash generated from operations		33,272	122,366
Income tax paid		(21,013)	(27,217)
Net cash from operating activities		12,259	95,149

The accompanying notes are an integral part of the financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"))

	Note	2017 RMB'000	2016 RMB'000
<b>Cash flows from investing activities</b>			
Interest received		1,767	1,122
Proceeds from disposal of property, plant and equipment		2,718	979
Purchase of property, plant and equipment	A	(37,822)	(42,722)
Purchase of land use right	11	–	(2,401)
Addition in intangible assets	14	(16,698)	(2,585)
Government grants received		5,504	204
Payment from settlement of forward contracts		(456)	(168)
Net cash outflow on acquisition of businesses		–	(32,486)
Proceeds from disposal of held-to-maturity investments		9,733	–
Proceeds from disposal of available-for-sale investments		6,692	–
Purchase of available-for-sale financial assets	21	(13,518)	(3,290)
Contingent consideration paid		–	(515)
Net cash used in investing activities		(42,080)	(81,862)
<b>Cash flows from financing activities</b>			
Dividends paid	36	(17,438)	(17,493)
Interest paid		(7,690)	(5,904)
Placement of pledged deposits		(24,067)	(24,769)
Proceeds from borrowings		138,787	72,528
Repayment of borrowings		(72,723)	(22,174)
Financing cash flows related to liabilities	25	66,064	50,354
Net cash from financing activities		16,869	2,188
<b>Net (decrease)/increase in cash and cash equivalents</b>		(12,952)	15,475
<b>Effect of exchange rate changes in cash and cash equivalents</b>		(7,902)	14,318
<b>Cash and cash equivalents at beginning of financial year</b>		270,005	240,212
<b>Cash and cash equivalents at end of financial year</b>	22	249,151	270,005

## Note A

	Note	2017 RMB'000	2016 RMB'000
Total additions to property, plant and equipment	10	58,289	55,509
Less: Amount included in prepayments		–	(2,199) <sup>(1)</sup>
Less: Amount included in other payables	24B	1,923	(1,923)
Less: Amount financed through finance lease	25(iii)	(6,785)	(1,372)
Less: Amount financed through loan	25(iii)	(15,605)	(7,293)
Cash payments on purchase of property, plant and equipment per consolidated statement of cash flows		37,822	42,722

(1) Adjusting for prepayment made in financial year 2015.

The accompanying notes are an integral part of the financial statements.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi (“RMB’000”), unless otherwise stated)

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

## 1. GENERAL INFORMATION

Dutech Holdings Limited (the “Company”) is a limited liability company domiciled and incorporated in Singapore and listed on the Singapore Exchange Securities Trading Limited. The registered office of the Company is located at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623. The principal place of business of the Company in China is located at 11G International Shipping & Finance Centre, 720 Pudong Ave, Shanghai 200120, People’s Republic of China (“PRC”).

The principal activities of the Company are investment holding and general wholesale of high security products. The principal activities of its subsidiaries are disclosed in Note 12 to the financial statements. The controlling shareholder of the Company is Spectacular Bright Corp., incorporated in British Virgin Islands, and controlled by the Group’s Chairman and CEO, Dr. Johnny Liu.

The financial statements for the financial year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 29 March 2018.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

The financial statements are prepared in accordance with the historical cost convention, except as disclosed in the accounting policies below and are drawn up in accordance with the provisions of the Singapore Companies Act, Cap. 50 and the Singapore Financial Reporting Standards (“FRS”). The financial statements are presented in Chinese Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) as indicated, unless otherwise stated.

The preparation of the financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Group’s accounting policies. It also requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management’s best knowledge of current events and actions, actual results may ultimately differ from those estimates. Critical accounting estimates and assumptions used that are significant to the financial statements and areas involving a higher degree of judgement or complexity, are disclosed in this Note.

### Adoption of new and revised standards

On 1 January 2017, the Group adopted the new or amended FRS and Interpretations of FRS (“INT FRS”) that are mandatory for application from that date. Changes to the Group’s accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS. The adoption of these new or amended FRS and INT FRS did not result in substantial changes to the Group’s and Company’s accounting policies and had no material effect on the amounts reported for the current or prior financial years except as disclosed below:

#### Amendments to FRS 7: Disclosure Initiative

The amendments introduce additional disclosure requirement intended to enable users of financial statements to evaluate changes in liabilities arising from financial activities, including both changes arising from cash flows and non-cash changes.

The Group’s liabilities arising from financing activities and a reconciliation between the opening and closing balances of these liabilities are set out in Note 25. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in Note 25, the application of these amendments has had no impact on the Group’s consolidated financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Standards issued but not yet effective

The Accounting Standards Council announced on 29 May 2014 that Singapore incorporated companies listed on the Singapore Exchange will apply a new financial reporting framework identical to the International Financial Reporting Standards, Singapore Financial Reporting Standards (International) (SFRS(I)). The Group has adopted the new financial reporting framework on 1 January 2018. The Group's financial statements for the financial year ending 31 December 2018 will be prepared in accordance with SFRS(I). As a result, this will be the last set of financial statements prepared under the current FRS.

The Group is currently performing an analysis of the available policy choices, transitional optional exemptions and transitional mandatory exceptions under *SFRS(I) 1 First-time Adoption of Financial Reporting Standards*.

In addition to the adoption of the new framework, the Group has not adopted the following standards and interpretations that have been issued but not yet effective:

Descriptions	Effective for annual periods beginning on or after
SFRS(I) 15 <i>Revenue from Contracts with Customers (including Clarifications)</i>	1 January 2018
SFRS(I) 9 <i>Financial Instruments</i>	1 January 2018
Amendments to SFRS(I) 2: <i>Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018
Amendments to SFRS(I) 1-40: <i>Transfers of Investment Property</i>	1 January 2018
Improvements to IFRS Standards 2014-2016 cycle (December 2016)	
– SFRS(I) 1 <i>First-time Adoption of Financial Reporting Standards</i>	1 January 2018
– SFRS(I) 1-28 <i>Investments in Associates and Joint Ventures</i>	1 January 2018
SFRS(I) INT 22: <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
Amendments to SFRS(I) 4: <i>Applying SFRS (I) 9 Financial Instruments with SFRS(I) 4 Insurance Contracts</i>	1 January 2018
SFRS(I) 16 <i>Leases</i>	1 January 2019
SFRS(I) INT 23: <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
Amendments to SFRS(I) 9: <i>Prepayment Features with Negative Compensation</i>	1 January 2019
Amendments to SFRS(I) 1-28: <i>Long-term Interests in Associates and Joint Ventures</i>	1 January 2019
Improvements to SFRS(I)s 2015-2017 cycle (March 2018)	
– SFRS(I) 3 <i>Business Combinations</i>	1 January 2019
– SFRS(I) 11 <i>Joint Arrangements</i>	1 January 2019
– SFRS(I) 1-12 <i>Income Taxes</i>	1 January 2019
– SFRS(I) 1-23 <i>Borrowing Costs</i>	1 January 2019
SFRS(I) 17 <i>Insurance Contracts</i>	1 January 2021

The directors expect that the adoption of the new or amended standards and interpretations above will have no material impact on the financial statements in the period of initial application, except for the impending changes in accounting policy on adoption of the followings:

#### SFRS(I) 15 Revenue from Contracts with Customers

SFRS(I) 15 establishes a single comprehensive model in accounting for revenue arising from contracts with customers, and will supersede the current revenue recognition guidance including FRS 18 Revenue, FRS 11 Construction Contracts and the related Interpretations when it becomes effective in 2018.

The core principle of SFRS(I) 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under SFRS (I) 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customers. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Standards issued but not yet effective (Continued)

SFRS(I) 15 will take effect from financial years beginning on or after 1 January 2018. In accordance with the requirements of SFRS(I) 1, the Group will adopt SFRS(I) 15 retrospectively. The Group is in the process of assessing the terms of the Group's sales contract, including but not limited to, the warranty, shipping term, pricing, rebates and etc. which is relevant in respect of identifying performance obligations, and allocating and estimating consideration within contracts with customers.

#### SFRS(I) 9 Financial Instruments

SFRS(I) 9 replaces FRS 39 Financial Instruments: Recognition and Measurement, and introduces new requirements for classification and measurement, impairment and hedge accounting. The adoption of SFRS(I) 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. SFRS(I) 9 also introduces a new forward-looking expected credit loss (ECL) impairment model and adds detailed guidance on impairment-related presentation and disclosures. SFRS(I) 9 also contains new requirements on hedge accounting, which adopts a more principle-based approach, and allows entities to choose between applying hedge accounting requirements of SFRS(I) 9 or continue to apply the existing hedge accounting requirements in SFRS (I) 1-39 for all hedge accounting.

SFRS(I) 9 will take effect from financial years beginning on or after 1 January 2018. The Group plans to apply the simplified approach and record lifetime ECL on its trade and other receivables and is in the process of calculating the impact of SFRS(I) 9 on impairment allowance.

#### FRS(1) 16 Leases

This new standard on leases supersedes the previous standard (FRS 17) and interpretations and brings in a new definition of a lease that will be used to identify whether a contract is, or contains, a lease. For leasees, SFRS(I) 16 reforms leasee accounting by introducing a single model similar to the existing finance lease model. Specifically, lessees are required to recognise all leases on their statements of financial position to reflect their rights to use leased assets and the associated obligations for lease payments, with limited exemptions. However, lessor accounting, with the distinction between operating and finance leases, remains largely unchanged. SFRS(I) 16 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted for entities that apply SFRS(I) 15 Revenue from Contracts with Customers at or before the date of initial application of this standard. The Group will apply the new SFRS(I) 16 when it becomes effective in 2019. As at reporting date, the Group has non-cancellable operating lease commitments as disclosed in Note 38. Based on the Group's initial assessment, these commitments will result in the recognition of asset and liability for future lease payments.

#### SFRS(I) INT 23: *Uncertainty over Income Tax Treatments*

The interpretation clarifies that, when there is uncertainty over income tax treatments, an entity considers whether it is probable that the tax authority will accept the entity's tax treatment. When it is probable, an entity determine the accounting tax position consistently with the tax treatment used or planned to be used in the entity's income tax filings. Otherwise, an entity should estimate the effect of uncertainty using either the most likely amount or the expected value method, whichever method better predicts the resolution of the uncertainty. Consistent judgements and estimates should be made for both current tax and deferred tax. The interpretation is effective for annual periods beginning on or after 1 January 2019. An entity can apply the interpretation using either full retrospective (without use of hindsight) or modified retrospective approach (without restating comparative information).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Group accounting

#### (i) Subsidiaries

##### (a) Basis of consolidation

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

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

##### (b) Acquisition of businesses

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement. Acquisition-related costs, other than those associated with the issue of debt or equity securities, are expensed as incurred.

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with FRS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured until it is finally settled 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 net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a gain on bargain purchase.

##### (c) Disposals of subsidiaries or businesses

The assets and liabilities of the subsidiary, including any goodwill, are derecognised when a change in the Company's ownership interest in a subsidiary results in a loss of control over the subsidiary. Amounts recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained earnings if required by a specific Standard.

Any retained interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained investment at the date when control is lost and its fair value is recognised in profit or loss. Subsequently, the retained interest is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Group accounting (Continued)

#### (ii) Associates

Associates are entities over which the Group exercises significant influence, but not control, over the financial and operating policy decision, generally accompanied by a shareholding giving rise to voting rights of 20% and above but not exceeding 50%. Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting less impairment losses, if any.

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

In applying the equity method of accounting, the Group's share of its associates' post-acquisition profits or losses are recognised in profit or loss and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. These post-acquisition movements and distributions received from the associates are adjusted against the carrying amount of the investment. When the Group's share of losses in associates equals or exceeds its interest in the associates, including any other unsecured non-current receivables, the Group does not recognise further losses, unless it has obligations or has made payments on behalf of the associates.

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

Investments in associates are derecognised when the Group loses significant influence. Any retained interest in the entity is remeasured at its fair value. The difference between the carrying amount of the retained investment at the date when significant influence is lost and its fair value is recognised in profit or loss.

Gains and losses arising from partial disposals or dilutions in investments in associates in which significant influence are retained are recognised in profit or loss.

### Subsidiaries and associates

Investments in subsidiaries and associates are carried at cost less accumulated impairment losses in the Company's statement of financial position. On disposal of investments in subsidiaries and associates, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

### Currency translation

#### (i) Functional and presentation currency

The individual financial statements of each entity are measured in the currency of the primary economic environment in which the entity operates ("functional currency"). The functional currency of the Company is United States dollars.

As the Group's operations are principally conducted in the PRC, the consolidated financial statements of the Group and the statement of financial position of the Company are presented in Chinese Renminbi ("RMB").



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Currency translation (Continued)

#### (ii) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currencies are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve/deficit in equity in the consolidated financial statements. The foreign currency translation reserve/deficit is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

#### (iii) Translation of the Group's consolidated financial statements and the Company's statement of financial position

The assets and liabilities of foreign operations and the Company are translated into RMB at the rate of exchange ruling at the reporting date and their profit or loss is translated at the average exchange rates for the financial year. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the profit or loss.

In the case of a partial disposal without loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences are re-attributed to non-controlling interest and are not recognised in profit or loss. For partial disposals of associates that is foreign operations, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

### Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost of an item of property, plant and equipment including subsequent expenditure is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. When significant parts of property, plant and equipment is required to be replaced in intervals, the Group recognises such parts as individual assets with specific lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance expenses are recognised in profit or loss when incurred.

After initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment loss.

Construction in progress includes all costs of construction and other direct costs. Construction in progress is reclassified to the appropriate category of property, plant and equipment when complete and ready to use.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment (Continued)

Freehold land and construction in progress are not depreciated. All other items of property, plant and equipment are depreciated using the straight-line method to write off the cost of the property, plant and equipment less estimated residual value over their estimated useful lives as follows:

	Useful lives (Years)	Estimated residual value as a percentage of cost (%)
Freehold buildings	9 to 41 <sup>(*)</sup>	–
Leasehold buildings	5 to 20	0%-10%
Plant and machinery	5 to 19	0%-10%
Office equipment and fittings	3 to 5	0%-10%
Motor vehicles	3 to 6	0%-10%

\* Including the remaining useful lives upon acquisition date of a subsidiary.

The residual value, estimated useful life and depreciation method are reviewed, and adjusted as appropriate, at each reporting date to ensure that the amount, method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment. Fully depreciated assets are retained in the financial statements until they are no longer in use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on retirement or disposal is determined as the difference between any sales proceeds and the carrying amounts of the asset and is recognised in the profit or loss within "Other income/(expenses)".

### Land use rights

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation and accumulated impairment losses. The land use rights are amortised on a straight-line basis over the lease term of 50 years.

### Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost, which includes the purchase price and other directly attributable cost of preparing the asset for its intended use. The cost of intangible assets acquired in a business combination is their fair values at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and are recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be finite or indefinite.

Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the profit or loss in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Intangible assets (Continued)

#### (a) *Research and development costs*

Research costs are expensed as incurred. Deferred development costs arising from development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditures during the development. Following initial recognition of the deferred development costs as an intangible asset, it is carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of the intangible asset begins when development is complete and the asset is available for use. Deferred development costs have a finite useful life and are amortised over the period of expected sales from the related projects (5 years) on a straight-line basis.

#### (b) *Technical know-how and patent*

Technical know-how and patent was acquired separately or through business combination and is amortised over the period of expected sales (5 to 10 years) on a straight-line basis.

#### (c) *Customer relationship*

Customer relationship was arisen from the acquisition of businesses and is amortised over the period of 10 years on a straight-line basis.

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

### Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely dependent on those from other assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment of non-financial assets (Continued)

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecasts calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. This increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in the profit or loss.

### Financial assets

#### (i) Initial recognition and measurement

Financial assets are recognised on the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition. Financial assets are initially recognised at fair value plus, in the case of financial assets classified as held-to-maturity, directly attributable transaction costs.

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the nature of the assets and the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition and for held-to-maturity investments, re-evaluates this designation at every reporting date.

#### (ii) Subsequent measurement

##### (a) *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the short-term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by FRS 39. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets designated at fair value through profit or loss is those that are managed and their performances are evaluated on a fair value basis, in accordance with the Group's investment policy. Assets in this category are presented as current assets if they are either held for trading or are expected to be realised within 12 months after the reporting date.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial assets (Continued)

#### (ii) Subsequent measurement (Continued)

##### (a) *Financial assets at fair value through profit or loss (Continued)*

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains and losses arising from changes in fair value of the financial assets are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss include exchange differences, interest and dividend income.

##### (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 presented as current assets, except for those expected to be realised later than 12 months after the reporting date which are classified as non-current assets. Loans and receivables comprise cash and bank balances, trade and other receivables, deposits and amounts due from subsidiaries.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

##### (c) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. They are presented as non-current assets, except those maturing within 12 months after the reporting date which are presented as current assets. The Group's held-to-maturity investments include investments in fixed rate corporate bonds.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

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

Available-for-sale financial assets include equity and debt securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. Assets in this category are presented as non-current assets unless the investment matures or management intends to dispose of the assets within 12 months after the reporting date.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Any gains or losses arising from changes in fair value of the financial assets are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised.

Investments in equity instruments whose fair value cannot be reliably measured are stated at cost less impairment loss.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial assets (Continued)

#### (iii) Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of the assets within the period generally established by regulation or convention in the marketplace concerned.

#### Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

#### (i) Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in the profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amount charged to the allowance account is written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

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 recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

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

Considerations to determine whether there is objective evidence that investment securities classified as available-for-sale financial assets are impaired include (i) a significant or prolonged decline in the fair value of the investment below its costs, (ii) significant financial difficulties of the issuer or obligor, and (iii) information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in equity instrument may not be recovered. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment of financial assets (Continued)

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

When the available-for-sale financial asset is impaired, the cumulative loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss previously recognised in the profit or loss, is transferred from other comprehensive income and recognised in profit or loss. Reversals of impairment losses in respect of equity instruments are not recognised in profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

For debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as the financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increases can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed in profit or loss.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Raw materials comprise purchase costs accounted for on a weighted average basis. Work-in-progress and finished goods comprise cost of direct materials, direct labour and an attributable proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a weighted average basis.

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to be incurred for selling and distribution.

### Derivative financial instruments and hedge accounting

The Group enters into derivative financial instruments to manage its exposure to foreign exchange rate risk. Further details of derivative financial instruments are disclosed in Note 23 to the financial statements.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group has entered into forward currency contracts for currency risk arising from its firm commitments for purchases and sales denominated in foreign currencies. These contracts have been assessed to be ineffective and do not qualify for hedge accounting. Consequently, the changes in fair values of these contracts are recognised in the profit or loss.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

### Financial liabilities

#### (i) Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognised initially at fair value, plus, in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial liabilities (Continued)

#### (ii) Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

##### (a) *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial liabilities are recognised in profit or loss.

Financial liabilities for contingent consideration payable in a business combination are initially measured at fair value. Subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

##### (b) *Other financial liabilities*

Subsequent to initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when liabilities are derecognised, and through the amortisation process.

#### (iii) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

### Fair value estimation of financial assets and liabilities

The fair values of financial instruments traded in an active markets (such as exchange traded and over-the-counter securities and derivatives) are based on quoted market prices at the reporting date. The quoted market prices used for financial assets and the financial liabilities are the current bid prices and the current asking prices respectively.

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. The Group uses a variety of methods and makes assumptions based on market conditions that are existing at each reporting date. Where appropriate, quoted market prices or dealer quotes for similar instruments are used. Valuation techniques, such as discounted cash flow analysis, are also used to determine the fair value of the financial instruments.

The carrying amounts of current financial assets and liabilities carried at amortised cost approximate their fair values.

### Borrowings

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

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Borrowings (Continued)

Borrowings which are due to be settled within twelve months after the reporting date are included in current borrowings in the statement of financial position even though the original term was for a period longer than twelve months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorised for issue.

### Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### Leases – the Group as lessee

Leases where the lessor effectively retains substantially all the risks and rewards of ownership of the leased item are classified as operating leases. Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Finance leases, which transfers to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred. Capitalised lease assets are depreciated over the shorter of the estimated useful life of the asset or the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

### Provisions

A provision is recognised when the Group has a present obligation, legal or constructive, as a result of past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. Where the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### Financial guarantees

The Company provided corporate guarantee to banks for bank borrowing of its subsidiaries. The financial guarantee contract requires the Company to reimburse the bank if the subsidiary fails to make principal or interest payments when due in accordance with the terms of the borrowing.

Financial guarantee contracts are initially recognised as a liability at their fair values, by comparing the borrowing costs of the subsidiary without any corporate guarantee, with the current interest rates charged by the bank on the bank loan and adjusted for transaction costs directly attributable to the issuance of the guarantees. Subsequent to initial recognition, financial guarantee contracts are recognised as income in profit or loss over the period of the guarantee. If it is probable that the liabilities will be higher than the amount initially recognised less amortisation, the liability is recorded at the higher amount with the difference charged to profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprises cash on hand and deposits with financial institutions, excluding pledged cash deposits. Cash and cash equivalents are short term, highly liquid investments readily convertible to known amounts of cash and subject to an insignificant risk of changes in value and have a short maturity of generally within three months when acquired.

### Share capital

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

### Government grants

Government grants are recognised at their fair values where there is reasonable assurance that the grant will be received and all terms and conditions relating to the grants have been complied with. When the grant relates to an asset, the fair value is recognised as deferred income on the statement of financial position and is amortised to profit or loss over the expected useful life of the relevant asset by equal annual installments.

Where the grant relates to income, the government grant shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Grants related to income are presented as a credit in profit or loss under a general heading "Other income".

### Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates and sales taxes or duty. The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The followings specific recognition criteria must be met before revenue is recognised.

Revenue from sale of goods is recognised upon the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Service revenue in relation to design and engineering projects in business solution segment is recognised by reference to the stage of completion at the reporting date. Stage of completion is determined by reference to contract costs incurred to date as a percentage of total estimated contract costs for each contract. Where the contract outcome cannot be measured reliably, revenue is recognised to the extent of the expenses recognised that are recoverable.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

Dividend income is recognised when the right to receive payment is established.

### Employees' benefits

#### (i) Retirement benefits

The Group operates both defined benefit and defined contribution plans.

##### (a) *Defined contribution plans*

The Group participates in the national schemes as defined by the laws of the countries in which it has operations.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Employees' benefits (Continued)

#### (i) Retirement benefits (Continued)

##### (a) *Defined contribution plans (Continued)*

###### Singapore

The Company makes contribution to the Central Provident Fund ("CPF") Scheme in Singapore, a defined contribution pension scheme.

###### Foreign subsidiaries

The subsidiaries, incorporated and operating in the PRC, Germany and US, are required to provide certain retirement plan contribution to their employees under existing PRC, Germany and US regulations. Contributions are provided at rates stipulated by the PRC, Germany and US regulations and are managed by government agencies, which are responsible for administering these amounts for the subsidiaries' employees.

Obligations for contributions to defined contribution retirement plans are recognised as an expense in the period in which the related service is performed.

##### (b) *Defined benefit plan*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each defined benefit plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset).

The discount rate is the yield at the reporting date on bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Re-measurements from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognises them immediately in other comprehensive income and all expenses related to defined benefit plans in employee benefits expense in profit or loss.

Where the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs. The gain or loss on settlement is the difference between the present value of the defined benefit obligation being settled as determined on the date of settlement and the settlement price, including any plan assets transferred and any payments made directly by the Group in connection with the settlement.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi (“RMB’000”), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Employees’ benefits (Continued)

#### (ii) Employee leave entitlement

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

### Dividends

Interim dividends are recorded in the financial year in which they are declared payable. Final dividends are recorded in the financial year in which the dividends are approved by the shareholders.

### Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

#### (i) Current income tax

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using tax rates and tax laws that have been substantively enacted by the reporting date in the countries where the Group operates and generates taxable income. Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### (ii) Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising from investment in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow deferred tax assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

#### (iii) Value-added tax (“VAT”)

The Group’s sales of goods in the PRC, Germany and United Kingdom are subjected to VAT. Input tax on purchases can be deducted from output VAT. The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of “Trade receivables” or “Trade payables” in the statement of financial position. The Group’s export sales are not subject to VAT.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Related parties

A related party is defined as follows:

- (a) A person or a close member of that person's family is related to the Group and the Company if that person:
  - (i) Has control or joint control over the Company;
  - (ii) Has significant influence over the Company; or
  - (iii) Is a member of the key management personnel of the Group or the Company or of a parent of the Company
- (b) An entity is related to the Group and the Company if any of the following conditions applies:
  - (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

### Contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities are not recognised on the statement of financial position of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

### Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker responsible for allocating resources and assessing performance of the operating segments.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Critical accounting estimates, assumptions and judgements

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### (i) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

##### (a) *Impairment of intangible assets*

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budgets and forecasts for the remaining useful life of the assets and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the growth rate used for the discounted cash flows model.

The impairment loss recognised on customer relationship during current financial year amounted to RMB7,908,000 (2016: Nil). The customer relationship is derived from the acquisition of business by a subsidiary in 2016 and the impairment loss recognised represents the full write down of the carrying amount.

The carrying amounts, further details of the key assumptions and the sensitivity analysis for the impairment assessment of intangible assets are disclosed in Note 14 to the financial statements.

##### (b) *Defined benefit pension plans*

Defined benefit obligations and plan assets, and the resulting liabilities and assets that are recognised, are subject to significant volatility as actuarial assumptions regarding future outcomes and market values change. Substantial judgement is required in determining the actuarial assumptions to reflect local conditions but are determined under a common process in consultation with independent actuaries. The assumptions applied are reviewed annually and adjusted where necessary to reflect changes in experience and actuarial recommendations.

Information about the amounts reported in respect of defined benefit pension plans, assumptions applicable to the principal plans and their sensitivity to changes are presented in Note 27.

##### (c) *Allowance of inventory obsolescence*

A review is made periodically on inventory for excess inventory, obsolescence and declines in net realisable value below cost and an allowance is recorded against the inventory balance for any such declines. These reviews require management to estimate future demand for the products. Possible changes in these estimates could result in revisions to the valuation of inventory. If the net realisable value of the inventories decrease by 10% from management's estimate, the Group's allowance of inventory obsolescence will increase by RMB3,416,000 (2016: RMB2,951,000). The carrying amount of Group's inventories at the reporting date is disclosed in Note 17 to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Critical accounting estimates, assumptions and judgements (Continued)

#### (i) Critical accounting estimates and assumptions (Continued)

##### (d) *Useful lives of intangible assets*

Intangible assets are amortised on a straight-line basis over the estimated economic useful lives of 5 to 10 years. These are common life expectancies applied in high security products and business solution products where new technology will replace the existing development. Customer relationship arising from business combination has the estimated useful lives of 10 years based on management expectation of the continuing/repeated sales to existing customers. As at 31 December 2017, there are no indications that the remaining economic useful lives of these assets are significantly lower than the remaining useful lives, other than the impairment made during the current financial year. The carrying amount of the Group's intangible assets at the reporting date is disclosed in Note 14 to the financial statements.

##### (e) *Income tax*

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Deferred tax assets amounted to RMB17,425,000 (2016: RMB13,935,000) as at 31 December 2017 (Note 16) was recognised on tax losses with no expiry of subsidiaries in Germany and UK as management expects that there will be probable future taxable profits for which these tax losses can be utilised. Any significant adverse change in the financial performance of these subsidiaries in the next financial year is likely to reduce the amount of deferred tax assets recognised. Deferred tax assets amounting to RMB355,000 and RMB246,000 as at 31 December 2017 (Note 16) was recognised on tax losses of a PRC subsidiary which will expire on year 2021 and 2022 as the management expects that there are sufficient taxable temporary differences in the same timing of the reversal.

As disclosed in Note 34, the Group has unrecognised tax losses of approximately RMB2,764,000 (2016: RMB1,514,000) that are available to carry forward. These losses, comprise of RMB1,514,000 and RMB1,250,000 (2016: RMB1,154,000), relate to a subsidiary in PRC that have history of losses, will expire in 2021 and 2022 (2016: 2021) respectively, and may not be used to offset taxable income elsewhere in the Group. The subsidiaries have neither temporary taxable differences nor any tax planning opportunities available that could support the recognition of any of these losses as deferred tax assets. If the Group had been able to recognise all unrecognised deferred tax assets, profit for the financial year would have increased by approximately RMB691,000 (2016: RMB378,000).

As at 31 December 2017, the Group recorded deferred tax liabilities amounting to RMB19,802,000 (2016: RMB23,984,000) relating to the withholding taxes payable on the entire of undistributed profits of the PRC subsidiaries (Note 16). The provision was made on the management's view that this represents amounts probable to be distributed within the foreseeable future, in view of the historical dividend trend and the expectations of the Group's performance for the foreseeable future.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Critical accounting estimates, assumptions and judgements (Continued)

#### (ii) Critical judgements in applying the entity's accounting policies

The followings are the judgements made by management in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

##### (a) Acquisition of non-controlling interest

In October 2014, the Group increased its interest in a 60% owned subsidiary, Deutsche Mechatronics GmbH ("DTMT") by acquiring additional 30% equity interest and entering into a forward contract to purchase the remaining 10% equity interest from the non-controlling shareholder. In determining the extent of the Group's interest in DTMT arising from this acquisition, the management has assessed the facts and circumstances of this acquisition and has determined that the risks and rewards for the remaining 10% has also been passed to the Group and has treated DTMT as a wholly-owned subsidiary from 31 October 2014 onwards. The details of the acquisition are further disclosed in Note 24D.

##### (b) Determination of functional currency

The Group measures foreign currency transactions in the respective functional currency of the Company and its subsidiaries. In determining the functional currencies of the entities in the Group, judgement is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The management has assessed that the functional currency of its main operating subsidiaries in PRC to be RMB, after analysing the impact of competitive forces of the country in which its customers located, its cost structure and its pricing strategy. The management has determined that the selling prices are mainly determined by the currency that influences labour, material and cost of production, and that the level of influence of the competition on its selling price and the currency in which the sales price are denominated is not as prominent as that of costs.

## 3. SHARE CAPITAL

	Group and Company			
	2017		2016	
	Number of ordinary shares	RMB'000	Number of ordinary shares	RMB'000
At beginning and end of the financial year	356,536,000	154,623	356,536,000	154,623

The holders of the ordinary shares are entitled to receive dividend as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. The ordinary shares have no par value.

## 4. CAPITAL RESERVE

The capital reserve arises from the increase in paid-up capital of a subsidiary in the financial years ended 31 December 2010 and 2012, by capitalising its retained profits in accordance with the relevant PRC rules and regulations. On consolidation, the capitalised retained profits were reflected as a capital reserve of the Group. The capital reserve is non-distributable.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 5. STATUTORY RESERVE

In accordance with the Foreign Enterprise Law applicable to the subsidiaries in the PRC, the subsidiaries being wholly foreign-owned enterprises are required to make an appropriation to a statutory reserve ("SR"). At least 10 percent of the statutory after tax profits, as determined in accordance with the applicable PRC accounting standards and regulations, must be allocated to the SR.

If the cumulative total of the SR reaches 50% of the subsidiaries' registered capital, the subsidiaries will not be required to make any further appropriation. Subject to approval from the relevant PRC authorities, the SR may be used to offset any accumulated losses or increase the registered capital of the subsidiaries. The SR is not available for dividend distribution to shareholders. The SR is non-distributable and the transfer to the SR must be made before the distribution of dividends to shareholders.

## 6. MERGER DEFICIT

The merger deficit arises from the difference between the purchase consideration and the carrying value of the assets combined under the pooling-of-interests method of consolidation.

## 7. REVENUE RESERVE

	Company	
	2017 RMB'000	2016 RMB'000
At 1 January	2,364	14,350
Profit for the financial year (Note A)	129,872	5,507
Dividend paid (Note 36)	(17,438)	(17,493)
At 31 December	<u>114,798</u>	<u>2,364</u>

### Note A

Consists of dividend income from a subsidiary amounting to RMB54,073,000 (2016: Nil) and reversal of impairment loss on investment in subsidiaries amounting to RMB46,715,000 (2016: Nil) (Note 12A).

## 8. TRANSLATION (DEFICIT)/RESERVE

	Company	
	2017 RMB'000	2016 RMB'000
At 1 January	10,990	553
Currency translation difference for the financial year	(13,457)	10,437
At 31 December	<u>(2,467)</u>	<u>10,990</u>

## 9. FAIR VALUE RESERVE

The fair value reserve arises from the changes in fair value of available-for-sale financial assets as disclosed in Note 21 to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 10. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Office equipment and fittings RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
<b>Cost</b>							
At 1 January 2016	22,610	194,955	147,565	30,955	9,747	24,860	430,692
Acquisition of businesses	–	1,156	5,106	3,978	67	–	10,307
Additions	23,870	6,810	10,976	6,620	552	6,681	55,509
Reclassified from/(to)	–	17,378	–	–	–	(17,378)	–
Disposals	–	(44)	(14,208)	(818)	(507)	(9)	(15,586)
Written-off	–	–	(170)	(4,602)	–	–	(4,772)
Currency translation differences	814	3,782	1,335	889	47	14	6,881
At 31 December 2016	47,294	224,037	150,604	37,022	9,906	14,168	483,031
At 1 January 2017	47,294	224,037	150,604	37,022	9,906	14,168	483,031
Additions	21	14,939	20,977	8,903	955	12,494	58,289
Disposals	–	–	(5,808)	(426)	(81)	–	(6,315)
Currency translation differences	2,439	8,680	4,058	2,290	(48)	466	17,885
At 31 December 2017	49,754	247,656	169,831	47,789	10,732	27,128	552,890
<b>Accumulated depreciation and impairment loss</b>							
At 1 January 2016	–	63,499	89,794	25,693	6,444	–	185,430
Charge for the financial year	–	8,467	11,470	3,343	964	–	24,244
Disposals	–	(35)	(14,105)	(390)	(456)	–	(14,986)
Written-off	–	–	(170)	(4,602)	–	–	(4,772)
Currency translation differences	–	1,532	1,116	782	20	–	3,450
At 31 December 2016	–	73,463	88,105	24,826	6,972	–	193,366
At 1 January 2017	–	73,463	88,105	24,826	6,972	–	193,366
Charge for the financial year	–	10,346	12,438	4,628	937	–	28,349
Disposals	–	–	(2,848)	(87)	(73)	–	(3,008)
Currency translation differences	–	3,840	2,227	1,534	(19)	–	7,582
At 31 December 2017	–	87,649	99,922	30,901	7,817	–	226,289
<b>Net carrying amount</b>							
At 31 December 2017	49,754	160,007	69,909	16,888	2,915	27,128	326,601
At 31 December 2016	47,294	150,574	62,499	12,196	2,934	14,168	289,665

### Assets pledged as security

The Group's freehold land and buildings with carrying amount of RMB26,334,000 (2016: RMB25,361,000) and RMB8,111,000 (2015: RMB8,325,000) respectively are mortgaged to secure the Group's bank loans (Note 25).

The carrying amount of plant and machinery and office equipment and fittings held under finance leases at the reporting date were RMB11,977,000 and RMB3,146,000 (2016: RMB14,362,000 and RMB3,713,000) respectively.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 11. LAND USE RIGHTS

	Group	
	2017 RMB'000	2016 RMB'000
<b>Cost</b>		
At 1 January	67,490	65,089
Additions	–	2,401
At 31 December	<b>67,490</b>	67,490
<b>Accumulated amortisation</b>		
At 1 January	6,640	5,323
Amortisation for the financial year	1,350	1,317
At 31 December	<b>7,990</b>	6,640
<b>Net carrying amount</b>	<b>59,500</b>	60,850
Amount of amortisation to be charged:		
– Not later than 1 year	1,350	1,350
– Later than 1 year but not later than 5 years	5,399	5,399
– Later than 5 years	<b>52,751</b>	54,101

The Group has land use rights over four plots (2016: four plots) of state-owned land in the PRC with the remaining amortisation periods as follows:

	Carrying amount		Remaining amortisation periods	
	2017 RMB'000	2016 RMB'000	2017 Years	2016 Years
Land 1	8,535	8,739	43	44
Land 2	30,984	31,704	44	45
Land 3	12,336	12,599	47	48
Land 4	7,645	7,808	47-48	48-49

## 12. SUBSIDIARIES

	Company	
	2017 RMB'000	2016 RMB'000
<u>Unquoted equity shares, carried at cost</u>		
Cost	98,220	76,665
Impairment losses	(49,595)	(46,614)
At 1 January	48,625	30,051
Additions	–	15,773
Reversal of impairment losses (Note A)	46,715	–
Currency translation differences	(2,823)	2,801
At 31 December	<b>92,517</b>	48,625

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 12. SUBSIDIARIES (Continued)

Details of the subsidiaries are as follows:

Name of companies	Principal activities	Country of incorporation and place of business	Effective equity held by the Group		Carrying amount of investment	
			2017 %	2016 %	2017 RMB'000	2016 RMB'000
<b>Held by the Company</b>						
Tri Star Security Pte. Ltd. <sup>(1)</sup>	Investment holding and general wholesale of semi-conductor instruments and parts and precision machining parts	Singapore	100	100	19,779	20,998
Tri Star Semicon Pte. Ltd. <sup>(1)</sup>	Investment holding	Singapore	100	100	7,692	8,166
Format Tresorbau Beteiligungs-GmbH <sup>(2)</sup> ("Format")	Investment holding	Germany	100	100	47,930	1,289
Matrix Mechatronix Technology (Philippines) Corp <sup>(3)</sup>	Develop, manufacture, assemble, sell and undertake after-sales service for high security products	Philippines	100	100	1,554	1,650
Krauth Technology GmbH <sup>(6)</sup>	Design and manufacture of intelligent terminals and providing electro-mechanical solution to customers	Germany	100	100	15,562	16,522
Tristar B.V. <sup>(5)</sup>	Investment holding	Netherlands	100	100	—*	—*
					<b>92,517</b>	<b>48,625</b>

Name of companies	Principal activities	Country of incorporation and place of business	Effective equity held by the Group	
			2017 %	2016 %
<b>Held through subsidiaries</b>				
Tri Star Inc. <sup>(4)</sup>	Design and manufacture of high security products	PRC	100	100
Tri Star Technology Co., Ltd. <sup>(4)</sup>	Design and manufacture of semi-conductor instruments and parts and precision machining parts	PRC	100	100
Jiangsu Tri Star Technology Co., Ltd. <sup>(4)</sup>	Design and manufacture of semi-conductor instruments and parts and precision machining parts	PRC	100	100
Shanghai Tri Star Engineering Technology Co., Ltd. <sup>(5)</sup>	Research and development, engineering and prototype (inactive)	PRC	100	100
Jiangsu Tri Star Terminal Equipment Technology Co., Ltd. <sup>(4)</sup>	Manufacturing, assembly, maintenance and providing after-sales service of intelligent terminals; and Design and manufacture of high security products	PRC	100	100
Jiangsu Tri Star Trading Co., Ltd. <sup>(4)</sup>	Sale and providing after-sales service of safe, auto testing instruments, mechanical and electrical products (inactive)	PRC	100	100

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 12. SUBSIDIARIES (Continued)

Name of companies	Principal activities	Country of incorporation and place of business	Effective equity held by the Group	
			2017 %	2016 %
Jiangsu Tri Star Equipment Co., Ltd. <sup>(4)</sup>	Manufacturing of security products, ATM, terminals and mechanical parts	PRC	100	100
Format USA Inc. <sup>(5)</sup>	Sale and after-sales service of security products, machinery parts and auto parts, including sales, procurement, customer service, after-sales service, warehousing and logistics	USA	100	100
Format USA LLC <sup>(5)</sup>	Property investment	USA	100	100
Format Tresorbau Verwaltungs GmbH <sup>(2)</sup>	Management service to Format Tresorbau GmbH & Co. KG	Germany	100	100
Format Tresorbau GmbH & Co. KG <sup>(2)</sup>	Design and manufacture of high security products	Germany	100	100
Tri Star GmbH <sup>(5)</sup>	Investment holding	Germany	100	100
Deutsche Mechatronics GmbH ("DTMT") <sup>(6)</sup>	Design and manufacture of intelligent terminals and providing electro-mechanical solution to customers	Germany	100	100 <sup>(7)</sup>
Mechatronics Technology HK Limited <sup>(5)</sup>	Investment holding	Hong Kong	100	100
Almex GmbH ("Almex") <sup>(6)</sup>	Design and manufacture of intelligent terminals and providing electro-mechanical solution to customers	Germany	100	100
Metric Group Holdings Limited <sup>(6)</sup>	Investment holding	United Kingdom	100	100
Metric Group Limited ("Metric UK") <sup>(8)</sup>	Design and manufacture of intelligent terminals and providing electro-mechanical solution to customers	United Kingdom	100	100
Metric Group Inc. <sup>(5)</sup>	Sale and after-sales service of intelligent terminals, machinery parts and auto parts, including sales, procurement, customer service and after-sales service	USA	100	100

(1) Audited by Crowe Horwath First Trust LLP.

(2) Audited by BDO AG Wirtschaftsprüfungsgesellschaft, a firm of Certified Public Accountants in Germany.

(3) Audited by Sycip Gorres Velayo & Co. ("SGV & Co."), a firm of Certified Public Accountants in Philippines.

(4) Audited by Nantong Zhongtian Certified Public Accountant Co., Ltd., a firm of Certified Public Accountants in the PRC for local statutory reporting and by Crowe Horwath First Trust LLP for the purpose of expressing an opinion on the consolidated financial statements.

(5) These subsidiaries are not subject to local statutory audit for the financial year ended 31 December 2017. Their financial statements were reviewed by Crowe Horwath First Trust LLP for the purpose of expressing an opinion on the consolidated financial statements.

(6) Audited by RWT Horwath GmbH, a firm of Certified Public Accountants in Germany.

(7) The current percentage of voting rights legally owned by the Group is 90%, as disclosed in Note 24D.

(8) Audited by Crowe Clark Whitehill LLP, a firm of Certified Public Accountants in United Kingdom.

\* Amount less than RMB1,000.

### Note A

During the financial year, impairment loss previously recognised on Format is reversed in full and recognised as the Company's other income amounting to RMB46,715,000 (2016: Nil). Format has established a stable profit track record and in current year, its recoverable amount determined using value-in-use calculation has exceeded its carrying amount had no impairment loss been recognised previously.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 13. ASSOCIATES

	Group	
	2017 RMB'000	2016 RMB'000
Unquoted equity shares		
At 1 January	7,093	6,968
Share of post-acquisition profit	417	125
At 31 December	<u>7,510</u>	<u>7,093</u>

Details of the associates are as follows:

Name of companies	Principal activities	Country of incorporation and place of business	Effective equity held by the Group		Carrying amount of investment	
			2017 %	2016 %	2017 RMB'000	2016 RMB'000
<u>Held through a subsidiary</u> <u>("DTMT")</u>						
DTMT China Holding GmbH <sup>(i)</sup>	Investment holding	Germany	50	50	2,932	2,932
DTMT (Hangzhou) Co., Ltd. <sup>(ii)</sup>	Design and manufacture of intelligent terminals and providing electro-mechanical solution to customers	PRC	50	50	4,578	4,161
					<u>7,510</u>	<u>7,093</u>

(i) The entity is dormant and not subject to local statutory audit.

(ii) Audited by Hangzhou Qinai Certified Public Accountants, a firm of Certified Public Accountants in the PRC.

The associates are not significant to the Group and are accounted for using the equity method in these consolidated financial statements.

The following table summarises the financial information of associates.

	2017 RMB'000	2016 RMB'000
<b>Assets and liabilities</b>		
Current assets	10,876	7,131
Non-current assets	9,234	9,908
Total assets	<u>20,110</u>	<u>17,039</u>
Total liabilities – current	<u>(5,089)</u>	<u>(2,853)</u>
Net assets	<u>15,021</u>	<u>14,186</u>
Carrying amounts of investments in associates at 50% shareholding	<u>7,510</u>	<u>7,093</u>
<b>Results</b>		
Revenue	17,058	13,757
Profit/Total comprehensive income for the financial year	<u>834</u>	<u>250</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 14. INTANGIBLE ASSETS

Group	Technical know-how and patent RMB'000	Development costs RMB'000	Customer relationship RMB'000	Total RMB'000
<b>Cost</b>				
At 1 January 2016	1,327	31,188	–	32,515
Additions	4	2,581	–	2,585
Acquisition of businesses	15,402	29,978	32,132	77,512
Currency translation differences	(309)	(424)	–	(733)
At 31 December 2016	16,424	63,323	32,132	111,879
At 1 January 2017	16,424	63,323	32,132	111,879
Additions	213	16,485	–	16,698
Currency translation differences	949	1,295	1,349	3,593
At 31 December 2017	17,586	81,103	33,481	132,170
<b>Accumulated amortisation and impairment loss</b>				
At 1 January 2016	1,327	21,151	–	22,478
Amortisation for the financial year	622	6,540	803	7,965
Currency translation differences	(5)	4	(19)	(20)
At 31 December 2016	1,944	27,695	784	30,423
At 1 January 2017	1,944	27,695	784	30,423
Amortisation for the financial year	2,532	10,642	3,276	16,450
Impairment loss	–	–	7,908	7,908
Currency translation differences	99	175	295	569
At 31 December 2017	4,575	38,512	12,263	55,350
<b>Net carrying amount</b>				
At 31 December 2017	13,011	42,591	21,218	76,820
At 31 December 2016	14,480	35,628	31,348	81,456

Amortisation expenses included in the profit or loss is analysed as follows:

	2017 RMB'000	2016 RMB'000
Cost of sales	13,677	5,461
Administrative expenses	2,773	2,504

The individual intangible asset that is material to the financial statements is as follows:

	Carrying amount		Remaining amortisation periods	
	2017 RMB'000	2016 RMB'000	2017 Years	2016 Years
Development costs				
– High security products	888	4,028	1.0	0.5 – 2.0
– Intelligent terminals	28,868	22,935	2.7 – 5.0	3.7 – 5.0
Customer relationship	21,218	31,348	8.8	9.8
Technical know-how and patent				
– Intelligent terminals	6,486	6,778	8.8	9.8

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi (“RMB’000”), unless otherwise stated)

## 14. INTANGIBLE ASSETS (Continued)

### Impairment assessment

A subsidiary acquired in 2016 in “Business Solutions” segment, Almex GmbH, continued to register losses and it failed to secure a major contract from a customer during the year, triggering the indication of impairment of its intangible assets. At the reporting date, management performed an impairment test for the intangible assets held by Almex GmbH. Before the impairment assessment, the carrying amounts of intangible assets subject to impairment test were RMB7,908,000 and RMB11,446,000 which were classified in the category of “customer relationship” and “technical know-how and patents” respectively, both are belonging to one cash-generating units (“CGU”).

The recoverable amount of the relevant CGU determined on value-in-use calculations using cash flow projections approved by management covering a 2-year period and assuming a long-term growth rate applied from third to ninth years, representing the remaining useful life of the intangible assets.

### Customer relationship:

The value-in-use calculations are adjusted with historical attrition rate, representing the cash flows generated from the customer relationship existed at the acquisition date in 2016. Accordingly, the customer relationship amounting to RMB7,908,000 was written down in full and recognised in the profit or loss (Note 32).

### Technical know-how and patents:

No impairment loss is recognised for the technical know-how and patent as its recoverable amount exceeds its carrying amount.

The key estimated variables in the value-in-use calculation are as follows:

Pre-tax discount rate  
Sales growth  
– within next 1 – 2 years  
– within next 3 – 9 years

2017
8.9%
10% to 15%
5%

*Pre-tax discount rate* – Discount rate represents the current market assessment of the risks specific to the relevant CGU, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates.

*Sales growth* – The estimated sales growth is based on current year results and expectations of the market of ticketing and vending machines in the future.

### *Sensitivity analysis:*

Management has performed a sensitivity analysis of the pre-tax discount rate and sales growth and concluded that no impairment charge is required for the technical know-how and patent as an increase in pre-tax discount rate to 22.9% or a decrease in the sales growth by 1% throughout the forecast period, would still result in the recoverable amount exceeding the carrying amount of the technical know-how and patent as at 31 December 2017.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 15. HELD-TO-MATURITY INVESTMENTS

	Group	
	2017 RMB'000	2016 RMB'000
<b>Current</b>		
Bond 1	-	3,561
At 31 December	-	3,561
<b>Non-current</b>		
Bond 2	-	6,268
At 31 December	-	6,268

### Bond 1

The USD denominated bond is listed on Singapore Stock Exchange which is issued by a company incorporated in Hong Kong and guaranteed by a company listed on Hong Kong Stock Exchange with a fixed interest rate of 8.70% per annum and maturity date of 24 November 2017.

### Bond 2

The USD denominated bond is listed on Hong Kong Stock Exchange which is issued by a bank listed on Hong Kong Stock Exchange and Shanghai Stock Exchange with a fixed interest rate of 2.125% per annum and maturity date of 30 June 2018.

During the year, the Group disposed of the above 2 bonds that are more than an insignificant amount of the investments classified under the category of held-to-maturity before their maturity dates. Consequently, the Group will not be able to classify any investments in held-to-maturity category in the next 2 financial years under the requirements of FRS 39 *Financial Instruments: Recognition and Measurement*, that will be replaced by the new standard, FRS 109 *Financial Instruments* in the next financial year.

In current year, a gain on disposal amounting to RMB221,000 (2016: Nil) is recognised in the finance income (Note 31).

Fair values of the bonds is disclosed in Note 41 (ii).

## 16. DEFERRED TAX

	Group	
	2017 RMB'000	2016 RMB'000
At 1 January	(20,254)	(14,735)
Recognised in the profit or loss (Note 34)	15,024	(8,575)
Recognised in the other comprehensive income	209	(1,330)
Acquisition of businesses	-	4,509
Currency translation differences	(237)	(123)
At 31 December	(5,258)	(20,254)
Presented after appropriate offsetting as follows:		
Deferred tax assets, net	19,360	19,885
Deferred tax liabilities, net	(24,618)	(40,139)
	(5,258)	(20,254)

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 16. DEFERRED TAX (Continued)

The components and movement of deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

Deferred tax assets/ (liabilities)	At beginning of the year RMB'000	Recognised in profit or loss RMB'000	Recognised in other comprehensive income RMB'000	Currency translation differences RMB'000	At end of the year RMB'000
<b>2017</b>					
Net difference between net carrying amount of property, plant and equipment, intangible assets and inventories, and their tax base	(26,235)	9,887	–	(1,555)	(17,903)
Provision for withholding tax	(23,984)	4,182	–	–	(19,802)
Derivative financial instruments	(214)	305	–	–	91
Unutilised tax losses	14,290	2,613	–	1,123	18,026
Deferred government grants	3,264	(150)	–	–	3,114
Allowances for doubtful debts and inventories obsolescence	666	61	–	–	727
Deferred tax on pension scheme liability	12,992	–	209	468	13,669
Others*	(1,033)	(1,874)	–	(273)	(3,180)
	<b>(20,254)</b>	<b>15,024</b>	<b>209</b>	<b>(237)</b>	<b>(5,258)</b>

\* Mainly related to revenue and cost of sales cut-off adjustments.

Deferred tax assets/ (liabilities)	At beginning of the year RMB'000	Recognised in profit or loss RMB'000	Recognised in other comprehensive income RMB'000	Acquisition of businesses RMB'000	Currency translation differences RMB'000	At end of the year RMB'000
<b>2016</b>						
Net difference between net carrying amount of property, plant and equipment, intangible assets and inventories, and their tax base	(3,959)	(5,866)	–	(16,410)	–	(26,235)
Provision for withholding tax	(13,739)	(10,245)	–	–	–	(23,984)
Derivative financial instruments	–	(214)	–	–	–	(214)
Unutilised tax losses	335	7,934	–	6,001	–	14,290
Deferred government grants	3,499	(235)	–	–	–	3,264
Allowances for doubtful debts and inventories obsolescence	192	474	–	–	–	666
Deferred tax on pension scheme liability	–	–	(1,330)	14,322	–	12,992
Others	(1,083)	(423)	–	596	(123)	(1,033)
	<b>(14,735)</b>	<b>(8,575)</b>	<b>(1,330)</b>	<b>4,509</b>	<b>(123)</b>	<b>(20,254)</b>

As at 31 December 2017, the Group recorded deferred tax liabilities amounting to RMB19,802,000 (2016: RMB23,984,000) relating to the withholding taxes payable on the entire undistributed profits of the PRC subsidiaries as the management view it to be probable to be distributed in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credit can be utilised. The use of unutilised tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation in respective countries.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 17. INVENTORIES

	Group	
	2017 RMB'000	2016 RMB'000
Raw materials	178,810	161,627
Raw materials-in-transit	7,441	4,033
Work-in-progress	69,340	41,971
Finished goods	113,120	57,827
Finished goods-in-transit	4,950	8,841
	<b>373,661</b>	<b>274,299</b>

The cost of inventories recognised as expenses in "Cost of sale" amounted to RMB785,225,000 (2016: RMB663,702,000), which includes the amount recognised during the year for write-down and write back amounting to RMB7,763,000 and RMB3,972,000 (2016: RMB6,678,000 and RMB2,881,000) respectively.

## 18. TRADE RECEIVABLES

	Group		Company	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Trade receivables	307,394	260,905	6,826	5,704
Less: Allowance for impairment loss (Note 40(iii))	(2,834)	(3,255)	-	-
	<b>304,560</b>	257,650	<b>6,826</b>	5,704
Value-added tax receivables	3,312	3,200	-	-
	<b>307,872</b>	260,850	<b>6,826</b>	5,704

## 19. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Other receivables	4,797	5,245	332	310
Deposits	1,570	337	-	-
Prepayments	4,058	4,132	-	-
Tax refundable	156	135	-	-
	<b>10,581</b>	9,849	<b>332</b>	310

## 20. DUE FROM SUBSIDIARIES (TRADE & NON-TRADE)/DUE TO SUBSIDIARIES (TRADE & NON-TRADE)/DUE TO A RELATED PARTY (TRADE)

	Company	
	2017 RMB'000	2016 RMB'000
Due from subsidiaries		
– trade	5,578	-
– non-trade	212,314	152,610
	<b>217,892</b>	<b>152,610</b>

Out of the non-trade balances, loans to subsidiaries amounting to RMB38,568,000 (2016: RMB34,907,000) bears an interest at 1.0% per annum (2016: 2.5% per annum).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 20. DUE FROM SUBSIDIARIES (TRADE & NON-TRADE)/DUE TO SUBSIDIARIES (TRADE & NON-TRADE)/DUE TO A RELATED PARTY (TRADE) (Continued)

	Company	
	2017 RMB'000	2016 RMB'000
Due to subsidiaries		
– trade	58,212	40,626
– non-trade	–	26,424
	<b>58,212</b>	<b>67,050</b>

In 2016, out of the non-trade balances, a loan of RMB6,899,000 bears interest at 2% per annum.

The trade balance due to a related party arose from the purchases of raw materials from a company in which a director of the Company has controlling financial interest.

The above balances are unsecured and repayable on demand.

## 21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2017 RMB'000	2016 RMB'000
At 1 January, at fair value	10,596	6,545
Additions	13,518	3,290
Disposal	(6,937)	–
Gain on fair value changes	419	130
Currency translation differences	(848)	631
At 31 December, at fair value	<b>16,748</b>	<b>10,596</b>

The available-for-sale financial assets represent USD denominated bonds issued by Credit Suisse AG with a fair value of RMB16,748,000 (2016: RMB10,596,000) as at 31 December 2017. During the financial year, interest amounting to RMB574,000 (2016: RMB284,000) is included in finance income (Note 31).

## 22. CASH AND BANK BALANCES

	Group		Company	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Cash in hand	642	706	–	–
Cash at banks	210,191	280,370	11,846	32,725
Fixed deposits (Note A)	87,386	13,930	–	–
Cash and bank balances	<b>298,219</b>	<b>295,006</b>	<b>11,846</b>	<b>32,725</b>
Less: Pledged bank balances and fixed deposits (Note B)	<b>(49,068)</b>	<b>(25,001)</b>		
Cash and cash equivalents as stated in consolidated statement of cash flows	<b>249,151</b>	<b>270,005</b>		

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 22. CASH AND BANK BALANCES (Continued)

As at 31 December 2017, the Group has cash and bank balances deposited with banks in the PRC, denominated in Chinese Renminbi ("RMB") amounting to approximately RMB14,945,000 (2016: RMB11,511,000). The RMB is not freely convertible into foreign currencies. In accordance with the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

### Note A

The fixed deposits of the Group have remaining maturity periods of 1 to 2 months (2016: 1 month). The fixed deposits bear interest of 0.05% to 1.058% (2016: 0.50%) per annum.

### Note B

As at 31 December 2017, bank balances and fixed deposits of RMB49,068,000 are pledged in connection with bank borrowings by subsidiaries and bank guarantee provided to subsidiaries and a customer.

As at 31 December 2016, bank balances of RMB25,001,000 are pledged in connection with bank guarantee provided to subsidiaries.

## 23. DERIVATIVE FINANCIAL INSTRUMENTS

The table below sets out the notional principal amounts of the outstanding forward currency contracts of the Group, and their corresponding fair values at the reporting date:

	Group	
	2017 RMB'000	2016 RMB'000
<b>Notional principal</b>		
Forward currency contracts	10,426	39,096
<b>Derivative (liabilities)/assets</b>		
Forward currency contracts	(608)	1,427

Forward currency contracts are used to hedge the Group's exposure to foreign exchange rates changes in the receivables and forecast sales denominated in the United States dollar against Renminbi. The settlement dates of these contracts ranged from 1 to 6 months (2016: 2 to 9 months) from the reporting date.

No hedge accounting is applied on these forward currency contracts as the forward contracts were assessed to be ineffective hedge and a fair value loss of RMB2,035,000 (2016: gain of RMB1,427,000) has been recognised in profit or loss for the year on the open contracts (Notes 29 and 32).

A settlement loss of RMB456,000 (2016: loss of RMB168,000) (Note 32) have been recognised in the profit or loss for the financial year on the closed contracts in the financial year.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 24. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
<b>Trade</b>				
Trade payables	155,841	110,355	1,858	2,816
Value-added tax payables	5,131	–	–	–
	<b>160,972</b>	<b>110,355</b>	<b>1,858</b>	<b>2,816</b>
<b>Non-trade</b>				
<b>Current</b>				
Advances from customers	25,511	20,215	636	–
Accrued expenses (Note A)	47,868	51,738	912	1,363
Other payables (Note B)	72,344	78,439	–	–
Contingent consideration (Note C)	–	1,461	–	–
Other taxes payable	6,221	1,482	–	–
	<b>151,944</b>	<b>153,335</b>	<b>1,548</b>	<b>1,363</b>
<b>Non-current</b>				
<b>Other payables</b>				
– Redemption liability (Note D)	3,503	2,961	–	–
– Contingent consideration (Note 41(i))	–	–	–	–
	<b>3,503</b>	<b>2,961</b>	<b>–</b>	<b>–</b>

### Note A

Included in accrued expenses is accrued payroll expenses amounting to RMB43,276,000 (2016: RMB47,092,000) and RMB421,000 (2016: RMB840,000) of the Group and Company respectively.

### Note B

Included in other payables are:

(a) 2017

A 3.5%-interest EUR3,000,000 loan from former owner of Metric Group Limited (equivalent to RMB23,403,000) that was repayable by 29 December 2017. Subsequent to year end, the loan was fully repaid on 27 February 2018;

2016

A 7%-interest EUR700,000 loan from former owner of Metric Group Limited (equivalent to RMB5,077,000) that is repayable by 28 February 2017 and a 3.5%-interest EUR3,000,000 loan (equivalent to RMB21,760,000) that is repayable by 29 December 2017;

(b) EUR220,875 (equivalent to RMB1,723,000) (2016: EUR220,875, equivalent to RMB1,614,000), representing additional purchase consideration, payable to the former owner of DTMT which was based on agreed amount as DTMT had reached the profit threshold stipulated in the agreement entered into for the Group's acquisition of DTMT in 2014; and

(c) amount of RMB1,923,000 payable to acquire new plant and equipment as at 31 December 2016.

### Note C

In 2016, contingent consideration pertains to EUR200,000 (equivalent to RMB1,461,000), measured at fair value, payable in relation to the acquisition of business by a subsidiary in Germany, Almex GmbH ("Almex"), on 5 October 2016. The amount was recognised on the basis that it was probable that Almex would be awarded a major contract by a customer.

In 2017, Almex failed to secure the contract, hence, the contingent consideration of EUR200,000 (equivalent to RMB1,527,000) is written back and recognised in the profit or loss as "Other income" in Note 29. This event triggered impairment assessment of intangible assets in Note 14.

### Note D

As part of the acquisition of additional 30% equity interest in DTMT in October 2014, the Group agreed with the non-controlling interests to acquire the remaining 10% equity interest in DTMT for a fixed consideration of EUR500,000 (equivalent to RMB3,901,000 based on closing rate as at 31 December 2017 (2016: RMB3,656,000)) on 1 January 2019. As the consideration for the 10% equity interest in DTMT is fixed, not subject to other changes and both parties have no right to cancel the agreement, as such, the risk and rewards of the remaining interest of DTMT is deemed to be transferred to the Group. In addition, as the dominant shareholder of DTMT and due to the agreement to acquire the remaining equity interest, the Group is able to fully control and manage the economic benefits of DTMT.

As a result, the non-controlling interest was de-recognised and the present value of the fixed consideration payable was recognised as redemption liability. The consideration is payable on 1 January 2019. The unwinding of discount of RMB334,000 (2016: RMB321,000) is recognised in profit or loss as "Finance costs" in Note 31.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 25. BORROWINGS

Group	Due within 1 year RMB'000	Due after 1 year but less than 5 years RMB'000	Due after 5 years RMB'000	Total RMB'000
<b>2017</b>				
Loans <sup>(i)</sup>	180,903	12,477	8,290	201,670
Finance lease obligations <sup>(ii)</sup>	4,297	10,316	335	14,948
	<b>185,200</b>	<b>22,793</b>	<b>8,625</b>	<b>216,618</b>
<b>2016</b>				
Loans <sup>(i)</sup>	103,832	8,107	1,014	112,953
Finance lease obligations <sup>(ii)</sup>	3,040	6,953	785	10,778
	<b>106,872</b>	<b>15,060</b>	<b>1,799</b>	<b>123,731</b>

### (i) Loans

Group	Due within 1 year RMB'000	Due after 1 year but less than 5 years RMB'000	Due after 5 years RMB'000	Total RMB'000
<b>2017</b>				
Loan 1 (Unsecured) – Floating rate	–	–	–	–
Loan 2 (Unsecured) – Floating rate	–	–	–	–
Loan 3 (Secured) – Fixed rate	2,873	–	–	2,873
Loan 4 (Secured) – Fixed rate	24,641	–	–	24,641
Loan 5 (Secured) – Floating rate	27,962	–	–	27,962
Loan 6 (Secured) – Fixed rate	1,322	5,162	–	6,484
Loan 7 (Unsecured) – Floating rate	15,000	–	–	15,000
Loan 8 (Unsecured) – Floating rate	20,000	–	–	20,000
Loan 9 (Unsecured) – Floating rate	20,000	–	–	20,000
Loan 10 (Unsecured) – Floating rate	20,000	–	–	20,000
Loan 11 (Unsecured) – Floating rate	5,000	–	–	5,000
Loan 12 (Secured) – Fixed rate	–	7,315	8,290	15,605
Loan 13 (Secured) – Floating rate	30,429	–	–	30,429
Loan 14 (Secured) – Floating rate	13,676	–	–	13,676
	<b>180,903</b>	<b>12,477</b>	<b>8,290</b>	<b>201,670</b>
<b>2016</b>				
Loan 1 (Unsecured) – Floating rate	30,000	–	–	30,000
Loan 2 (Unsecured) – Floating rate	20,000	–	–	20,000
Loan 3 (Secured) – Fixed rate	871	3,049	–	3,920
Loan 4 (Secured) – Fixed rate	26,134	–	–	26,134
Loan 5 (Secured) – Floating rate	25,606	–	–	25,606
Loan 6 (Secured) – Fixed rate	1,221	5,058	1,014	7,293
	<b>103,832</b>	<b>8,107</b>	<b>1,014</b>	<b>112,953</b>

#### Loan 1 (Unsecured)

This RMB-denominated loan is obtained by a PRC subsidiary during the year from a PRC branch of a multinational bank to finance the working capital and purchase of raw materials. The loan bears interest at China loan prime rate plus 0.05% per annum and has been fully repaid in 2017.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 25. BORROWINGS (Continued)

### (i) Loans (Continued)

#### Loan 2 (Unsecured)

This RMB-denominated loan is obtained by a PRC subsidiary during the year from a PRC branch of a multinational bank to finance the working capital and purchase of raw materials. The loan bears interest at China loan prime rate plus 0.05% per annum and has been fully repaid in 2017.

#### Loan 3 (Secured)

This USD-denominated loan is obtained by a US subsidiary from a US bank to finance the acquisition of a warehouse in US. The Company and a subsidiary, Format USA Inc. provided guarantee for the loan. The loan bears interest at 4.80% per annum and is repayable in 84 instalments by 15 June 2021. The loan is secured by a pledge over the warehouse. As at 31 December 2017, the entire amount of the loan including instalments due after 12 months amounting to RMB2,051,000 (2016: Nil) was classified as current liabilities due to a technical breach of financial covenants relating to debts coverage ratio.

#### Loan 4 (Secured)

This EUR-denominated loan is secured by the land of a German subsidiary, represents the existing loan of the German subsidiary acquired in 2014. The loan bears interest at 5.50% per annum, and is repayable in 120 instalments by 20 March 2024. However, the loan agreement includes an overriding repayment on demand clause at the bank's discretion, irrespective of whether a default event has occurred. Accordingly, the loan is classified as a current liability as at 31 December 2017 and 2016.

#### Loan 5 (Secured)

This EUR-denominated loan is obtained by a German subsidiary from a German bank to finance the working capital. The Company and subsidiaries, Tri Star Inc. and Tri Star GmbH, provided guarantee for the loan. The loan bears interest at 3-month EURIBOR plus a margin of 150 basis points per annum and is repayable by 30 June 2018.

#### Loan 6 (Secured)

This EUR-denominated loan is obtained by a German subsidiary from a German bank to finance the acquisition of freehold land and building in Germany. The loan bears interest at 1.57 % per annum and is repayable by 72 instalments by 30 August 2022. The loan is secured by a pledge over the freehold land and building of the subsidiary.

#### Loan 7 (Unsecured)

This RMB-denominated loan is obtained by a PRC subsidiary during the year from a PRC branch of a multinational bank for purchase of raw materials. The loan bears interest at China loan prime rate plus 0.05% per annum that is subjected to monthly review by the bank and is repayable by 10 January 2018. Subsequent to year end, the loan was fully repaid.

#### Loan 8 (Unsecured)

This RMB-denominated loan is obtained by a PRC subsidiary during the year from a PRC branch of a multinational bank to finance the purchase of raw materials. The loan bears interest at China loan prime rate plus 0.05% per annum and is repayable by 11 January 2018. Subsequent to year end, the loan was fully repaid.

#### Loan 9 (Unsecured)

This RMB-denominated loan is obtained by a PRC subsidiary during the year from a PRC branch of a multinational bank to finance the purchase of raw materials. The loan bears interest at China loan prime rate plus 0.05% per annum and is repayable by 4 April 2018.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 25. BORROWINGS (Continued)

### (i) Loans (Continued)

#### Loan 10 (Unsecured)

This RMB-denominated loan is obtained by a PRC subsidiary during the year from a PRC branch of a multinational bank to finance the purchase of raw materials. The loan bears interest at China loan prime rate plus 0.05% per annum and is repayable by 16 May 2018.

#### Loan 11 (Unsecured)

This RMB-denominated loan is obtained by a PRC subsidiary during the year from a PRC branch of a multinational bank to finance the working capital. The loan bears interest at China loan prime rate plus 0.05% per annum and is repayable by 27 March 2018.

#### Loan 12 (Secured)

This EUR-denominated loan is obtained by a German subsidiary during the year from a German bank to finance the construction of warehouse. The Company provided guarantee for the loan. The loan bears interest at 1.80% per annum and is repayable by instalments commencing 30 June 2019 to 30 March 2027.

#### Loan 13 (Secured)

This EUR-denominated loan is obtained by a German subsidiary during the year from a German bank to finance the working capital. The Company and a subsidiary, Tri Star Inc., provided guarantee for the loan. The loan bears interest at EURIBOR plus a margin of 150 basis points per annum. The loan consists of 5 different drawdown during the year and is repayable within one year after the drawdown date.

#### Loan 14 (Secured)

This GBP-denominated loan is obtained by a UK subsidiary during the year from a UK bank to finance the working capital. Tri Star Inc. provided guarantee for the loan. The loan bears interest at LIBOR plus 1% and is repayable by 28 February 2018. Subsequent to year end, the loan was fully repaid.

### (ii) Finance lease obligations

Interest is payable at fixed interest rate ranging from 1.25% to 15.11% (2016: 1.25% to 15.11%) per annum and the finance lease obligation of the Group are effectively secured over certain plant and machinery of the Group (Note 10) as the legal title is retained by the lessor and will be transferred to the Group upon full settlement of the finance lease obligations.

	Group	
	2017 RMB'000	2016 RMB'000
<b>Due within 1 year (current)</b>		
Minimum lease payment	4,654	3,497
Interest	(357)	(457)
<b>Present value of minimum lease payment</b>	<b>4,297</b>	<b>3,040</b>
<b>Due after 1 year less than 5 years (non-current)</b>		
Minimum lease payment	10,679	7,466
Interest	(363)	(513)
<b>Present value of minimum lease payment</b>	<b>10,316</b>	<b>6,953</b>
<b>Due after 5 years (non-current)</b>		
Minimum lease payment	364	797
Interest	(29)	(12)
<b>Present value of minimum lease payment</b>	<b>335</b>	<b>785</b>
<b>Total finance lease obligations</b>	<b>14,948</b>	<b>10,778</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 25. BORROWINGS (Continued)

### (iii) Reconciliation of liabilities arising from financing activities

	At beginning of the year RMB'000	Financing cash flows RMB'000	Non-cash changes				At end of the year RMB'000
			Acquisition of property, plant & equipment RMB'000	New finance lease RMB'000	Foreign exchange movement RMB'000	Others RMB'000	
<b>2017</b>							
Loans							
– current	103,832	69,336	–	–	3,449	4,286	180,903
– non-current	9,121	–	15,605	–	327	(4,286)	20,767
Finance lease obligations							
– current	3,040	(3,272)	–	1,809	380	2,340	4,297
– non-current	7,738	–	–	4,976	277	(2,340)	10,651
	<b>123,731</b>	<b>66,064</b>	<b>15,605</b>	<b>6,785</b>	<b>4,433</b>	<b>–</b>	<b>216,618</b>

The 'others' column relates to reclassification of non-current portion of the liabilities due to passage of time based on the maturity dates.

## 26. DEFERRED INCOME

	Group	
	2017 RMB'000	2016 RMB'000
Government grant I	–	400
Government grant II	6,006	6,370
Government grant III	6,444	6,444
	<b>12,450</b>	<b>13,214</b>

The movement in the government grants is as follows:

	Group	
	2017 RMB'000	2016 RMB'000
At 1 January	13,214	14,334
Addition	–	204
Amortisation for the financial year	(764)	(1,324)
At 31 December	<b>12,450</b>	<b>13,214</b>

### Government grant I

This relates to amounts received from the PRC government by a subsidiary in 2009 to finance a major development project for developing a new material used in the high security segment. The project is completed by October 2011 with development cost capitalised as intangible assets (Note 14). However, partial refund of RMB1,700,000 was made in 2012 to the PRC government as certain criteria were not met. The balance is fully amortised during the year.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 26. DEFERRED INCOME (Continued)

### Government grant II

On 29 September 2010, a Singapore subsidiary and a PRC subsidiary entered into an agreement with Sutong Science Park Management Office ("SSPMO") to set up a new research and development centre in Sutong Industrial Park. Under the terms of the agreement, a total grant of RMB24,260,000 will be provided by SSPMO to finance the building infrastructure for the construction of roads, underground work, utilities supply and environmental facilities in accordance with the stages of completion of the construction. The Group received the first tranche of the grant in cash amounting to RMB7,280,000 from SSPMO in 2012. The amount received is amortised over the useful life of the leasehold building commencing from July 2014. The Group is in the process of applying for the disbursement of the remaining grant.

### Government grant III

On 21 April 2014, a PRC subsidiary entered into an agreement with Nantong Economic and Technological Development Zone Management Office ("NTETDZMO") to set up a new research and development centre in Nantong Economic and Technological Development Zone. Under the terms of the agreement, a total grant of RMB7,800,000 will be provided by NTETDZMO to finance the building infrastructure for the construction of roads, underground work, utilities supply and environmental facilities in accordance with the stages of completion of the construction. The Group received the first tranche of the grant in cash amounting to RMB6,240,000 from government in 2015 and tax refund of RMB204,000 was received in 2016. The remaining grant will be received upon completion of the construction which is expected in 2018. The amount received will be amortised over the useful life of the building after the construction is completed.

## 27. PENSION LIABILITY

The amount recognised is determined as follows:

Fair value of plan assets  
Present value of plan liabilities  
Net liability recognised

2017 RMB'000	2016 RMB'000
61,419	59,208
<u>(140,783)</u>	<u>(135,631)</u>
<b>(79,364)</b>	<b>(76,423)</b>

A subsidiary in United Kingdom, Metric UK, operates a defined benefit pension scheme, namely Metric Group Pension Fund (the "Plan") which is a closed final salary scheme. The Plan comprises 3 sections:

The *pre 1992 section* – benefits were accrued on a purely defined benefit basis prior to 1 July 1992;

The *1992-97 section* – benefits were accrued on a money purchase basis (defined contribution basis) subject to a Guaranteed Minimum Pension ("GMP") underpin between 1 July 1992 and 5 April 1997; and

The *post 1997 section* – benefits were accrued on a purely money purchase basis with no underpin after 5 April 1997.

The Plan has ceased new defined benefit accrual since 1997. The key assumptions underlying the valuation of the Plan (consist of defined benefits and GMP) are set out below. The key risks to Metric UK arise from:–

- (i) asset value vitality – the scheme is predominantly invested in equity securities.
- (ii) bond yields – a reduction in yields has the effect of increasing the value of the scheme's liabilities.
- (iii) inflation risk – the pension liabilities are linked to inflation and therefore higher rates of inflation will increase the scheme liabilities.
- (iv) Life expectancy – and increase in the life expectancy of scheme members will increase the value of the scheme's liabilities.

A comprehensive actuarial valuation using the projected unit basis was carried out at 31 December 2017 by the independent consulting actuaries, Hughes Price Walker Limited.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 27. PENSION LIABILITY (Continued)

	2017 RMB'000	2016 RMB'000
<u>Movement of net liabilities recognised</u>		
At the beginning of the year/the date of acquisition	(76,423)	(85,542)
Interest expenses	(2,045)	(398)
Administrative expenses	(96)	–
Re-measurement (losses)/gains	(1,271)	7,527
Contribution by scheme participants	2,684	687
Currency translation differences	(2,213)	1,303
At the end of the year	<u>(79,364)</u>	<u>(76,423)</u>
<u>Reconciliation of present value of plan liabilities</u>		
At the beginning of the year/the date of acquisition	(135,631)	(144,991)
Interest expenses	(3,619)	(778)
Re-measurement gains		
– Actuarial gains arising from changes in financial assumptions	(4,730)	6,501
– Actuarial gains arising from changes in demographic assumptions	1,308	25
– Actuarial gains arising from changes in experience adjustment	702	9
Benefits paid	5,272	1,416
Currency translation differences	(4,085)	2,187
At the end of the year	<u>(140,783)</u>	<u>(135,631)</u>
<u>Reconciliation of present value of plan assets</u>		
At the beginning of the year/the date of acquisition	59,208	59,449
Interest income	1,574	380
Administrative expenses	(96)	–
Re-measurement gains		
– Return on plan asset	1,449	992
Contributions by scheme participants	2,684	687
Benefits paid	(5,272)	(1,416)
Currency translation differences	1,872	(884)
At the end of the year	<u>61,419</u>	<u>59,208</u>
<u>Composition of plan assets</u>		
Equities and structured investments	9,552	31,051
Gilts	11,826	928
Bonds	7,146	6,935
Absolute return investments	18,910	4,314
Property	–	1,617
Cash Annuities	5,619	6,254
Individual member funds at 1992-1997 DC section	8,366	8,109
Total plans assets	<u>61,419</u>	<u>59,208</u>

The net interest expense on obligation amounting to RMB2,045,000 (2016: RMB398,000) was recognised in profit or loss as finance cost (Note 31). The re-measurement losses amounting to RMB1,271,000 (2016: gains of RMB7,527,000) was recognised in other comprehensive income.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 27. PENSION LIABILITY (Continued)

The principal actuarial assumptions used as at the reporting date were as follow:

	2017	2016
<b>Financial assumptions (%)</b>		
Discount rate	2.40	2.65
Future pension increase	3.00	3.00
Inflation – RPI <sup>(i)</sup>	3.25	3.35
Inflation – CPI <sup>(ii)</sup>	2.25	2.35
<b>Demographic assumptions (years)</b>		
– Mortality rates (expected future lifetime from age 65)		
– Male currently aged 65	21.90	22.00
– Male currently aged 45	23.80	23.30
– Female currently aged 65	23.10	24.00
– Female currently aged 45	25.00	25.50

(i) Retail price index in United Kingdom

(ii) Consumer price index in United Kingdom

The sensitivity of the defined benefit obligation to changes in the principal assumptions is as follows. These sensitivity analysis area based on a change in each assumption in isolation, with other assumptions held constant. In practice this is unlikely to occur and changes in some assumptions may be correlated.

	Change in assumption	Approximate increase in obligation	
		2017 RMB'000	2016 RMB'000
Discount rate	0.10% p.a. lower	1,870	1,617
Rate of mortality	improved by 0.5%	2,195	3,234

## 28. REVENUE

	Group	
	2017 RMB'000	2016 RMB'000
Sales of automated teller machines and commercial safe	795,393	849,717
Sales of electro-mechanical engineering equipment, ticketing and vending machines and modules precision engineering parts and other products <sup>(i)</sup>	861,141	540,493
	<b>1,656,534</b>	<b>1,390,210</b>

(i) Includes service revenue in relation to certain design and engineering projects amounting to RMB55,721,000 (2016: RMB34,340,000).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 29. OTHER INCOME

	Group	
	2017 RMB'000	2016 RMB'000
Allowance for impairment loss on trade receivables written back (Note 40(iii))	755	46
Amortisation of deferred government grant (Note 26)	764	1,324
Gain on bargain purchase arising from acquisition	–	4,352
Gain on disposal of property, plant and equipment	–	379
Government grants (Note A)	8,004	1,854
Fair value gain on forward contract (Note 23)	–	1,427
Foreign exchange gain, net	–	12,347
Reversal of long term unclaimed payable	658	–
Sales of raw materials	9,744	825
Sales of steel scrap	3,177	4,005
Write back of contingent consideration (Note 24C)	1,527	–
Write back of other liabilities	934	–
Others	3,245	2,299
	<b>28,808</b>	<b>28,858</b>

### Note A

Government grants relate to one-off cash grants received from the local government authority in the PRC and UK. These cash grants are given to the subsidiaries without any conditions or contingencies attached, except for a grant of RMB2,500,000 received in 2014, is recognised as an income during the financial year after the conditions of the grant were met.

Detail of government grants were as follows:

	Group	
	2017 RMB'000	2016 RMB'000
Research and development subsidy	2,099	875
Technology grant	336	60
Company growth incentives	5,045	703
Others	524	216
	<b>8,004</b>	<b>1,854</b>

## 30. PERSONNEL EXPENSES

	Group	
	2017 RMB'000	2016 RMB'000
Wages, salaries and bonuses <sup>(i)</sup>	459,845	319,298
Other short-term employees' benefits <sup>(ii)</sup>	12,725	11,591
Total short-term employees' benefits	472,570	330,889
Post-employment benefits		
– Defined contribution plans <sup>(i)</sup>	17,463	42,209
– Defined benefit pension scheme	2,684	687
	<b>492,717</b>	<b>373,785</b>

(i) Includes key management personnel and directors' remuneration as disclosed in Note 37.

(ii) Includes staff welfare and union funds.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 31. FINANCE COSTS, NET

	Group	
	2017 RMB'000	2016 RMB'000
Finance income		
Interest income		
– Available-for-sale financial assets	574	284
– Bank interest	972	494
– Held-to-maturity investments	–	344
Gain on disposal of held-to-maturity investments (Note 15)	221	–
	<b>1,767</b>	<b>1,122</b>
Finance costs		
Interest expenses on bank loans and finance leases	(7,690)	(5,904)
Unwinding discount on redemption liability (Note 24D)	(334)	(321)
Net interest on net defined benefit liability (Note 27)	(2,045)	(398)
	<b>(10,069)</b>	<b>(6,623)</b>
Finance costs, net	<b>(8,302)</b>	<b>(5,501)</b>

## 32. OTHER EXPENSES

	Group	
	2017 RMB'000	2016 RMB'000
Amortisation of land use rights (Note 11)	1,350	1,317
Allowance for impairment loss on trade receivables (Note 40 (iii))	204	897
Bad debts written off	223	–
Loss on disposal of property, plant and equipment	589	–
Loss on settlement of forward contracts (Note 23)	456	168
Value added tax adjustment	–	2,889
Foreign exchange loss, net	3,411	–
Fair value loss on derivative financial instruments (Note 23)	2,035	–
Impairment loss on intangible assets (Note 14)	7,908	–
Others	190	927
	<b>16,366</b>	<b>6,198</b>

## 33. PROFIT BEFORE TAX

This is determined after charging/(crediting) the following:

	Group	
	2017 RMB'000	2016 RMB'000
Amortisation of intangible assets (Note 14)	16,450	7,965
Amortisation of land use rights (Note 11)	1,350	1,317
Allowance for impairment loss on trade receivables written back (Note 40 (iii))	(755)	(46)
Allowance for stock obsolescence	7,763	6,678
Allowance for stock obsolescence written back	(3,972)	(2,881)
Allowance for impairment loss on trade receivables (Note 40 (iii))	204	897
Auditors' remuneration		
– auditors of the Company	1,077	1,205
– other auditors	1,654	1,758
Non-audit fees paid to		
– auditors of the Company	15	24
Depreciation of property, plant and equipment (Note 10)	28,349	24,244
Directors' fees		
– directors of the Company (Note 37)	1,952	1,716
Directors' remuneration		
– directors of the Company	1,848	2,167
Operating lease expenses	16,287	12,711
Personnel expenses (Note 30)*	492,717	373,785
Research and development costs	55,557	33,821

\* Includes directors' remuneration and directors' fees as disclosed in this note.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 34. INCOME TAX

	Group	
	2017 RMB'000	2016 RMB'000
Income tax		
– Current financial year	19,086	27,462
– Over provision in the previous financial years	(1,157)	(1,641)
Deferred tax (Note 16)		
– Current financial year	(15,024)	8,575
	<b>2,905</b>	<b>34,396</b>

The reconciliation of the tax expenses and the product of accounting profit multiplied by the applicable rate are as follows:

	Group	
	2017 RMB'000	2016 RMB'000
Profit before tax	67,164	160,500
Tax expenses based on PRC statutory tax rate of 25% (2016: 25%)	16,791	40,125
Tax concession in PRC	(4,501)	(13,644)
Differences in tax rates in different jurisdictions	(920)	(2,982)
Income not subject to tax	(5,299)	(2,950)
Tax incentive	(401)	(871)
Expenses not deductible	1,925	6,016
Current financial year tax losses carried forward not recognised as deferred tax assets	228	733
Utilisation of tax losses brought forward previously not recognised as deferred tax assets	(1,581)	(853)
Deferred tax on undistributed profits of the PRC subsidiaries	–	10,245
Over provision in the previous financial years	(4,181)	(1,641)
Others	844	218
Income tax expense	<b>2,905</b>	<b>34,396</b>

As at 31 December 2017, the Group has unused tax losses of RMB1,514,000 and RMB1,250,000 (2016: RMB1,514,000) related to a subsidiary in PRC that will expire in 2021 and 2022 respectively (2016: unused tax losses of RMB1,514,000 would expire in 2021). No deferred tax asset is recognised due to uncertainty of its recoverability. The use of these balances is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation in respective countries.

### The Company and Singapore subsidiaries

The Company and these subsidiaries are subjected to applicable tax rate of 17% (2016: 17%).

### Tri Star Inc. (PRC)

In accordance with the Income Tax Law of the PRC for New and High Technology Enterprise and various approval documents issued by the Tax Bureau of the PRC, the subsidiary, being awarded the "High Technology Enterprise" status, enjoys a concessionary tax rate of 15%, from year 2011 to 2020 as compared to the statutory tax rate for PRC companies of 25%.

### Tri Star Technology Co., Ltd. (PRC)

### Jiangsu Tri Star Technology Co., Ltd. (PRC)

### Jiangsu Tri Star Terminal Equipment Technology Co., Ltd. (PRC)

### Jiangsu Tri Star Equipment Co., Ltd. (PRC)

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 34. INCOME TAX (Continued)

The above subsidiaries are subjected to applicable tax rate of 25% (2016: 25%).

Jiangsu Tri Star Trading Co., Ltd. (PRC)  
Shanghai Tri Star Engineering Technology Co., Ltd. (PRC)

The subsidiaries are subjected to applicable tax rate of 25% (2016: 25%). They are dormant and have no taxable income for the period from the date of incorporation to 31 December 2017.

German subsidiaries

The subsidiaries are subjected to applicable tax rates ranged from 13.65% to 33.26% (2016: 13.65% to 33.26%) subject to applicable trade tax and solidarity surcharge.

Format USA Inc., Format USA LLC and Metric Group Inc.

These subsidiaries are subjected to applicable states tax rate of 8.84% and federal tax rate of 35% (2016: 35%).

Matrix Mechatronics IX Technology (Philippines) Corp.

This subsidiary is subjected to applicable tax rate of 30% (2016: 30%).

Mechatronics Technology HK Limited

This subsidiary is subjected to applicable tax rate of 16.5% (2016: 16.5%). It has no taxable income for the period from the date of incorporation to 31 December 2017.

The United Kingdom subsidiaries

The subsidiaries are subjected to applicable tax rate of 19% (2016: 20%).

## 35. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing profit for the financial year attributable to the equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

	2017	2016
Profit attributable to the equity holders of the Company (RMB'000)	<u>64,259</u>	<u>126,104</u>
Weighted average number of ordinary shares outstanding for basic earnings per share ('000)	<u>356,536</u>	<u>356,536</u>
Basic earnings per share (RMB cents per share)	<u>18.02</u>	<u>35.37</u>

Diluted earnings per share is calculated by dividing net profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year after adjusting for the effects of all dilutive potential ordinary shares. As there are no dilutive potential ordinary shares issued and/or granted, diluted earnings per share is the same as basic earnings per share.

## 36. DIVIDENDS

	Group	
	2017	2016
	RMB'000	RMB'000
<u>Declared and paid during the financial year</u>		
<u>Dividends on ordinary shares:</u>		
– Interim exempt (one-tier) dividend of SGD0.01 (2016: SGD0.01) per share	<u>17,438</u>	<u>17,493</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 37. RELATED PARTY INFORMATION

Some of the arrangements with related parties (as defined in Note 2 above) and the effects of these bases determined between the parties are reflected elsewhere in this report. Transactions between the Company and its subsidiaries, which are related companies of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related party are disclosed below.

	Group	
	2017 RMB'000	2016 RMB'000
<b>(a) Transactions</b>		
Purchase of raw materials from a related party <sup>(i)</sup>	4	458
Rental expenses paid to a related party <sup>(i)</sup>	<b>3,969</b>	<b>3,799</b>
<b>(b) Compensation of key management personnel</b>		
Short-term employees benefits <sup>(ii)</sup>	<b>7,368</b>	7,754
Defined contribution pension scheme	<b>194</b>	203
<i>Comprise amounts paid/payable to:</i>		
Directors of the Company	<b>3,800</b>	3,883
Other key management personnel	<b>3,762</b>	4,075

(i) Related party refers to a company in which a director of the Company has controlling financial interest.

(ii) Includes director fees of RMB1,952,000 (2016: RMB1,716,000).

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. All directors and certain managers are considered key management personnel.

The remuneration of directors and key management is determined by the remuneration committee having regard to the performance of individuals and market trends.

## 38. COMMITMENTS

### (i) Non-cancellable operating lease commitments

The Group leases land and building, offices and certain plant and machinery under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. Lease terms do not contain restrictions on the Group's activities concerning dividends, additional debt or further leasing.

The future aggregate minimum lease payable under non-cancellable operating leases contracted for at the reporting date but not recognised as liabilities are as follows:

	Group	
	2017 RMB'000	2016 RMB'000
Future minimum lease payments		
– Not later than 1 year	<b>13,708</b>	13,538
– Later than 1 year and not later than 5 years	<b>11,553</b>	17,160
– Later than 5 years	<b>274</b>	–
	<b>25,535</b>	<b>30,698</b>



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 38. COMMITMENTS (Continued)

### (i) Non-cancellable operating lease commitments (Continued)

In addition, a subsidiary in Philippines had entered into a long-term lease agreement with the government for the lease of land on which the factory is erected. The tenure of the lease is 50 years commencing from July 2015, with an annual lease of PESO1,407,738 (equivalent to RMB197,000), which is subject to an annual increase of 5% per annum, at least up to year 2024. The lease is cancellable by the subsidiary in the event that the subsidiary suffers losses to the extent that its continued operation is no longer viable as shown by its latest audited financial statements. The lease payments payable for the next 50 years are analysed as follows:

	Group	
	2017 RMB'000	2016 RMB'000
Future minimum lease payments		
– Not later than 1 year	196	197
– Later than 1 year and not later than 5 years	888	788
– Later than 5 years	11,202	10,331
	<b>12,286</b>	<b>11,316</b>

### (ii) Future capital expenditure

	Group		Company	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Capital expenditure contracted but not provided in the financial statements:				
– In respect of plant and machinery	8,609	4	–	–
– In respect building construction in progress	10,076	12,978	–	–
	<b>18,685</b>	<b>12,982</b>	<b>–</b>	<b>–</b>
Capital expenditure approved but not contracted for and provided in the financial statements:				
– Commitments in respect of a new research and development center	109,802	112,072	–	–

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi (“RMB’000”), unless otherwise stated)

## 39. SEGMENT INFORMATION

The Group has 2 reportable segments, as described below, which are the Group’s strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group’s CEO (the chief operating decision maker) reviews internal management reports on a regular basis. The following summary describes the operations in each of the Group’s reportable segments:

- (1) High Security – Design and manufacture of Automated Teller Machine (“ATM”) safes, fire-resistant commercial safes, safes for storage of weapons and other security products.
- (2) Business Solutions – Provide business solutions to customers by designing, engineering, manufacturing and assembling electro-mechanical equipment, ticketing and vending machines (including intelligent terminals) and modules, precision engineering parts, semi-conductor instruments and other modules products.

Other operations include investment holding companies with head-office corporate functions (including treasury function) and inactive companies. Expenses incurred by these companies, which mainly include remuneration for key management personnel under corporate functions, are presented as unallocated expenses in the reconciliation below. Assets held by these companies, mainly cash and bank balances and bonds, are presented as unallocated assets in the reconciliation below.

Information regarding the results of each reportable segment is included below. Performance is measured based on profit from operations segment, which represents profit before interest and tax, as included in the internal management reports that are reviewed by the Group’s CEO. Segment assets reported to the Group’s CEO represents the total assets of the reportable segments. There are no inter-segment transactions.

2017	High Security RMB’000	Business Solutions RMB’000	Total RMB’000
<b>Revenue</b>			
External sales	795,393	861,141	1,656,534
<b>Segment results</b>			
Profit from operations	78,729	3,373	82,102
Finance cost, net			(8,302)
Unallocated expenses			(6,636)
<b>Profit before tax</b>			67,164
Income tax			(2,905)
<b>Profit for the financial year</b>			64,259
<b>Segment assets</b>			
Reportable segment assets	665,133	799,220	1,464,353
Unallocated assets			
– Cash and bank balances			52,955
– Available-for-sale financial assets			16,748
– Others			15
			1,534,071



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 39. SEGMENT INFORMATION (Continued)

2016	High Security RMB'000	Business Solutions RMB'000	Total RMB'000
<b>Other segment items</b>			
<i>Amounts included in the measure of segment assets:</i>			
Additions to property, plant and equipment	11,631	43,878	55,509
Additions to land use rights	2,401	–	2,401
Additions to intangible assets	–	2,585	2,585
Investment in associates	–	7,093	7,093
<i>Amounts included in the measure of segment results:</i>			
Depreciation of property, plant and equipment	15,939	8,305	24,244
Amortisation of intangible assets	5,461	2,504	7,965
Amortisation of land use rights	333	984	1,317
Amortisation of deferred government grants	960	364	1,324
Fair value gain on forward contract	1,427	–	1,427
Share of profits of associates	–	125	125
Allowance for stock obsolescence	4,852	1,826	6,678
Allowance for stock obsolescence written back	–	2,881	2,881
Allowance for impairment loss on trade receivables	–	897	897
Gain on bargain purchase arising from the acquisition of businesses	–	4,352	4,352
Sale of raw materials and steel scrap	1,193	3,637	4,830

### Geographical segments

Geographical segments are analysed by five principal geographical areas, namely PRC, North & South America, Europe, Asia Pacific and Africa. In presenting information on the geographical segments, revenue is based on the location of customers regardless of where the goods are produced. Non-current assets which exclude deferred tax assets and held-to-maturity investments are based on the location of those assets.

	PRC RMB'000	North & South America RMB'000	Europe RMB'000	Asia Pacific RMB'000	Africa RMB'000	Consolidated RMB'000
<b>2017</b>						
Revenue	79,182	270,695	1,046,868 <sup>(i)</sup>	245,818	13,971	1,656,534
Non-current assets	204,354	9,557	250,926 <sup>(ii)</sup>	5,594	–	470,431
<b>2016</b>						
Revenue	218,157	327,471	679,102 <sup>(i)</sup>	164,863	617	1,390,210
Non-current assets	203,746	10,386	222,231 <sup>(ii)</sup>	2,701	–	439,064

(i) Include revenue totaling RMB782,760,000 and RMB155,123,000 (2016: RMB500,493,000 and RMB30,967,000) derived from Germany and UK respectively.

(ii) Include assets of RMB177,833,000 and RMB41,059,000 (2016: RMB162,289,000 and RMB59,942,000) derived from Germany and UK respectively.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 39. SEGMENT INFORMATION (Continued)

### Major customers

#### High Security Segment

Revenue of approximately RMB144,899,000 (2016: RMB74,960,000) is derived from a single external customer, a listed company in the USA with operation worldwide.

Revenue of approximately RMB108,333,000 (2016: RMB107,330,000) is derived from a multi-national company.

Revenue of approximately RMB95,871,000 (2016: RMB61,178,000) is derived from a German company.

#### Business Solutions Segment

Revenue of approximately RMB56,268,000 (2016: RMB53,009,000) is derived from a multi-national company in USA.

## 40. FINANCIAL INSTRUMENTS

### Financial risk management objectives and policies

#### Categories of financial instruments

The following table sets out the financial instruments as at the reporting date:

	Group		Company	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Held-to-maturity investments	–	9,829	–	–
Loans and receivables	611,313	558,238	236,895	191,349
Available-for-sale financial assets	16,748	10,596	–	–
Financial assets at fair value through profit or loss – derivative instruments	–	1,427	–	–
Financial assets	628,061	580,090	236,895	191,349
Financial liabilities at amortised cost	492,908	364,505	61,621	71,229
Financial liabilities at fair value through profit or loss	–	–	–	–
– designated at inception (Note 24C)	–	1,461	–	–
– derivative instruments	608	–	–	–
Financial liabilities	493,516	365,966	61,621	71,229

The Group is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include market risks (including foreign exchange risk and interest rate risk), liquidity risk and credit risk. The Board of Directors reviews and agrees policies and procedures for the management of these risks. The Audit Committee provides independent oversight to the effectiveness of the risk management process.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 40. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

#### (i) Market risk

##### (a) Foreign exchange risk

Foreign exchange risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's sales are mainly transacted in Renminbi ("RMB"), United States dollar ("USD"), Euro ("EUR") and Great Britain Pound ("GBP"). As a result, movements in USD, EUR and GBP exchange rates are the main foreign exchange risk which the Group is exposed to.

Currently, the PRC government imposes control over foreign currencies. RMB, the official currency in the PRC, is not freely convertible. Enterprises operating in the PRC can enter into exchange transactions through the People's Bank of China or other authorised financial institutions. The Group has entered into foreign currency forward contracts to reduce exposure from currency fluctuations arising from its foreign currency denominated sales, mainly USD. The Group does not utilise forward contracts or other arrangements for speculative purposes.

Group As at 31 December 2017	Singapore dollar RMB'000	United States dollar RMB'000	Chinese Renminbi RMB'000	Euro RMB'000	Great Britain Pound RMB'000	Others* RMB'000	Total RMB'000
<b>Financial assets</b>							
Trade receivables	–	130,154	19,256	138,637	16,513	–	304,560
Other receivables and deposits	–	388	793	4,219	575	392	6,367
Available-for-sale financial assets	–	16,748	–	–	–	–	16,748
Cash and bank balances	611	213,196	14,946	65,221	4,020	225	298,219
Intragroup receivables	231,021	250,630	99,916	208,218	37,206	–	826,991
	<u>231,632</u>	<u>611,116</u>	<u>134,911</u>	<u>416,295</u>	<u>58,314</u>	<u>617</u>	<u>1,452,885</u>
<b>Financial liabilities</b>							
Borrowings	–	2,872	80,000	118,294	15,452	–	216,618
Trade payables	8	19,828	69,620	55,832	8,862	1,691	155,841
Other payables and accruals	1,326	3,556	46,961	56,722	11,502	139	120,206
Due to a related party (trade)	–	–	243	–	–	–	243
Derivative financial instruments	–	608	–	–	–	–	608
Intragroup payables	231,021	250,630	99,916	208,218	37,206	–	826,991
	<u>232,355</u>	<u>277,494</u>	<u>296,740</u>	<u>439,066</u>	<u>73,022</u>	<u>1,830</u>	<u>1,320,507</u>
Net financial (liabilities)/ assets	(723)	333,622	(161,829)	(22,771)	(14,708)	(1,213)	132,378
Add/(Less): Net financial (assets)/liabilities denominated in the respective entities' functional currencies	26,543	12,827	161,831	185,338	20,511	–	407,050
Less: Forward currency contract	–	(10,426)	–	–	–	–	(10,426)
Net foreign currency exposure	<u>25,820</u>	<u>336,023</u>	<u>2</u>	<u>162,567</u>	<u>5,803</u>	<u>(1,213)</u>	<u>529,002</u>

\* Others mainly comprise of Peso and Swiss Franc



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 40. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

#### (i) Market risk (Continued)

##### (a) Foreign exchange risk (Continued)

Group As at 31 December 2016	Singapore dollar RMB'000	United States dollar RMB'000	Chinese Renminbi RMB'000	Euro RMB'000	Great Britain Pound RMB'000	Others* RMB'000	Total RMB'000
<b>Financial assets</b>							
Held-to-maturity							
investments	–	9,829	–	–	–	–	9,829
Trade receivables	–	125,205	22,419	95,231	14,795	–	257,650
Other receivables and deposits	310	32	663	3,859	410	308	5,582
Available-for-sale							
financial assets	–	10,596	–	–	–	–	10,596
Cash and bank balances	1,568	215,930	11,513	65,231	139	625	295,006
Derivative financial instruments	–	1,427	–	–	–	–	1,427
Intragroup receivables	171,125	278,563	109,876	175,155	107,273	1,863	843,855
	<u>173,003</u>	<u>641,582</u>	<u>144,471</u>	<u>339,476</u>	<u>122,617</u>	<u>2,796</u>	<u>1,423,945</u>
<b>Financial liabilities</b>							
Borrowings	–	3,920	50,000	67,284	2,527	–	123,731
Trade payables	–	11,788	51,082	37,424	10,061	–	110,355
Other payables and accruals	1,376	997	47,290	77,008	7,836	92	134,599
Due to a related party (trade)	–	–	242	–	–	–	242
Intragroup payables	171,125	278,563	109,876	175,155	107,273	1,863	843,855
	<u>172,501</u>	<u>295,268</u>	<u>258,490</u>	<u>356,871</u>	<u>127,697</u>	<u>1,955</u>	<u>1,212,782</u>
Net financial assets/ (liabilities)	502	346,314	(114,019)	(17,395)	(5,080)	841	211,163
Add/(Less): Net financial (assets)/liabilities denominated in the respective entities' functional currencies	26,054	(16,332)	114,019	125,986	6,359	–	256,086
Less: Forward currency contract	–	(39,096)	–	–	–	–	(39,096)
Net foreign currency exposure	<u>26,556</u>	<u>290,886</u>	<u>–</u>	<u>108,591</u>	<u>1,279</u>	<u>841</u>	<u>428,153</u>

\* Others comprise of South Korean Won and Peso.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 40. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

#### (i) Market risk (Continued)

##### (a) Foreign exchange risk (Continued)

Company As at 31 December 2017	Singapore dollar RMB'000	United States dollar RMB'000	Euro RMB'000	Peso RMB'000	Total RMB'000
<b>Financial assets</b>					
Trade receivables	-	6,826	-	-	6,826
Other receivables	-	332	-	-	332
Due from subsidiaries	217,033	(37,709)	38,568	-	217,892
Cash and bank balances	556	11,204	86	-	11,846
	<u>217,589</u>	<u>(19,347)</u>	<u>38,654</u>	<u>-</u>	<u>236,896</u>
<b>Financial liabilities</b>					
Trade payables	-	1,858	-	-	1,858
Other payables and accruals	912	-	-	-	912
Due to subsidiaries	-	59,950	-	(1,738)	58,212
	<u>912</u>	<u>61,808</u>	<u>-</u>	<u>(1,738)</u>	<u>60,982</u>
Net financial assets/(liabilities)	<u>216,677</u>	<u>(81,155)</u>	<u>38,654</u>	<u>1,738</u>	<u>175,914</u>
Less: Net financial liabilities denominated in the Company's functional currency	<u>-</u>	<u>81,155</u>	<u>-</u>	<u>-</u>	<u>81,155</u>
Foreign currency exposure	<u>216,677</u>	<u>-</u>	<u>38,654</u>	<u>1,738</u>	<u>257,069</u>
<b>Company As at 31 December 2016</b>					
<b>Financial assets</b>					
Trade receivables	-	5,704	-	-	5,704
Other receivables	310	-	-	-	310
Due from subsidiaries	122,441	-	28,306	1,863	152,610
Cash and bank balances	1,368	31,277	80	-	32,725
	<u>124,119</u>	<u>36,981</u>	<u>28,386</u>	<u>1,863</u>	<u>191,349</u>
<b>Financial liabilities</b>					
Trade payables	-	2,816	-	-	2,816
Other payables and accruals	1,363	-	-	-	1,363
Due to subsidiaries	-	59,935	7,115	-	67,050
	<u>1,363</u>	<u>62,751</u>	<u>7,115</u>	<u>-</u>	<u>71,229</u>
Net financial assets/(liabilities)	<u>122,756</u>	<u>(25,770)</u>	<u>21,271</u>	<u>1,863</u>	<u>120,120</u>
Less: Net financial liabilities denominated in the Company's functional currency	<u>-</u>	<u>25,770</u>	<u>-</u>	<u>-</u>	<u>25,770</u>
Foreign currency exposure	<u>122,756</u>	<u>-</u>	<u>21,271</u>	<u>1,863</u>	<u>145,890</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 40. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

#### (i) Market risk (Continued)

##### (a) Foreign exchange risk (Continued)

###### Foreign exchange risk sensitivity

The following table details the sensitivity to a 10% appreciation of the Chinese Renminbi against the relevant foreign currencies. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

If the respective functional currency strengthen by 10% (2016: 10%) against the relevant foreign currency (SGD/USD/EUR/GBP), with all other variables held constant, the profit for the financial year will increase/(decrease) by:

	Group Profit for the year RMB'000	Company Profit for the year RMB'000
<b>2017</b>		
SGD	(1,937)	(16,251)
USD	(25,202)	–
EUR	(12,193)	(2,899)
GBP	(435)	–
Others	91	(130)
<b>2016</b>		
SGD	(1,992)	(9,207)
USD	(21,816)	–
RMB	(8,144)	(1,595)
EUR	(96)	–
Others	(63)	(140)

A weakening of the RMB against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

The Group has entered into forward currency contracts to reduce exposure from currency fluctuations arising from its trading operations, mainly in USD. As at 31 December 2017, the Group has outstanding balance of RMB10,426,000 with settlement dates ranging from 1 to 12 months (2016: RMB39,096,000) as disclosed in Note 23.

The Group is also exposed to currency translation risk arising from its net investments in its foreign operations. The Group's net investment in United Kingdom, Germany, Hong Kong, Philippines and Singapore are not hedged as currency positions in GBP, EUR, HKD, Peso and SGD are considered to be long-term in nature.

##### (b) Interest rate risk

The Group's policy is to obtain the most favourable interest rates available without increasing its foreign currency exposure. The Group obtains additional financing through bank borrowings. The Group constantly monitors its interest rate risk and does not utilise forward contracts or other arrangements for trading or speculative purposes. As at 31 December 2017, there were no such arrangements, interest rate swap contracts or other derivative instruments outstanding.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 40. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

#### (i) Market risk (Continued)

##### (b) Interest rate risk (Continued)

The following table sets out the carrying amount of the Group's interest-bearing financial instruments:

	Note	Group		Company	
		2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
<b>Fixed rate instruments</b>					
Financial assets					
– Fixed deposits	22	87,386	13,930	–	–
– Held-to-maturity investments	15	–	9,829	–	–
– Available-for-sale financial assets	21	16,748	10,596	–	–
– Loan to a subsidiary	20	–	–	38,568	34,907
Financial liabilities					
– Other payables	24B	(23,403)	(26,837)	–	–
– Borrowings	25	(64,551)	(48,125)	–	–
– Loan from a subsidiary	20	–	–	–	(6,899)
		<u>16,180</u>	<u>(40,607)</u>	<u>38,568</u>	<u>28,008</u>
<b>Variable rate instruments</b>					
Financial liabilities – borrowings	25	<u>(152,067)</u>	<u>(75,606)</u>	<u>–</u>	<u>–</u>

Interest in the financial instruments subject to floating interest rates is repriced regularly. Interests on financial instruments at fixed rates are fixed until the maturity of the instruments. The other financial instruments of the Group that are not included in the above table are not subject to interest rate risks.

#### Interest risk sensitivity

The sensitivity analysis below have been determined based on the exposure to interest rates for non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting periods in the case of instruments that have floating rates.

If the interest rates had been 100 basis points higher or lower and all other variables had been held constant, the Group's profit for the financial year ended 31 December 2017 would increase/decrease by RMB1,141,000 (2016: RMB567,000) attributable to the Group's exposure to interest rate risk on its variable rates borrowings.

#### (ii) Liquidity risk

The Group monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows. Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations.

The Group's trade payables are non-interest bearing and normally settled on 60-day terms while other payables have an average term of 30 days.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 40. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

#### (ii) Liquidity risk (Continued)

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

Group	On demand or within 1 year RMB'000	Within 2 to 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
<b>2017</b>					
<i>Non-derivative instruments</i>					
Loans <sup>(i)</sup>	186,773	13,269	8,924	208,966	201,670
Finance lease obligations	4,654	10,679	364	15,697	14,948
Trade payables	155,841	–	–	155,841	155,841
Other payables and accruals	120,347	3,901	–	124,248	120,206
Due to a related party (trade)	243	–	–	243	243
	<b>467,858</b>	<b>27,849</b>	<b>9,288</b>	<b>504,995</b>	<b>492,908</b>
<b>2016</b>					
<i>Non-derivative instruments</i>					
Loans <sup>(i)</sup>	107,942	8,975	1,024	117,941	112,953
Finance lease obligations	3,497	7,466	797	11,760	10,778
Trade payables	110,355	–	–	110,355	110,355
Other payables and accruals	132,458	3,653	–	136,111	134,599
Due to a related party (trade)	242	–	–	242	242
	<b>354,494</b>	<b>20,094</b>	<b>1,821</b>	<b>376,409</b>	<b>368,927</b>

(i) Included in the loans are Loan 3 and Loan 4 which are classified as current liabilities due to the breach of financial covenant and overriding clause of demand by the bank respectively (Note 25).

#### Maturity profile of loans based on installments payable

Group	On demand or within 1 year RMB'000	Within 2 to 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
<b>2017</b>	<b>162,266</b>	<b>34,908</b>	<b>14,629</b>	<b>211,803</b>	<b>201,670</b>
<b>2016</b>	<b>83,626</b>	<b>19,982</b>	<b>15,628</b>	<b>119,236</b>	<b>112,953</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 40. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

#### (ii) Liquidity risk (Continued)

Company	On demand or within 1 year RMB'000	Within 2 to 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
<b>2017</b>					
<b>Non-derivative instruments</b>					
Trade payables	1,858	–	–	1,858	1,858
Other payables and accruals	1,548	–	–	1,548	1,548
Due to subsidiaries	58,212	–	–	58,212	58,212
Guarantees for subsidiaries' borrowings (Note 25(i)) <sup>(i)</sup>	59,923	10,138	8,924	78,985	–
	<b>121,541</b>	<b>10,138</b>	<b>8,924</b>	<b>140,603</b>	<b>61,618</b>
<b>2016</b>					
<b>Non-derivative instruments</b>					
Trade payables	2,816	–	–	2,816	2,816
Other payables and accruals	1,363	–	–	1,363	1,363
Due to subsidiaries	67,050	–	–	67,050	67,050
Guarantees for subsidiaries' borrowings (Note 25(i)) <sup>(i)</sup>	30,697	–	–	30,697	–
	<b>101,926</b>	<b>–</b>	<b>–</b>	<b>101,926</b>	<b>71,229</b>

(i) The maximum amount of the guarantees is allocated to the earliest period in which the guarantee could be called. The guarantees are not recognised as financial liabilities in the Company's statement of financial position as the Group has been providing continuing advances to these subsidiaries to ensure the repayment obligations are met.

#### (iii) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group.

The carrying amounts of held-to-maturity investments, trade and other receivables, available-for-sale financial assets and cash and bank balances, represent the Group's maximum exposure to credit risk in relation to financial assets. No other financial assets carry a significant exposure to credit risk.

Cash and bank balances are placed with reputable financial institutions. Available-for-sale financial assets (2016: available-for-sale financial assets and held-to-maturity investments) represent bond funds issued by a reputable financial institution with good credit rating. Therefore, credit risk arises mainly from the inability of its customers to make payments when due. For trade receivables, the Group adopts the policy of dealing only with customers of appropriate credit history, and obtaining sufficient security where appropriate to mitigate credit risk. For other financial assets, the Group adopts the policy of dealing only with high credit quality counterparties.

The Group's trade receivables are non-interest bearing and are generally on 30 – 60 days (2016: 30 – 60 days) term. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

The Group's trade receivables comprise 3 major customers from the USA that individually represented 7% to 15% (2016: 7% to 16%) of trade receivables.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 40. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

#### (iii) Credit risk (Continued)

The credit risk for trade receivables (excluding VAT receivables), net of allowance for impairment loss, based on the information provided to key management is as follows:

	Group	
	2017 RMB'000	2016 RMB'000
<u>By geographical location of the customers</u>		
– People's Republic of China	38,500	45,039
– Asia Pacific	22,370	28,438
– Europe <sup>(i)</sup>	165,573	106,652
– North & South America	78,090	77,521
– Africa	27	–
	<b>304,560</b>	<b>257,650</b>

(i) Included amount of RMB138,940,000 and RMB13,341,000 (2016: RMB90,238,000 and RMB14,788,000) which are derived from Germany and United Kingdom respectively.

The age analysis of trade receivables, net of allowance for impairment loss (excluding VAT receivables), is as follows:

	Group	
	2017 RMB'000	2016 RMB'000
Not past due and not impaired	260,475	220,307
Past due but not impaired		
– Past due 0 to 3 months	43,357	30,073
– Past due over 3 months	560	3,903
	<b>43,917</b>	<b>33,976</b>
Impaired trade receivables	3,002	6,622
Less: Allowance for impairment loss (Note 18)	(2,834)	(3,255)
	<b>168</b>	<b>3,367</b>
Net trade receivables	<b>304,560</b>	<b>257,650</b>

The movement in allowance for impairment loss is as follows:

	Group	
	2017 RMB'000	2016 RMB'000
Balance at beginning of the financial year	3,255	206
Acquisition of businesses	–	2,220
Addition during the financial year (Note 32)	204	897
Allowance utilised during the year	(23)	(18)
Written-back during the financial year (Note 29)	(755)	(46)
Currency translation differences	153	(4)
Balance at end of the financial year (Note 18)	<b>2,834</b>	<b>3,255</b>



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 40. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

#### (iii) Credit risk (Continued)

Trade receivables that are individually determined to be impaired at the end of reporting period relate to debtors that are assessed to be in financial difficulties and have defaulted on payments. Trade receivables that are neither past due nor impaired are credit worthy debtors with good payment records with the Group.

Included in the trade receivable balances are debtors with total carrying amount of approximately RMB43,917,000 (2016: RMB33,976,000) which are past due but not impaired as there has not been a significant change in credit quality and the amounts are still considered recoverable. Included in these balances are amounts owing from the 3 major customers in the USA and a major customer in Germany totalling RMB20,868,000, out of which RMB9,422,000 has been subsequently collected. The Group does not hold any collateral over these balances.

As other receivables are not significant, no detailed age analysis has been disclosed.

### Capital risk management policies and objectives

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes borrowings disclosed in Note 25, net of cash and bank balances, and the equity attributable to equity holders of the Company, comprising issued capital and reserves as disclosed in Notes 3 to 9.

The Board of Directors reviews the capital structure on an annual basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on guidance of the Board, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt. The Group's overall strategy remains unchanged from 2016.

## 41. FAIR VALUES OF FINANCIAL INSTRUMENTS

### (i) Fair value of financial instruments that are carried at fair value

#### Fair value hierarchy

The Group classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 41. FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

### (i) Fair value of financial instruments that are carried at fair value (Continued)

The following table shows an analysis of financial instruments carried at fair value (recurring measurements) by level of fair value hierarchy as at 31 December 2017:

	Group		Company	
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>As at 31 December 2017</b>				
<b>Financial asset</b>				
Available-for-sale financial assets	–	16,748	–	16,748
<b>Financial liabilities</b>				
Derivative financial instruments	–	(608)	–	(608)
Contingent consideration (non-current)	–	–	–	–
	–	(608)	–	(608)
<b>As at 31 December 2016</b>				
<b>Financial asset</b>				
Available-for-sale financial assets	–	10,596	–	10,596
Derivative financial instruments	–	1,427	–	1,427
	–	12,023	–	12,023
<b>Financial liabilities</b>				
Contingent consideration (current)	–	–	(1,461)	(1,461)
Contingent consideration (non-current)	–	–	–	–
	–	–	(1,461)	(1,461)

There have been no transfers between Level 1 and Level 2 during the financial years ended 31 December 2016 and 2017.

#### Determination of fair value

##### *Available-for-sale financial assets (Note 21):*

Fair value is referenced to the valuations provided by the financial institution based on the net assets value of the bonds.

##### *Forward currency contracts (Note 23):*

The fair value of forward currency contracts are based on valuations provided by the financial institutions that are the counterparties to the transactions. The inputs to the valuation techniques include the foreign exchange spot and forward rates.

##### *Contingent consideration – Current (Note 24C):*

Fair value of contingent consideration is determined based on discounted cash flows. The key assumptions take into consideration the probability of meeting the condition and the discount factor.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 41. FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

### (i) Fair value of financial instruments that are carried at fair value (Continued)

#### Determination of fair value (Continued)

#### *Contingent consideration – Non-current (Note 24):*

In 2011, the Company acquired the entire share capital in Format Tresorbau Beteiligungs-GmbH and its subsidiaries ("Format Group") with a contingent cash consideration of RMB19,073,000 at the acquisition date. The contingent consideration has been agreed as part of the purchase agreement with the vendor and is guaranteed by a director and a shareholder. Additional cash payment shall be paid to the vendor, if during a period of 6 months after the expiration of three years commencing from 1 October 2011 ("Validity Period"), the vendor sells part of, or all of its consideration shares in the Singapore Exchange in the open market or, elsewhere, if the Company agrees, the Company shall undertake to compensate the vendor a sum based on the following formula:

$$\text{Contingent consideration} = \text{number of shares sold} \times (\text{Euro}5,000,000 \div 28,536,000 - \text{net proceeds per share in Singapore dollar} \div \text{prevailing exchange rate})$$

In 2014, the Company and the vendor have amended the key terms of the contingent consideration, which extends the validity period from September 2014 to March 2015 to a period between October 2019 and March 2020; and includes a new term to offset any dividend payout from 1 January 2014 to 31 March 2020 from the contingent consideration pay-out. If the vendor sells part of, or all of 28,536,000 consideration shares, before or after the Validity Period, the contingent consideration pay-out shall no longer be valid.

The fair value was computed based on quoted average share price and exchange rate, and was discounted to present value. The fair value of the contingent consideration was determined to be nil as at 31 December 2017 and 2016 due to the favourable market price of the Company's shares, exchange rate between SGD and EUR and dividend payout. The fair value hierarchy is Level 2.

No sensitivity analysis is presented as the management's view that no reasonably possible changes in market price of the Company's shares and exchange rate will give rise to material amount of liability at fair value within the next 12 months.

### (ii) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The carrying amounts of cash and bank balances, trade and other receivables, trade and other payables, amounts due from/to subsidiaries, amount due to a related party, and borrowings (floating rate) are reasonable approximation of fair values either due to the relatively short-term maturity of these financial instruments or was a floating rate instrument which that is re-priced to market interest rate on or near the reporting date.

The fair value (Level 1) of held-to-maturity investments as at 31 December 2016 based on the quoted market prices (current bid price) at the reporting date approximate the carrying amount.

### (iii) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value

		Group			
		2017		2016	
Note		Carrying value RMB'000	Fair value RMB'000	Carrying value RMB'000	Fair value RMB'000
Loans – fixed rate	25(i)	49,603	50,688	37,347	38,158

The fair value of the loans is estimated by discounting expected future cash flows at market interest rate for similar types of borrowing at the end of the reporting period. The fair value hierarchy of the borrowings is Level 2.

# SHAREHOLDERS' INFORMATION

AS AT 12 MARCH 2018

## GENERAL INFORMATION ON SHARE CAPITAL

<u>Class of equity securities</u>	<u>Number of equity securities</u>	<u>Voting Rights</u>	<u>Number of Treasury Shares and Subsidiary Holdings</u>	
Ordinary Shares	356,536,000	One Vote Per Share	NIL	
<u>Size of Shareholding</u>	<u>Number of Shareholders</u>	<u>% of Shareholders</u>	<u>Number of Shares</u>	<u>% of Shares</u>
1 – 99	1	0.12	1	0.00
100 – 1,000	96	11.79	82,815	0.02
1,001 – 10,000	324	39.80	1,822,135	0.51
10,001 – 1,000,000	373	45.83	30,903,549	8.67
1,000,001 & ABOVE	20	2.46	323,727,500	90.80
<b>TOTAL</b>	<b>814</b>	<b>100.00</b>	<b>356,536,000</b>	<b>100.00</b>

## TOP TWENTY SHAREHOLDERS AS AT 12 MARCH 2018

<u>NAME OF SHAREHOLDERS</u>	<u>NO. OF SHARES</u>	<u>% OF SHARES</u>
SPECTACULAR BRIGHT CORP.	152,438,956	42.76
OCBC SECURITIES PRIVATE LTD	64,845,764	18.19
DROEGE CAPITAL GMBH	28,536,000	8.00
STONE ROBERT ALEXANDER	23,150,000	6.49
SHI YI	9,229,000	2.59
DANIEL TAN POON KUAN	8,748,702	2.45
DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	4,936,000	1.38
UOB KAY HIAN PTE LTD	4,591,900	1.29
KIM SENG HOLDINGS PTE LTD	3,988,577	1.12
CHEN WENKUN	3,264,000	0.92
LIU WENYING	3,150,000	0.88
PEH KWEE YONG	2,950,000	0.83
CITIBANK NOMINEES SINGAPORE PTE LTD	2,748,500	0.77
DBS NOMINEES PTE LTD	2,551,800	0.72
PHILLIP SECURITIES PTE LTD	2,094,200	0.59
RAFFLES NOMINEES (PTE) LTD	1,560,700	0.44
CHUA YUE PENG	1,462,000	0.41
LIM TIONG KHENG STEVEN	1,370,000	0.38
TEO YONG PING (ZHANG RONGBIN)	1,100,000	0.31
TEO CHUAN TECK	1,011,401	0.28
	<b>323,727,500</b>	<b>90.80</b>

# SHAREHOLDERS' INFORMATION

AS AT 12 MARCH 2018

## SUBSTANTIAL SHAREHOLDERS

List of Substantial Shareholders

(As per the Register of Substantial Shareholders as at 12 March 2018)

	<u>Direct Interest</u>	<u>%</u>	<u>Deemed Interest</u>	<u>%</u>
Spectacular Bright Corp.	152,438,956	42.76	–	–
Droege Capital GmbH	28,536,000	8.00	–	–
Stone Robert Alexander	23,150,000	6.05	–	–
Dr Johnny Liu <sup>1</sup>	–	–	152,438,956	42.76
Liu Bin <sup>2</sup>	–	–	56,282,864	15.79
Droege Group AG <sup>3</sup>	–	–	28,536,000	8.00
Droege Holding GmbH & Co. KG <sup>4</sup>	–	–	28,536,000	8.00
Walter P.J. Droege <sup>5</sup>	–	–	28,536,000	8.00

### Notes:

1. By virtue of Dr Johnny Liu's shareholding in Spectacular Bright Corp., he is deemed to be interested in the shares of the Company held by Spectacular Bright Corp.
2. Mr Liu Bin is deemed to be interested in 56,282,864 shares of the Company held by OCBC Securities Private Ltd.
3. By virtue of Droege Group AG, being the sole shareholder of Droege Capital GmbH, it is deemed to be interested in the shares of the Company held by Droege Capital GmbH.
4. By virtue of Droege Holding GmbH & Co. KG, being the sole shareholder of Droege Group AG which is the sole shareholder of Droege Capital GmbH, it is deemed to be interested in the shares of the Company held by Droege Capital GmbH.
5. By virtue of Mr Walter P.J. Droege's shareholding in Droege Holding GmbH & Co. KG, the sole shareholder of Droege Group AG which is the sole shareholder of Droege Capital GmbH, he is deemed to be interested in the shares of the Company held by Droege Capital GmbH.
6. The percentage shown in the List of Substantial Shareholders was rounded to the nearest 2 decimal places.

## PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

Based on the information made available to the Company as at 12 March 2018, approximately 23.88% were held in the hands of the public. Under Rule 723 of the Listing Manual of the SGX-ST, a listed issuer must ensure that at least 10% of its listed securities are at all times held by the public.

# NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Dutech Holdings Limited (“the Company”) will be held at M Hotel Singapore, J Collyer Room, Level 9, 81 Anson Road, Singapore 079908 on Thursday, 26 April 2018 at 10.00 a.m. for the following purposes:

## AS ORDINARY BUSINESS

1. To receive and adopt the Directors’ Statement and the Audited Financial Statements of the Company for the year ended 31 December 2017 together with the Auditors’ Report thereon.  

**(Resolution 1)**
2. To re-elect the following Directors of the Company retiring pursuant to Article 107 of the Constitution of the Company:  

Dr Johnny Liu [See Explanatory Note (i)] **(Resolution 2)**  
Mr Liu Bin [See Explanatory Note (ii)] **(Resolution 3)**
3. To approve the payment of Directors’ fees of S\$396,000 for the year ending 31 December 2018 to be paid quarterly in arrears.  

**(Resolution 4)**
4. To re-appoint Crowe Horwath First Trust LLP as the Auditor of the Company and to authorise the Directors of the Company to fix their remuneration.  

**(Resolution 5)**
5. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

## AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

### 6. Authority to issue shares

That pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited (“SGX-ST”), the Directors of the Company be authorised and empowered to:

- (a) (i) issue shares in the capital of the Company whether by way of rights, bonus or otherwise; and/or
- (ii) make or grant offers, agreements or options (collectively, “Instruments”) that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares, at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company may in their absolute discretion deem fit; and
- (b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instruments made or granted by the Directors of the Company while this Resolution was in force,

provided that:

- (1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) to be issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a pro rata basis to shareholders of the Company shall not exceed twenty per centum (20%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

# NOTICE OF ANNUAL GENERAL MEETING

- (2) (subject to such calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the total number of issued shares (excluding treasury shares and subsidiary holdings) shall be based on the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:
- (a) new shares arising from the conversion or exercise of any convertible securities;
  - (b) new shares arising from exercising share options or vesting of share awards which are outstanding or subsisting at the time of the passing of this Resolution; and
  - (c) any subsequent bonus issue, consolidation or subdivision of shares;
- (3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Constitution of the Company; and
- (4) unless revoked or varied by the Company in a general meeting, such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (iii)]

**(Resolution 6)**

## 7. Authority to grant awards and to issue shares pursuant to the Dutech Group Performance Share Plan

That approval be and is hereby given to the Directors of the Company to grant awards in accordance with the provisions of the Dutech Group Performance Share Plan (“the Plan”), and to allot and issue from time to time such number of shares in the capital of the Company as may be required to be issued pursuant to the vesting of awards granted under the Plan, provided always that the aggregate number of ordinary shares to be issued pursuant to the Plan shall not exceed fifteen per centum (15%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company from time to time and that such authority shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (iv)]

**(Resolution 7)**

By Order of the Board

Lee Tiong Hock  
Company Secretary  
Singapore, 11 April 2018

### Explanatory Notes:

- (i) Detailed information on Dr Johnny Liu can be found under the section entitled “Directors’ Profile” in page 6 of the Annual Report.
- (ii) Detailed information on Mr Liu Bin can be found under the section entitled “Directors’ Profile” in page 6 of the Annual Report.
- (iii) The Ordinary Resolution (6) in item (6) above, if passed, will empower the Directors of the Company, effective until the conclusion of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant Instruments convertible into shares and to issue shares pursuant to such Instruments, up to a number not exceeding, in total, 50% of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company, of which up to 20% may be issued other than on a pro-rata basis to shareholders.

For determining the aggregate number of shares that may be issued, the total number of issued shares (excluding treasury shares and subsidiary holdings) will be calculated based on the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company at the time this Ordinary Resolution is passed after adjusting for new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time when this Ordinary Resolution is passed and any subsequent bonus issue, consolidation or subdivision of shares.



# NOTICE OF ANNUAL GENERAL MEETING

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- (iv) The Ordinary Resolution (7) in item (7) above, if passed, will empower the Directors of the Company, from the date of this Meeting until the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares in the Company pursuant to the Dutech Group Performance Share Plan up to a number not exceeding in total fifteen per centum (15%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company from time to time.

**Notes:**

1. (a) A member who is not a relevant intermediary, is entitled to appoint one or two proxies to attend and vote at the Annual General Meeting (the "Meeting").  
  
(b) A member who is a relevant intermediary, is entitled to appoint more than two proxies to attend and vote at the Meeting, but each proxy must be appointed to exercise the rights attached to a different Share or Shares held by such member.  
  
"Relevant intermediary" has the meaning ascribed to it in Section 181 of the Companies Act, Cap. 50.
2. A proxy need not be a member of the Company.
3. Each of the resolutions to be put to the vote of members at the Meeting (and at any adjournment thereof) will be voted on by way of a poll.
4. The instrument appointing a proxy must be deposited at the Registered Office of the Company at 50 Raffles Place #32-01 Singapore Land Tower Singapore 048623 not less than forty-eight (48) hours before the time appointed for holding the Meeting.

**Personal data privacy:**

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

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# DUTECH HOLDINGS LIMITED

(Company Registration No. 200616359C)  
(Incorporated in the Republic of Singapore)

## IMPORTANT:

1. A relevant intermediary may appoint more than two proxies to attend the Annual General Meeting and vote (please see note 4 for the definition of "relevant intermediary").
2. For investors who have used their CPF monies to buy the Company's shares, this Annual Report is forwarded to them at the request of their CPF Approved Nominees and is sent solely **FOR INFORMATION ONLY**.
3. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

## PROXY FORM

(Please see notes overleaf before completing this Form)

I/We, \_\_\_\_\_

of \_\_\_\_\_

being a member/members of Dutech Holdings Limited (the "Company"), hereby appoint:

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

and/or (delete as appropriate)

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

or failing the person, or either or both of the persons, referred to above, the Chairman of the Meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Annual General Meeting (the "Meeting") of the Company to be held at M Hotel Singapore, J Collyer Room, Level 9, 81 Anson Road, Singapore 079908 on Thursday, 26 April 2018 at 10.00 a.m. and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting at his/her/their discretion, as he/she/they will on any other matter arising at the Meeting and at any adjournment thereof.

No.	Resolutions relating to:	Number of Votes For*	Number of Votes Against*
1	Directors' Statement and Audited Financial Statements for the year ended 31 December 2017		
2	Re-election of Dr Johnny Liu as a Director		
3	Re-election of Mr Liu Bin as a Director		
4	Approval of Directors' fees amounting to S\$396,000 for the year ending 31 December 2018 to be paid quarterly in arrears		
5	Re-appointment of Crowe Horwath First Trust LLP as Auditor		
6	Authority to issue new shares		
7	Authority to issue shares pursuant to the Dutech Group Performance Share Plan		

\* If you wish to exercise all your votes "For" or "Against", please tick (✓) within the box provided. Alternatively, please indicate the number of votes as appropriate.

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2018

Total number of Shares in:	No. of Shares
(a) CDP Register	
(b) Register of Members	

\_\_\_\_\_  
Signature of Shareholder(s)  
or, Common Seal of Corporate Shareholder

\*Delete where inapplicable



**Notes:**

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.
2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
3. Where a member appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.
4. A member who is a relevant intermediary is entitled to appoint more than two proxies to attend and vote instead of the member, but each proxy must be appointed to exercise the rights attached to a different Share or Shares held by such member. Where such member appoints more than two proxies, the appointments shall be invalid unless the member specifies the number of Shares in relation to which each proxy has been appointed.

"Relevant intermediary" means:

- (a) a banking corporation licensed under the Banking Act (Cap. 19) or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity;
  - (b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Cap. 289) and who holds shares in that capacity; or
  - (c) the Central Provident Fund Board established by the Central Provident Fund Act (Cap. 36), in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.
5. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.
  6. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 50 Raffles Place #32-01 Singapore Land Tower Singapore 048623 not less than forty-eight (48) hours before the time appointed for the Meeting.
  7. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.
  8. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

**PERSONAL DATA PRIVACY:**

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of AGM dated 11 April 2018.

**General:**

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

# CORPORATE INFORMATION

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## BOARD OF DIRECTORS

**Dr. Johnny Liu**

(Executive Chairman and CEO)

**Liu Bin**

(Executive Vice Chairman)

**Tang See Chim**

(Lead Independent Director)

**Graham Macdonald Bell**

(Independent Director)

**Chen Zhaohui, George**

(Independent Director)

**Dr. Hedda Juliana im Brahm-Droege**

(Independent Director)

**Christoph Hartmann**

(Independent Director)

## AUDIT COMMITTEE

**Tang See Chim**

(Chairman)

**Graham Macdonald Bell**

**Chen Zhaohui, George**

**Christoph Hartmann**

## NOMINATING COMMITTEE

**Graham Macdonald Bell**

(Chairman)

**Tang See Chim**

**Chen Zhaohui, George**

## REMUNERATION COMMITTEE

**Chen Zhaohui, George**

(Chairman)

**Tang See Chim**

**Graham Macdonald Bell**

**Dr. Hedda Juliana im Brahm-Droege**

## COMPANY SECRETARY

**Lee Tiong Hock**

## COMPANY'S REGISTERED OFFICE

50 Raffles Place

#32-01 Singapore Land Tower

Singapore 048623

## COMPANY REGISTRATION NUMBER

200616359C

## COMPANY'S PRINCIPAL PLACE OF BUSINESS

11G International Shipping & Finance Centre

720 Pudong Avenue

Shanghai 200120 PRC

Tel: (86) 21 5036 8072

Fax: (86) 21 5036 8073

## GROUP'S PRINCIPAL PLACE OF BUSINESS

1888 Jintong Avenue

Tongzhou District

Nantong Jiangsu 226300 PRC

Tel: (86) 513 8655 7000

Fax: (86) 513 8655 7008

## SHARE REGISTRAR

B.A.C.S. Private Limited

8 Robinson Road

#03-00 ASO Building

Singapore 048544

## AUDITORS

Crowe Horwath First Trust LLP

8 Shenton Way

#05-01 AXA Tower

Singapore 068811

## PARTNER-IN-CHARGE

**Tan Teck Zhen**

(Appointed with effect from financial year 2016)

## PRINCIPAL BANK

Overseas-Chinese Banking Corporation Limited

China Construction Bank



**Dutech Holdings Limited**

11G International Shipping & Finance Centre  
720 Pudong Avenue  
Shanghai 200120, PRC  
Tel: (86) 21 5036 8072  
Fax: (86) 21 5036 8073