Dutech Holdings Limited

BUILDING FOR THE FUTURE

ANNUAL REPORT

2018

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# ABOUT DUTECH

Incorporated in Singapore on 2 November 2006 and listed on the Mainboard of the Singapore Exchange on 2 August 2007, 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"), gaming machines, lottery machines 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 management. Its manufacturing and service facilities are strategically located in China, the Philippines, Vietnam, 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, the "Best Suppliers" by Wincor Nixdorf, the "Golden Award" by Diebold in 2013, 2014 and 2015, and the "Best supplier" by Diebold Nixdorf in 2018.

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 Diebold Nixdorf, Liberty Safe & Security Products Inc., Tractor Supply Co., Glory Ltd., Scientific Games, Aldi and Deutsche Bahn.

# 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 2018 ("FY2018").

## DEAR SHAREHOLDERS

On behalf of the Board of Directors of Dutech Holdings Limited ("Dutech" or the "Group"), I am pleased to present our annual report for the financial year ended 31 December 2018 ("FY2018").

Although the global economy started off promisingly in 2018, geopolitical instability brought on by the US-China trade standoff and rising protectionism impacted trade sentiments and led to a weaker second half. For Dutech, it was another challenging year as we continued to grapple with rising raw material and labour costs, and the disruption to our industry, particularly for ATM safes, with the growing prevalence of mobile and e-payment, and the progression towards a cashless society. Nonetheless, amidst this less than favourable operating environment, the Group delivered a creditable performance with our strategic shift to new products, smart-city solutions as well as stringent cost control.

## FINANCIAL REVIEW

For FY2018, the Group registered revenue growth of 9.9% to RMB1,815.8 million compared to RMB1,652.3 million for the financial year ended 31 December 2017 ("FY2017"). The higher revenue was attributed to increased sales from the High Security Segment which grew 21.0% to RMB960.2 million, offset by lower sales increase from the Business Solutions Segment which decreased marginally by 0.4% to RMB855.5 million.

On the back of the increase in revenue, the Group's gross profit improved by 9.4% to RMB452.3 million. In terms of segmental gross margin, Business Solutions Segment was up by 2.7 percentage point to 24.4% due to a change in product mix while High Security Segment declined by 3.6 percentage point to 25.4% caused by higher raw materials costs, with the resultant drop in Group gross margin by a negligible 0.1 percentage point to 24.9%. The Group's profit before tax increased 2.0% to RMB67.2 million after offsetting an increase in mostly one-off, other expenses by 74.4% to RMB27.8 million. In the year, the Group incurred a disproportionately large increase in income tax of 449.5% to RMB14.1 million and consequently, net profit after tax declined 16.1% to RMB53.1 million while earnings per share decreased to RMB14.90 cents from RMB17.76 cents in FY2017.

We maintain a healthy balance sheet and cash position. As at 31 December 2018, the Group had a positive net working capital of RMB584.1 million and net asset value per share was RMB259.32 cents. Cash generated from operations increased to RMB153.8 million compared to RMB32.7 million in the previous year, and our cash and bank balances stood at RMB335.3 million against total borrowings of RMB180.6 million in FY2018.


## 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 GmbH, Krauth Technology GmbH, Metric Group Holdings Limited and Deutsche Mechatronics GmbH.

As a leading Original Design Manufacturer ("ODM") and the largest producer in Asia in terms of sales and production capacity in high security solutions, we supply a wide range of high security products such as ATM, banking and commercial safes, as well as cash handling systems. Additionally, we have expanded our capabilities to include the development and manufacture of intelligent terminals including Ticket Vending Machine ("TVM"), Gaming Machine, Lottery Machine and Parking Meter. Headquartered in Shanghai, China, we have production facilities in China, the Philippines, Vietnam, UK, USA and Germany. We have established presence in all major markets including USA, Europe, and the Asia Pacific region to serve our global clients.

### Catalysing growth through investment in research and development ("R&D")

R&D forms the basis for the Group's business growth, especially for our Business Solutions Segment, in order to keep pace with changes in market demands brought about by emerging technologies. In the year, we continued to invest significantly in R&D with a 41.7% increase in R&D expenses to RMB78.7 million from RMB55.6 million in FY 2017, and we were awarded 30 patents, 10 certifications by ECBS (European Certificate Body) and two certifications by UL.

Our R&D efforts were focused on the development of new products including software and linking systems for cashless solutions and intelligent terminals such as parking meters and TVMs. Our R&D investment borne fruit with the development of a next generation TVM product line which supports mobile and e-payment in meeting the evolving needs of consumers with the transition towards a cashless society and the advent of smart cities. The new TVM was launched at the 2018 Innotrans, a leading international trade fair for transport technology which takes places every two years in Berlin, Germany, and we garnered very positive response from the market.

In addition, we developed a next generation intelligent payment terminal, Self-Checkout ("SCO"), for use in supermarkets, retail shops and malls. Retailers encouraged customers to use the SCO to perform self-checkout for their purchases which enabled them to improve their operations efficiency and to enhance customer experience with reduced wait time and faster service.

### Augmenting operational efficiency through quality improvement and resource optimisation

The increasingly challenging operating environment, coupled with the rising costs of business, necessitate us to boost our operational efficiency in order to remain competitive and relevant to the markets we serve. One of Dutech's strengths is our ability to offer customers high quality products at competitive prices in the shortest possible lead-time. To this end, we regularly engage and work closely with our customers so as to further improve our product and service quality. We also continuously review and strengthen our processes and systems to identity opportunities and explore technologies that can lead to more productivity gains and overhead reductions.

Another key area of focus is optimising the use of resources and eliminating waste. Following the replacement of air compressors, and carrying out diligent maintenance works at our manufacturing facilities, we have been steadily reducing our energy consumption. In our latest Sustainability Report (FY2017), our energy consumption per 10,000 RMB output decreased from 54.03KG in FY2016 to 41.53KG in FY2017. We also invested in new equipment and upgraded existing infrastructure and systems which resulted in better utilisation of raw materials with less wastage. Our utilisation ratio of raw materials increased from 88.01% in FY2016 to 90.23% in FY2017. We continued to optimise and stabilise our energy consumption and material utilisation in FY2018 in

# CHAIRMAN'S MESSAGE


line with our commitment to achieve sustainable growth and development.

## OUTLOOK AND FUTURE PLANS

While the global economy is expected to grow, albeit at a slower pace, in 2019, geopolitical risks and policy uncertainties such as the expansion of the US-China trade dispute, interest rate hikes and Brexit, remain elevated.

For Dutech, our business outlook remains challenging as the factors impacting us in the year is expected to persist in FY2019. Nevertheless, we have confidence in our ability to leverage on our competencies to mitigate these headwinds and to exploit opportunities afforded by technological trends such as smart-city solutions and cashless transactions. Our strategic direction will focus on enhancing our existing capabilities and building new competencies so as to differentiate and expand our products and services, and to sustain our competitive advantage.

### Moving up the value chain

Smart technology is transforming the way people live and disrupting businesses in nearly every industry. In the last few years, we have been actively building up our Business Solutions Segment and acquiring capabilities in order to increase our value proposition. We will intensify our efforts in the design, development and manufacture of intelligent terminals such as TVM, gaming and parking meters and cashless payment solutions. Currently, we are developing a next generation line of cashless solutions which can be employed in various sectors such as public transportation, retail, and logistics. Using our smart handholders which can be connected to SAP systems, end-customers are able to perform one-stop transactions including QR code scanning, ticketing and payment.

### Expanding our market presence and customer base

Capitalising on our strength in the provision of turnkey solutions with our design and production operations across diverse markets, we will explore opportunities to expand our market presence, to better serve our existing customers and to acquire new customers. In 2018, we established Matrix Technologies Company Limited in Vietnam to undertake the sales of high security products and gaming machines and recently, we incorporated Metric International Limited in Hong Kong, for the future sales and servicing of parking meters and intelligent terminals. In addition, we will continue to focus on growing our e-commerce presence which has been instrumental in reaching out to global customers. Online sales have contributed significantly to our subsidiary, Format's performance in the last three years and has now become the main sales driver, registering double-digit growth in 2018.

### Strengthening our leadership position

The Group will work towards consolidating our position as an international leader in high security products and self-service terminals, offering differentiated solutions in the era of smart technology and cashless transactions. To this end, we will keep a keen eye on emerging technologies and trends impacting our industry and continue to invest in R&D and innovation for the development of solutions to meet our customers' needs. At the same time, we will streamline and strengthen our operations through greater integration of our subsidiaries in the areas of sourcing, manufacturing, R&D and marketing to achieve economies of scale so as to compete even more effectively in the marketplace.

## APPRECIATION

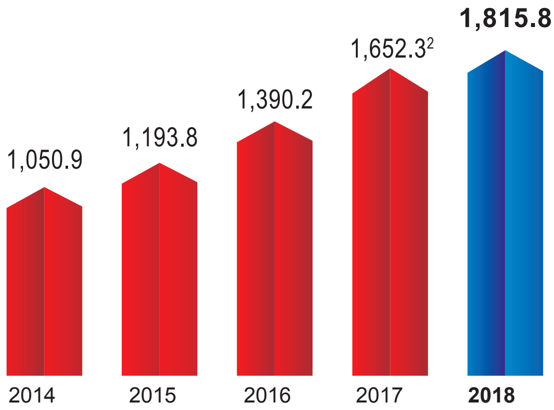
Mr. Tang See Chim, Lead Independent Director and Chairman of the Audit Committee and a member of the Nominating and the Remuneration Committees, will be retiring on 25 April, 2019 at the close of the Annual General Meeting. Mr. Tang has served on our Board for more than 10 years since his appointment in 2007, and we have benefited immensely from his strategic counsel and guidance. On behalf of the Board of Directors, I would like to express our deep appreciation to Mr. Tang for his invaluable contributions and dedication over the years.

In ending, I would like to thank the management and staff for their hard work, the Board of Directors for their strategic counsel, our customers and partners for their patronage and importantly, our shareholders for their support.

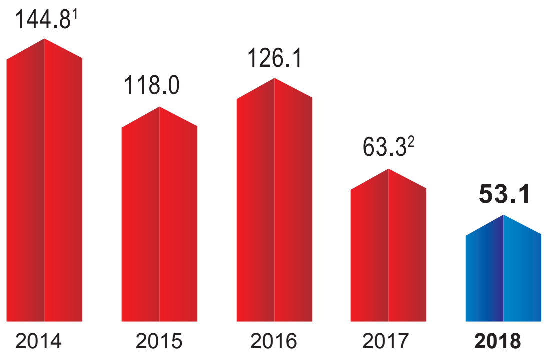
**DR. JOHNNY LIU**
Chairman & CEO

# FINANCIAL HIGHLIGHTS

## REVENUE (RMB Million)

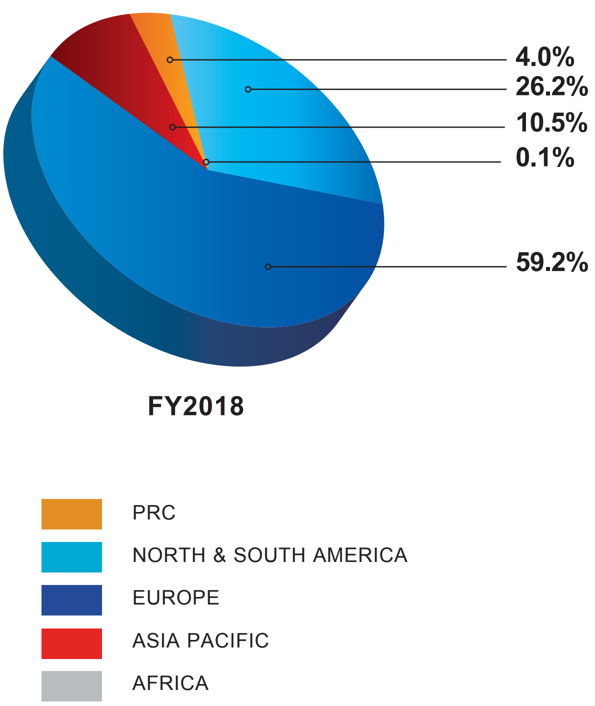



## PROFIT ATTRIBUTABLE TO SHAREHOLDERS (RMB Million)

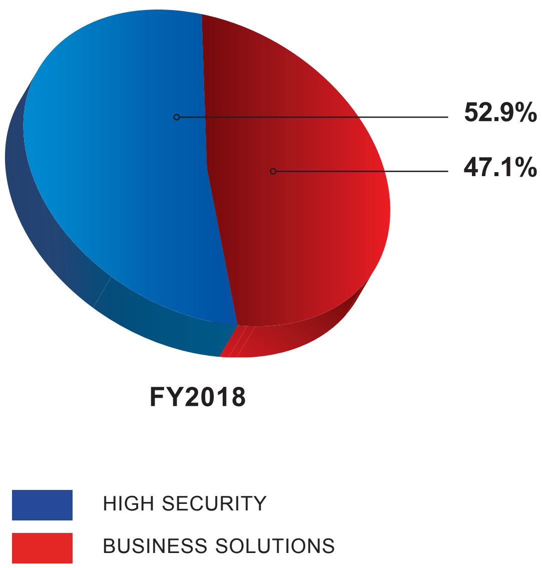



[1] Excluding the one-off bargain purchase of RMB55.9 million in FY2014 arising from the acquisition of DTMT, the profit attributable to shareholders was RMB88.9 million in FY2014.
[2] Restated due to the adoption of SFRS(I) 15.

## REVENUE BY GEOGRAPHICAL REGION




## REVENUE BY PRODUCTS



# 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 26 April 2018. 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 Jiao Tong 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 Jiao Tong 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 is also a Board Member of ESSA e.V. (European Security Systems Association).

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 26 April 2018. 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 since 1 October 2014 and was re-designated as a Non-Executive Director due to the revised Code of Corporate Governance which came into effect on 1 January 2019. She 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 (see: 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. Mr. Hartmann was subsequently re-designated as a Non-Executive Director due to the revised Code of Corporate Governance which came into effect on 1 January 2019. 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.

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 Master 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.

**MR. SUNNY YU TIANZHAO** is our Chief Financial Officer and is responsible for financial control of the Group. Mr. Yu obtained his Bachelor of Economics from Shanghai University of Finance and Economics in 1992, and participated CEIBS-LBS CFO program in 2013. After that, he has been awarded the certificates of Senior Accountant, China Certified Public Accountant and the Fellowship of Chartered Certified Accountant.

He has over 20 years of experience in accounting and financial management. Prior to joining the group in June 2018, he worked as a Senior Financial Manager in Shanghai Johnson Ltd. from June 1995 to April 2006, and the Financial Director in Jungheinrich Lift Truck (Shanghai) Co., Ltd. from August 2006 to May 2014. Thereafter, he joined WEBEN Smart Manufacturing System (Shanghai) Co., Ltd. as Chief Financial Officer and Secretary of the Board of Directors from November 2014 to May 2017, and worked for Interchina Water Treatment Co. Ltd., a listed company in China, as the General Manager of the finance department from May 2017 to June 2018.

**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.

**MR. GE CHAOFENG** is our Managing Director in charge of Asia operation included China facilities, Vietnam 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 Bachelor of Engineering in Henan University of Science and Technology in 1988. He graduated from Industrial Management Program for CMBA from Shanghai Jiao Tong 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 of Science and Technology Progress Reward in Henan Province".

**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.

**MS. DONIA DONG JUNXIA** is our Financial Controller since December 2006 and assists our CFO in the financial operations of the Group 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 awarded the certificate of China Certified Public Accountant since 2001. She got her 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.

# CORPORATE **GOVERNANCE REPORT**

The board of directors (the "**Board**" or the "**Directors**") and Management of Dutech Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") 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 Group with specific reference to the principles and guidelines of the Code.

The Board is pleased to confirm that for the financial year ended 31 December 2018 ("**FY2018**"), the Group has adhered to the principles and guidelines as set out in the Code, and where applicable, the reasons have been provided for any principles and/or guidelines that have not been complied with.

## I. BOARD MATTERS

### The Board's Conduct of its Affairs

*Principle 1: Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the company. The Board works with Management to achieve this objective and Management remains accountable to the Board.*

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, together with strategic networking relationships, and 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 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 Board 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 Board Committees.

# CORPORATE **GOVERNANCE REPORT**

The Board is scheduled to meet at least four (4) 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.

The attendance of the Directors at the Board and the Board Committees meetings held during FY2018 is set out below:

| Type of Meetings | Board | Audit Committee | Nominating Committee | Remuneration Committee |
|---|---|---|---|---|
| Total No. Held | 4 | 4 | 1 | 1 |
| **Attendance** | | | | |
| 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 | 4 | 4 | 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 FY2018. 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 FY2018, 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.

**Board Composition and Guidance**

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

The Board presently comprises seven (7) Directors, of whom two (2) are Executive Directors, two (2) of whom are Non-Executive Directors and the remaining three (3) are Independent Directors:

**Executive Directors:**
Dr. Johnny Liu (Executive Chairman and Chief Executive Officer)
Mr. Liu Bin (Executive Vice Chairman)

# CORPORATE **GOVERNANCE REPORT**

**Non-Executive Directors:**

| | |
|---|---|
| Dr. Hedda Juliana im Brahm-Droege* | (Non-Executive Director) |
| Mr. Christoph Hartmann* | (Non-Executive Director) |
| Mr. Tang See Chim | (Lead Independent Director) |
| Mr. Graham Macdonald Bell | (Independent Director) |
| Mr. Chen Zhaohui, George | (Independent Director) |

* Re-designated from Independent Director to Non-Executive Director due to the revised Code of Corporate Governance which came into effect on 1 January 2019.

The composition of the Board complies with the relevant guideline of the Code that Independent Directors making up at least one-third of the Board.

Where the Chairman is not an Independent Director, the Independent Directors shall make up at least half of the Board. The Company has complied with the relevant guideline of the Code as half of the Board members are Independent Directors during FY2018.

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 6 to 7 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 Independent Director for FY2018 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. Particular scrutiny is applied in assessing the continued independence of Directors having served beyond nine (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 (9) years.

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 (9) 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. To facilitate a more effective check on Management, Non-Executive Directors are encouraged to meet regularly without the present of Management. In FY2018, the Non-Executive and Independent Directors have met at least once without the presence of Management.

# CORPORATE **GOVERNANCE REPORT**

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.

**Chairman and Chief Executive Officer**

*Principle 3: There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company's business. No one individual should represent a considerable concentration of power.*

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 (3) Board Committees, all of whom comprise of Non-Executive 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 Executive Chairman and CEO or the Chief Financial Officer ("**CFO**") has 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 will hold informal meeting session on a need basis without the presence of Management and other directors, and the Lead Independent Director will provide feedback to the Executive Chairman after such meetings where appropriate.

**Board Membership**

*Principle 4: There should be a formal and transparent process for the appointment and re-appointment of directors to the Board.*

The NC presently comprises three (3) Independent Directors:

| | |
|---|---|
| Mr. Graham Macdonald Bell | (Chairman) |
| Mr. Tang See Chim | (Member) |
| Mr. 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:

- To make recommendations to the Board on all board on the appointment of new executive and non-executive directors, including making recommendations on the composition of the Board generally and the balance between executive and non-executive directors appointed to the Board;
- To regularly review the Board structure, size and composition having regard to the scope and nature of the operations and the core competencies of the directors as a group;
- To review, assess and recommend nominee(s) or candidate(s) for appointment or election to the Board, having regard to his/her qualifications, competency and whether or not he/she is independent and in the case of a re-nomination, to his/her contribution and performance;

# CORPORATE **GOVERNANCE REPORT**

- To make plans for succession, in particular for the Chairman and Chief Executive;
- To determine annually the independence of Directors, bearing in mind the circumstances set forth in Guideline 2.1 of the Code and other salient factors;
- To recommend directors who are retiring by rotation to be put forward for re-election;
- To decide whether or not a director is able to and has been adequately carrying out his/her duties as a director of the Company, particularly when he/she has multiple board representations;
- To recommend to the Board internal guidelines to address the competing time commitments faced by directors who serve on multiple boards; and
- To assess the effectiveness of the Board as a whole and the contribution of each individual director to the effectiveness of the Board.

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.

Pursuant to the Article 107 of the Company's Constitution, the following Directors are due for retirement by rotation at the forthcoming AGM:

(i) Mr. Tang See Chim;

(ii) Mr. Graham Macdonald Bell, retiring pursuant to Article 107; and

(iii) Mr. Chen Zhaohui, George, retiring pursuant to Article 107.

Mr. Tang See Chim has indicated his intention of retirement at the conclusion of the forthcoming AGM of the Company and therefore decided not to seek re-election.

The NC has reviewed and recommended for the re-election of Mr. Graham Macdonald Bell and Mr. Chen Zhaohui, George as Directors of the Company at the forthcoming AGM.

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 | 26 April 2018 |
| Mr. Liu Bin | Executive Vice-Chairman | 26 March 2007 | 26 April 2018 |
| 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 |
| Dr. Hedda Juliana im Brahm-Droege | Non-Executive Director | 1 October 2014 | 26 April 2017 |
| Mr. Christoph Hartmann | Non-Executive Director | 1 December 2011 | 26 April 2017 |

# CORPORATE **GOVERNANCE REPORT**

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.

**Board Performance**

*Principle 5: There should be a formal annual assessment of the effectiveness of the Board as a whole and its board committees and the contribution by each director to the effectiveness of the Board.*

The NC 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 FY2018, 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.

Although the Directors are not evaluated individually, the factors taken into consideration for the re-election or re-appointment of the Directors are, *inter alia*, contributions by the Directors to the effectiveness of the Board and their commitment to their role.

The Board is satisfied that all Directors have discharged their duties adequately for FY2018 and expects that the Directors will continue to discharge their duties adequately for the financial year ending 31 December 2019.

**Access to Information**

*Principle 6: In order to fulfil their responsibilities, directors should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.*

The Board and the Board Committees are provided with adequate and timely information prior to the Board and the Board Committees meetings and on an on-going basis. Draft agendas for the Board and the Board Committees meetings are circulated to the Executive Directors and Board Committees 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 the Board or the Board Committees meetings to provide additional insight on matters being discussed and to respond to any queries from Directors as and when deemed necessary.

# CORPORATE **GOVERNANCE REPORT**

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 or the representative from the Company Secretary's office attends all the Board and the Board Committees 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.

## II. REMUNERATION MATTERS

### Procedures for Developing Remuneration Policies

*Principle 7: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.*

### Level and Mix of Remuneration

*Principle 8: The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.*

The RC presently comprises of four (4) Non-Executive Directors, the majority of whom, including the RC Chairman, are independent:

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

The principal duties of the RC include the following:

- To review and recommend to the Board a framework of remuneration and the specific remuneration packages ad terms of employment (where applicable) for each director, the CEO (if CEO is not a director) and senior management including but not limited to senior executives/divisional directors/those reporting directly to the Managing Director/Chairman/CEO/employees related to the executive directors and controlling shareholders of the Group;
- To review and recommend for endorsement by the entire Board, share option schemes or any long term incentive schemes which may be set up from time to time, in particular to review whether directors should be eligible for such schemes and also to evaluate the costs and benefits of such schemes and to do all acts necessary in connection therewith;
- To carry out its duties in the manner that it deemed expedient, subject always to any regulations or restrictions that may be imposed upon the RC by the Board from time to time;
- To ensure that all aspects of remuneration including but not limited to directors' fees, salaries, allowances, bonuses, options and benefits-in-kind are covered; and
- As part of its review, the RC shall take into consideration:

  (i) that the remuneration packages should be comparable within the industry and in comparable companies and shall include a performance-related element coupled with appropriate and meaningful measures of assessing individual directors' and senior management's performance. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

  (ii) that the remuneration packages of employees related to executive directors and controlling shareholders of the Group are in line with the Group's staff remuneration guidelines and commensurate with their respective job scopes and levels of responsibility.

  (iii) Principle 8 and Guidelines 8.1 to 8.4 of the Code.

# CORPORATE **GOVERNANCE REPORT**

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 boards 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 FY2018 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 (2) 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 which was approved during the Company's initial public offering has expired. Currently, the Company does not have any employee share schemes or any other short-term or long-term incentive schemes but will review the feasibility of having such schemes when appropriate.

The Company does not use contractual provisions to allow the Company to reclaim incentive components of remuneration from the Executive Directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company. The Company should be able to avail itself to remedies against these personnel in the event of such breach of fiduciary duties.

**Disclosure on Remuneration**

*Principle 9: Every company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration, in the company's Annual Report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key management personnel, and performance.*

Information on the remuneration of Directors of the Company for FY2018 is as follows:

| Name of Directors | Remuneration $ | Salary % | Bonus % | Fees % | Other Benefits % | Total % |
|---|---|---|---|---|---|---|
| Johnny Liu | 331,978 | 42 | 45 | – | 13 | 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 |

# CORPORATE **GOVERNANCE REPORT**

Information on the remuneration band of the key management personnel of the Company for FY2018 is as follows:–

| Remuneration Band & Name of Key Management Personnel | Salary % | Bonus % | Fees % | Other Benefits % | Total % |
|---|---|---|---|---|---|
| **Below S$250,000** | | | | | |
| Winson Chen Wenkun | 75 | 20 | – | 5 | 100 |
| Sunny Yu Tianzhao[1] | 84 | 8 | – | 8 | 100 |
| Donia Dong Junxia | 71 | 22 | – | 7 | 100 |
| Jessica Shi Yi | 77 | 18 | – | 5 | 100 |
| Ge Chaofeng | 69 | 25 | – | 6 | 100 |
| Dr. Popof Wu Bo | 87 | 9 | – | 4 | 100 |

1. Appointed as CFO with effect from 1 December 2018

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 FY2018 having regard to the highly competitive human resource environment and the sensitive and confidential nature of such information and disadvantages that might bring.

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 FY2018, 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.

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.

## III. ACCOUNTABILITY AND AUDIT

### Accountability

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

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.

### Risk Management and Internal Controls

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

The 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.

# CORPORATE **GOVERNANCE REPORT**

The Board has received assurance from the CEO and 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 (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 2018.

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.

**Audit Committee**

*Principle 12: The Board should establish an Audit Committee ("AC") with written terms of reference which clearly set out its authority and duties.*

The AC presently comprises of four (4) Non-Executive Directors, the majority of whom, including the AC Chairman are independent:

| | |
|---|---|
| Mr. Tang See Chim | (Chairman) |
| Mr. Graham Macdonald Bell | (Member) |
| Mr. Chen Zhaohui, George | (Member) |
| Mr. 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, including the nature and scope of the audit before the audit commences, their evaluation of the system of internal accounting controls, their audit report and their management letter and Management's response;

- To ensure co-ordination where more than one audit firm is involved;

- To review the quarterly and annual financial statements to ensure integrity of the said financial statements before submission to the Board for approval, focusing in particular on:

  (a) significant financial reporting issues and judgements;

  (b) changes in accounting policies and practices;

  (c) major risk areas;

  (d) significant adjustments resulting from the audit;

  (e) the going concern statement;

  (f) compliance with accounting standards; and

  (g) compliance with stock exchange and statutory/regulatory requirements;

- To review any formal announcements relating to the Company's financial performance;

- To discuss problems and concerns, if any, arising from the quarterly and final audits, in consultation with the external auditors and the internal auditors where necessary;

# CORPORATE **GOVERNANCE REPORT**

- To meet with the external auditors and the internal auditors without the presence of Management, at least annually, to discuss any problems and concerns they may have;
- To review the assistance given by Management to the external auditors;
- To review annually the scope and results of the external audit and its cost effectiveness as well as the independence and objectivity of the external auditors;
- Where the auditors also provide non-audit services to the Company, the AC has to review the nature and extent of such services in order to balance the maintenance of objectivity and value for money, and to ensure that the independence of the auditors would not be affected;
- To review the internal audit programme and the adequacy and effectiveness of the Company's internal audit function, as well as to ensure co-ordination between the internal and external auditors and Management;
- To review the adequacy and effectiveness of the Company's risk management and internal control systems (including financial, operational, compliance and information technology controls) and to report to the Board annually;
- To review the scope and results of the internal audit procedures including the effectiveness of the internal audit function and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;
- To review and discuss with the external auditors, any suspected fraud or irregularity, or suspected infringement of any law, rules or regulations, which has or is likely to have a material impact on the Company's operating results or financial position, and Management's response;
- To investigate any matter within its terms of reference, with full access to and co-operation by Management and full discretion to invite any director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly;
- To review arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and ensure that arrangements are in place for such concerns to be raised and independently investigated and for appropriate follow up actions to be taken;
- To report to the Board its findings from time to time on matters arising and requiring the attention of the AC;
- To review interested person transactions failing within the scope of the SGX-ST Listing Manual;
- To approve the hiring, removal, evaluation and compensation of the head of the internal audit function, or the accounting firm/auditing firm or corporation to which the internal audit is outsourced. To ensure that the internal audit function is staffed with persons with the relevant qualification and experience and that they carry out their functions according to 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;
- To recommend to the Board the appointment, re-appointment and removal of the external auditors and approve the remuneration and terms of engagement of the external auditors;
- To review the audit representation letters before consideration by the Board, giving particular consideration to matters that related to non-standard issues;
- To undertake such other reviews and project as may be requested by the Board; and
- To 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.

# CORPORATE **GOVERNANCE REPORT**

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 27 to 29 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 FY2018 and a breakdown of the fees paid in total for audit and non-audit services respectively, can be found on page 92. 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.

The AC is kept abreast by Management and the external auditors of the changes to the financial reporting standards, Listing Rules of the SGX-ST and other codes and regulations which could have an impact on the Group's business and financial statements, in addition to trainings and seminars conducted by professionals and external parties.

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

**Internal Audit**

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

The 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.

During FY2018, the AC has collectively decided to outsource the Group's internal audit function in China to BDO LLP ("**BDO**"), the Group's internal audit function in Germany and UK to Ebner Stolz Mönning Bachem GmbH & Co. KG in order to satisfy and comply with the requirements of best practices set out in the Code.

During FY2018, BDO had undertaken a review on the principal subsidiaries of the Group in China, namely Tri Star Inc., and Tri Star Technology Co. Ltd. Ebner Stolz Mönning Bachem GmbH & Co. KG had undertaken reviews on the subsidiaries in Germany and UK, namely Krauth Technology GmbH, Almex GmbH, Format Tresorbau GmbH & Co. KG and Metric Group Holdings Ltd. 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.

# CORPORATE **GOVERNANCE REPORT**

## IV. SHAREHOLDER RIGHTS AND RESPONSIBILITIES

**Shareholders' rights**

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

**Communication with Shareholders**

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

**Conduct of Shareholder meetings**

*Principle 16: Company should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company.*

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 (2) 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.

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 FY2018 on 23 July 2018. The Board, having further reviewed the cashflow position and contingent liability of the Group, did not recommend any payment of final dividend for FY2018.

# CORPORATE GOVERNANCE REPORT

## 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 Company does not have a general mandate from shareholders for interest person transactions pursuant to Rule 920 of the Listing Manual of the SGX-ST.

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) |
|---|---|---|
| Nantong Mayway Products Corp. | Rental for land and buildings: RMB3.97 million | NIL |

## 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 | – Duowei Electromechanical (Tongzhou) Co., Ltd.<br>– Nantong Mayway Products Corp.<br>– Spectacular Bright Corp.<br>– Tri-Star Holdings Inc.<br>– Tri Star International Co., Ltd.<br>– Tri Star Shanghai Electronics<br>– TSI Metals Corp. | – Nil |
| Mr. Liu Bin | Executive Vice Chairman | – Willalpha International Limited<br>– Wellwield Investment Holdings Pte Limited<br>– Nantong Mayway Products Corp.<br>– Nantong Wiedson Hi-Wits Precision Co., Ltd.<br>– Kewell Products Corporation | – Jiangsu Zhongke Hi-wits Technology Development Corp. |
| Mr. Tang See Chim | Independent Director<br>Board Committee(s) served on:<br>– Audit Committee (Chairman)<br>– Nominating Committee<br>– Remuneration Committee | – Nanyang International Educations (Holdings) Ltd.<br>– Wang Bian Pte Ltd. | – City Developments Limited<br>– Jutha Phakakrong Shipping Company Private Limited |
| Mr. Graham Macdonald Bell | Independent Director<br>Board Committee(s) served on:<br>– Nominating Committee (Chairman)<br>– Audit Committee<br>– Remuneration Committee | – Asian Alchemy Ltd.<br>– Churchmead Group Ltd.<br>– Display Enterprises Ltd.<br>– Graham Bell & Associates Ltd.<br>– Graham Bell & Associates Pte Ltd.<br>– The Glengarry Group Ltd.<br>– The Lemuria Group Ltd.<br>– Marine Claims Office of Asia Pte Ltd.<br>– Premium Gain International Pte Ltd.<br>– ERC Equipoise Pte Ltd. | – Nil |

# CORPORATE **GOVERNANCE REPORT**

| Name of Director | Appointment | Current Directorships/ Principal Commitments | Directorships over Past 3 years |
|---|---|---|---|
| Mr. Chen Zhaohui, George | Independent Director<br><br>Board Committee(s) served on:<br><br>– Remuneration Committee (Chairman)<br>– Audit Committee<br>– Nominating Committee | – Trimble Navigation Limited<br>– Trimble Electronic Products (Shanghai) Co., Ltd.<br>– Zhongtie Trimble Digital Engineering and Construction Limited Company<br>– Trimble Leading Electronic Technology (Shanghai) Co., Ltd.<br>– GT (Beijing) Co., Ltd. | – Nil |
| Mr. Christoph Hartmann | Non-Executive Director<br><br>Board Committee(s) served on:<br><br>– Audit Committee | – Droege Group AG* (*Holding Company with numerous group companies)<br>– Droege Real Estate Holding GmbH* (*Holding Company with numerous group companies)<br>– Special Energy Holding GmbH<br>– Special Multi-Channel Holding GmbH (formerly Special Purpose Eins Holding GmbH)<br>– Special Technology Holding GmbH<br>– Special Purpose Drei Holding GmbH<br>– Helis S.A.<br>– Special Care Holding GmbH | – Nil |
| Dr. Hedda Juliana im Brahm-Droege | Non-Executive Director<br><br>Board Committee(s) served on:<br><br>Remuneration Committee | – Droege Group AG<br>– Sammlung Rheingold GbR<br>– KID-Stiftung<br>– Erich-Gutenberg Arbeitsgemeinschaft e.V.<br>– Grafikstiftung Neo Rauch<br>– Gesellschaft der Freunde der Kunstsammlung Nordrhein-Westfalen e.V.<br>– Helis S.A.<br>– Droege Real Estate Spain S.L.<br>– Dr. im Brahm Immobilien Management GmbH<br>– Stiftung Kunst und Musik Dresden | – Nil |

# DIRECTORS' **STATEMENT**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

The directors present their statement to the members together with the audited financial statements of Dutech Holdings Limited (the "Company") and its subsidiaries (the "Group") for the financial year ended 31 December 2018 and the statement of financial position of the Company as at 31 December 2018.

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 32 to 116 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 2018 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 2018** | **At 31 December 2018** | **At 21 January 2019** | **At 1 January 2018** | **At 31 December 2018** | **At 21 January 2019** |
| **Company** | | | | | | |
| *Ordinary shares* | | | | | | |
| 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 2018

**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 2018 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** | **LIU BIN** |
| Director | Director |

29 March 2019

# 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 32 to 116, which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2018, 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 (International) in Singapore ("SFRS(I)s") 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 2018 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 Matters*

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

# INDEPENDENT AUDITOR'S **REPORT**

TO THE MEMBERS OF DUTECH HOLDINGS LIMITED

***Key Audit Matters (Continued)***

***Impairment of intangible assets***
*Refer to following notes to the financial statements:*
*Note 14 "Intangible assets" and Note 2 "Critical accounting estimates, assumptions and judgements"*

| ***Key audit matter*** | ***How the matter was addressed in our audit*** |
|---|---|
| During the year, one of the Group's subsidiaries reported losses and was in a net liability position as at 31 December 2018, triggering the indication of impairment of its intangible assets. As at 31 December 2018, the total intangible assets amounted to RMB42.8 million, after recognising an impairment loss of RMB13.7 million in the Group's statement of profit or loss.<br><br>Management assessed the impairment of the intangible assets using the multi-period excess earnings method for its customer relationship and value-in-use calculations based on discounted cash flows projections for other intangible assets. 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.<br><br>The impairment test is significant to our audit as the assessment process is complex and judgemental by nature as it is based on assumptions on future market and economic conditions. The assumptions used included future cash flow projections, discount rates, growth rates and sensitivity analysis. | Our audit procedures included, amongst others, evaluating the appropriateness of the methodology used by management to prepare its cash flow forecasts and the assumptions, including reviewing the mathematical accuracy of the model used for the impairment testing.<br><br>In particular, we focused on the following, as these are key to the outcome of the impairment test:<br><br>• challenging the robustness of the key assumptions used to determine the cash flow forecasts and the discount rates based on our understanding of the CGU and by comparing them with publicly available data, where possible;<br><br>• reviewing the reasonableness of sales growth rates by performing the following:<br><br>    • comparing against the entity's historical growth rate 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<br><br>    • performing sensitivity analysis to assess the impact on the recoverable amount of the CGU resulting from reasonably possible changes to the sales growth rates.<br><br>• comparing actual performance in financial year 2018 to previous assumptions applied to understand the quality of the estimates and address the risk of bias.<br><br>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. |

# INDEPENDENT AUDITOR'S **REPORT**

TO THE MEMBERS OF DUTECH HOLDINGS LIMITED

***Key Audit Matters (Continued)***

<table>
<tr><td colspan="2">Impairment of trade receivables<br>Refer to following notes to the financial statements<br>Note 17 "Trade receivables", Note 40 Financial risk management objectives and policies credit risk and Note 2 "Critical accounting estimates, assumptions and judgements"</td></tr>
<tr><td>Key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>As at 31 December 2018, upon adoption of SFRS(I) 9 Financial Instruments, the Group recorded net trade receivables of RMB210.2 million, after deducting allowance for expected credit losses ("ECL") of RMB7.6 million.<br><br>The Group applies simplified approach to all trade receivables and provides for lifetime ECL, which is determined through external credit ratings when available, and the Group's historical observed default rates, customers' ability to pay and adjusted with forward-looking information.<br><br>This assessment of correlation between historical observed default rates, forecast economic conditions and ECL requires management to exercise significant judgement.</td><td>We reviewed management's assessment on the impairment of trade receivables. Our audit procedures included, amongst others, the following:<ul><li>obtaining an understanding of the Group's processes and key controls relating to the monitoring of trade receivables and considering aging profile to identify collection risks.</li><li>obtaining an understanding of the Group's impairment policy and methodology through discussions with management;</li><li>assessing the reasonableness of the methodology adopted by management in determining the ECL allowance, including validation of the external credit ratings used by management and the underlying assumptions used by management based on historical credit loss experience and consideration of forward-looking information; and</li><li>testing the underlying historical collection and loss experience data by checking, on a sample basis, to the underlying accounting records for payments received and balances written off.</li></ul>Based on our audit procedures, we found management judgement in estimating ECL allowances to be reasonable and the disclosures to be appropriate.</td></tr>
</table>

***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.

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I)s, 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.

# INDEPENDENT AUDITOR'S **REPORT**

TO THE MEMBERS OF DUTECH HOLDINGS LIMITED

***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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current 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.

# INDEPENDENT AUDITOR'S **REPORT**

TO THE MEMBERS OF DUTECH HOLDINGS LIMITED

**Report on Other Legal and Regulatory Requirements**

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

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

**Crowe Horwath First Trust LLP**
Public Accountants and
Chartered Accountants
Singapore

29 March 2019

# STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"))

| | Note | Group 31 December 2018 RMB'000 | Group 31 December 2017 RMB'000 (Restated) (Note 2A) | Group 1 January 2017 RMB'000 (Restated) (Note 2A) | Company 31 December 2018 RMB'000 | Company 31 December 2017 RMB'000 |
|---|---|---|---|---|---|---|
| **EQUITY** | | | | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | | | | |
| Share capital | 3 | **154,623** | 154,623 | 154,623 | **154,623** | 154,623 |
| Capital reserve | 4 | **33,056** | 33,056 | 33,056 | **–** | – |
| Statutory reserve | 5 | **62,393** | 60,965 | 60,639 | **–** | – |
| Merger deficit | 6 | **(13,029)** | (13,029) | (13,029) | **–** | – |
| Revenue reserve | 7 | **658,601** | 623,625 | 579,137 | **117,069** | 114,798 |
| Translation reserve/(deficit) | 8 | **29,595** | 16,152 | 12,491 | **11,588** | (2,467) |
| Fair value reserve | 9 | **(684)** | 310 | 136 | **–** | – |
| | | **924,555** | 875,702 | 827,053 | **283,280** | 266,954 |
| **ASSETS** | | | | | | |
| **Non-current assets** | | | | | | |
| Property, plant and equipment | 10 | **327,191** | 326,601 | 289,665 | **–** | – |
| Land use rights | 11 | **58,150** | 59,500 | 60,850 | **–** | – |
| Subsidiaries | 12 | **–** | – | – | **269,403** | 92,517 |
| Associates | 13 | **8,275** | 7,510 | 7,093 | **–** | – |
| Intangible assets | 14 | **66,238** | 76,820 | 81,456 | **–** | – |
| Held-to-maturity investments | | **–** | – | 6,268 | **–** | – |
| Deferred tax assets | 15 | **24,947** | 19,360 | 19,885 | **–** | – |
| | | **484,801** | 489,791 | 465,217 | **269,403** | 92,517 |
| **Current assets** | | | | | | |
| Inventories | 16 | **412,257** | 412,107 | 292,934 | **–** | – |
| Contract assets | 28 | **39,169** | 19,463 | 17,775 | **–** | – |
| Trade receivables | 17 | **220,097** | 285,247 | 234,693 | **6,118** | 6,826 |
| Other receivables, deposits and prepayments | 18 | **14,843** | 10,581 | 9,849 | **–** | 332 |
| Advances to suppliers | | **21,103** | 35,339 | 35,053 | **–** | – |
| Due from a related party (trade) | 19 | **680** | – | – | **–** | – |
| Due from subsidiaries | 19 | **–** | – | – | **41,336** | 217,892 |
| Available-for-sale financial assets | 20 | **–** | 16,748 | 10,596 | **–** | – |
| Held-to-maturity investments | | **–** | – | 3,561 | **–** | – |
| Financial assets, at FVOCI | 21 | **16,480** | – | – | **–** | – |
| Cash and bank balances | 22 | **335,281** | 298,219 | 295,006 | **66,542** | 11,846 |
| Derivative financial instruments | 23 | **–** | – | 1,427 | **–** | – |
| | | **1,059,910** | 1,077,704 | 900,894 | **113,996** | 236,896 |
| **TOTAL ASSETS** | | **1,544,711** | 1,567,495 | 1,366,111 | **383,399** | 329,413 |

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

# STATEMENTS OF **FINANCIAL POSITION**

AS AT 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"))

| | Note | Group 31 December | | 1 January | Company 31 December | |
|---|---|---|---|---|---|---|
| | | 2018 RMB'000 | 2017 RMB'000 (Restated) (Note 2A) | 2017 RMB'000 (Restated) (Note 2A) | 2018 RMB'000 | 2017 RMB'000 |
| **LIABILITIES** | | | | | | |
| **Current liabilities** | | | | | | |
| Contract liabilities | 28 | **74,425** | 64,307 | 31,004 | **–** | 636 |
| Trade payables | 24 | **127,294** | 156,670 | 107,847 | **161** | 1,858 |
| Other payables and accruals | 24 | **107,153** | 126,433 | 133,120 | **15,131** | 912 |
| Borrowings | 25 | **153,500** | 185,200 | 106,872 | **–** | – |
| Due to related parties (trade & non-trade) | 19 | **9,313** | 243 | 242 | **9,069** | – |
| Due to subsidiaries (trade & non-trade) | 19 | **–** | – | – | **74,213** | 58,212 |
| Derivative financial instruments | 23 | **–** | 608 | – | **–** | – |
| Income tax payable | | **4,069** | 6,464 | 9,566 | **1,545** | 841 |
| | | **475,754** | 539,925 | 388,651 | **100,119** | 62,459 |
| **Non-current liabilities** | | | | | | |
| Deferred tax liabilities | 15 | **24,432** | 25,133 | 40,950 | **–** | – |
| Other payables | 24 | **–** | 3,503 | 2,961 | **–** | – |
| Borrowings | 25 | **27,123** | 31,418 | 16,859 | **–** | – |
| Deferred income | 26 | **11,898** | 12,450 | 13,214 | **–** | – |
| Pension liability | 27 | **80,949** | 79,364 | 76,423 | **–** | – |
| | | **144,402** | 151,868 | 150,407 | **–** | – |
| **TOTAL LIABILITIES** | | **620,156** | 691,793 | 539,058 | **100,119** | 62,459 |
| **NET ASSETS** | | **924,555** | 875,702 | 827,053 | **283,280** | 266,954 |

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 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"))

| | Note | 2018 RMB'000 | 2017 RMB'000 (Restated) (Note 2A) |
|---|---|---|---|
| **Revenue** | 28 | **1,815,795** | 1,652,337 |
| Cost of sales | | **(1,363,479)** | (1,238,762) |
| Gross profit | | **452,316** | 413,575 |
| Other income | 29 | **35,451** | 28,053 |
| Selling and distribution expenses | | **(95,009)** | (78,246) |
| Administrative expenses | | **(282,642)** | (274,011) |
| Finance income | | **3,471** | 1,767 |
| Finance costs | | **(11,058)** | (10,069) |
| Finance costs, net | 31 | **(7,587)** | (8,302) |
| Other expenses | 32 | **(27,799)** | (15,939) |
| (Impairment losses)/Reversal of impairment of financial assets | 40(iii) | **(8,297)** | 328 |
| Share of profits of associates | 13 | **765** | 417 |
| **Profit before tax** | 33 | **67,198** | 65,875 |
| Income tax | 34 | **(14,072)** | (2,561) |
| **Profit for the year** | | **53,126** | 63,314 |
| **Other comprehensive income:** | | | |
| Items that may be reclassified subsequently to profit or loss | | | |
| Currency translation differences arising from consolidation | | **13,441** | 3,661 |
| Available-for-sale financial assets | | | |
| – Changes of fair value | 20 | **–** | 419 |
| – Reclassification upon realisation of investment | | **–** | (245) |
| Financial assets, at FVOCI | | | |
| – Changes of fair value | 21 | **(994)** | – |
| | | **12,447** | 3,835 |
| Items that will not be reclassified subsequently to profit or loss | | | |
| Re-measurement gains/(losses) on defined benefit pension scheme | 27 | **3,236** | (1,271) |
| Movement of deferred tax relating to pension deficit | 15 | **(278)** | 209 |
| | | **2,958** | (1,062) |
| **Other comprehensive income, net of tax** | | **15,405** | 2,773 |
| **Total comprehensive income for the year** | | **68,531** | 66,087 |
| **Profit attributable to:** | | | |
| Equity holders of the Company | | **53,126** | 63,314 |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of the Company | | **68,531** | 66,087 |
| **Earnings per share (cents)** | | | |
| Basic and diluted | 35 | **14.90** | 17.76 |

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

# CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"))

| | Attributable to equity holders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Capital reserve RMB'000 | Statutory reserve RMB'000 | Merger deficit RMB'000 | Revenue reserve RMB'000 | Translation reserve RMB'000 | Fair value reserve RMB'000 | Total equity RMB'000 |
| **2018** | | | | | | | | |
| **Group** | | | | | | | | |
| **Balance at 31 December 2017 (Restated)** | **154,623** | **33,056** | **60,965** | **(13,029)** | **623,625** | **16,152** | **310** | **875,702** |
| Adoption of SFRS(I) 9 (Note 2) | **–** | **–** | **–** | **–** | **(1,907)** | **2** | **–** | **(1,905)** |
| **Balance at 1 January 2018** | **154,623** | **33,056** | **60,965** | **(13,029)** | **621,718** | **16,154** | **310** | **873,797** |
| Profit for the financial year | **–** | **–** | **–** | **–** | **53,126** | **–** | **–** | **53,126** |
| Other comprehensive income, net of tax | **–** | **–** | **–** | **–** | **2,958** | **13,441** | **(994)** | **15,405** |
| Total comprehensive income for the financial year | **–** | **–** | **–** | **–** | **56,084** | **13,441** | **(994)** | **68,531** |
| Transfer to statutory reserve | **–** | **–** | **1,428** | **–** | **(1,428)** | **–** | **–** | **–** |
| Dividends on ordinary shares (Note 36) | **–** | **–** | **–** | **–** | **(17,773)** | **–** | **–** | **(17,773)** |
| Total distributions to owners | **–** | **–** | **1,428** | **–** | **(19,201)** | **–** | **–** | **(17,773)** |
| **Balance at 31 December 2018** | **154,623** | **33,056** | **62,393** | **(13,029)** | **658,601** | **29,595** | **(684)** | **924,555** |
| **2017** | | | | | | | | |
| **Group** | | | | | | | | |
| **Balance at 1 January 2017 (As previously reported)** | 154,623 | 33,056 | 60,639 | (13,029) | 577,880 | 12,587 | 136 | 825,892 |
| Initial adoption of SFRS(I) 15 (Note 2A) | – | – | – | – | 1,257 | (96) | – | 1,161 |
| **Balance at 1 January 2017 (Restated)** | 154,623 | 33,056 | 60,639 | (13,029) | 579,137 | 12,491 | 136 | 827,053 |
| Profit for the financial year | – | – | – | – | 63,314 | – | – | 63,314 |
| Other comprehensive income, net of tax | – | – | – | – | (1,062) | 3,661 | 174 | 2,773 |
| Total comprehensive income for the financial year | – | – | – | – | 62,252 | 3,661 | 174 | 66,087 |
| Transfer to statutory reserve | – | – | 326 | – | (326) | – | – | – |
| Dividends on ordinary shares (Note 36) | – | – | – | – | (17,438) | – | – | (17,438) |
| Total distributions to owners | – | – | 326 | – | (17,764) | – | – | (17,438) |
| **Balance at 31 December 2017 (Restated)** | 154,623 | 33,056 | 60,965 | (13,029) | 623,625 | 16,152 | 310 | 875,702 |

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

# CONSOLIDATED STATEMENT OF **CASH FLOWS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"))

| | Note | 2018 RMB'000 | 2017 RMB'000 (Restated) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | **67,198** | 65,875 |
| Adjustments: | | | |
| Amortisation of land use rights | 11 | **1,350** | 1,350 |
| Amortisation of intangible assets | 14 | **17,042** | 16,450 |
| Amortisation of deferred government grants | 26 | **(552)** | (764) |
| Depreciation of property, plant and equipment | 10 | **35,066** | 28,349 |
| Impairment of intangible assets | 14 | **13,676** | 7,908 |
| Gain on disposal of held-to-maturity investment | 31 | **–** | (221) |
| (Gain)/Loss on disposal of property, plant and equipment | 29/32 | **(19)** | 589 |
| Fair value loss on forward contract | 32 | **–** | 2,035 |
| Loss on settlement of forward contracts, net | 23 | **5,407** | 456 |
| Interest expenses | 31 | **11,058** | 10,069 |
| Interest income | 31 | **(3,471)** | (1,767) |
| Government grant | 29 | **(2,162)** | (8,004) |
| (Gain)/Loss on foreign exchange, net | | **(4,019)** | 6,313 |
| Share of profits of associates | 13 | **(765)** | (417) |
| Write back of contingent consideration | 29 | **–** | (1,527) |
| Write back of other liabilities | 29 | **(2,025)** | (934) |
| Reversal of long term unclaimed payable | 29 | **–** | (658) |
| Gain on reduction of redemption liability | 29 | **(2,975)** | – |
| Operating profit before working capital changes | | **134,809** | 125,102 |
| Inventories | | **1,092** | (118,144) |
| Contract assets | | **(19,706)** | (1,689) |
| Trade receivables | | **67,772** | (44,566) |
| Other receivables, deposits and prepayments | | **(4,212)** | (296) |
| Advances to suppliers | | **14,334** | 513 |
| Contract liabilities | | **10,118** | 33,303 |
| Trade payables | | **(29,657)** | 45,937 |
| Other payables and accruals | | **(18,056)** | (4,405) |
| Pension liability | | **3,969** | (2,588) |
| Settlement of forward contract | | **(6,015)** | (456) |
| Due from a related party (trade) | | **(680)** | – |
| Cash generated from operations | | **153,768** | 32,711 |
| Income tax paid | | **(23,483)** | (21,013) |
| Net cash from operating activities | | **130,285** | 11,698 |

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

# CONSOLIDATED STATEMENT OF **CASH FLOWS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"))

| | Note | 2018 RMB'000 | 2017 RMB'000 (Restated) |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Interest received | | **3,471** | 1,767 |
| Proceeds from disposal of property, plant and equipment | | **516** | 2,718 |
| Purchase of property, plant and equipment | A | **(32,299)** | (37,822) |
| Addition in intangible assets | 14 | **(20,459)** | (16,698) |
| Government grants received | | **2,162** | 5,504 |
| 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 | 20 | **–** | (13,518) |
| Proceed from disposal of financial asset, at FVOCI | 21 | **3,330** | – |
| Purchase of financial asset, at FVOCI | 21 | **(3,279)** | – |
| Net cash used in investing activities | | **(46,558)** | (41,624) |
| **Cash flows from financing activities** | | | |
| Dividends paid | 36 | **(17,773)** | (17,438) |
| Interest paid | | **(9,179)** | (7,690) |
| Withdrawal/(Placement) of pledged deposits | | **1,482** | (24,067) |
| Due to a related party (non-trade) | | **9,069** | – |
| Proceeds from borrowings | | **28,843** | 138,787 |
| Repayment of borrowings | | **(67,572)** | (72,723) |
| Financing cash flows related to liabilities | 25(iii) | **(38,729)** | 66,064 |
| Net cash (used in)/from financing activities | | **(55,130)** | 16,869 |
| **Net increase/(decrease) in cash and cash equivalents** | | **28,597** | (13,057) |
| **Effect of exchange rate changes in cash and cash equivalents** | | **9,947** | (7,797) |
| **Cash and cash equivalents at beginning of financial year** | | **249,151** | 270,005 |
| **Cash and cash equivalents at end of financial year** | 22 | **287,695** | 249,151 |

**Note A**

| | Note | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| Total additions to property, plant and equipment | 10 | 34,387 | 58,289 |
| Less: Amount included in other payables | | – | 1,923 |
| Less: Amount financed through finance lease | 25(iii) | (2,088) | (6,785) |
| Less: Amount financed through loan | 25(iii) | – | (15,605) |
| Cash payments on purchase of property, plant and equipment per consolidated statement of cash flows | | 32,299 | 37,822 |

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

# NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (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 is controlled by the Group's Chairman and CEO, Dr. Johnny Liu.

The financial statements for the financial year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 29 March 2019.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

The financial statements have been prepared in accordance with the Singapore Companies Act, Cap. 50 and Singapore Financial Reporting Standards (International) ("SFRS(I)s"). These are the Group's and the Company's first financial statements prepared in accordance with SFRS(I)s and SFRS(I) 1 *First-time Adoption of Singapore Financial Reporting Standards (International)* has been applied.

In previous financial years, including for the financial year ended 31 December 2017, the financial statements were prepared in accordance with the provisions of the Singapore Companies Act, Cap. 50 and the Singapore Financial Reporting Standards ("FRS").

The financial statements are prepared in accordance with the historical cost convention, except as disclosed in the accounting policies below. 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 SFRS(I)s 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.

### (A) Adoption of new financial reporting framework, and new and revised standards

#### Explanation of transition to SFRS(I)s and adoption of new standards

On 1 January 2018, the Group has adopted the Singapore Financial Reporting Standards (International) (SFRS(I)s) which comprise standards and interpretations that are equivalent to International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

These are the first financial statements of the Group and of the Company prepared in accordance with SFRS(I)s.

The accounting policies set out in this note have been applied in preparing the financial statements for the year ended 31 December 2018, the comparative information presented in these financial statements for the year ended 31 December 2017 and in the preparation of the opening SFRS(I) statement of financial position at 1 January 2017 (the Group's date of transition), subject to the mandatory exceptions and optional exemptions under SFRS(I) 1.

# NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (A) Adoption of new financial reporting framework, and new and revised standards (Continued)

**Explanation of transition to SFRS(I)s and adoption of new standards (Continued)**

In preparing the opening SFRS(I) statement of financial position, the Group has adjusted amounts reported previously in the financial statements prepared in accordance with previous FRSs.

In addition to the adoption of the new framework, the Group also concurrently applied the following SFRS(I)s, interpretations of SFRS(I)s and requirements of SFRS(I)s which are mandatorily effective from the same date, including:

- SFRS(I) 15 Revenue from Contracts with Customers which includes clarifications to IFRS 15 Revenue from Contracts with Customers issued by the IASB in April 2016;
- SFRS(I) 9 Financial Instruments which includes amendments arising from IFRS 4 Insurance Contracts issued by the IASB in September 2016;

Adoption of 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 revenue recognition guidance including FRS 18 Revenue, FRS 11 Construction Contracts and the related Interpretations.

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.

The Group is in the business of design and manufacture of high security products and provision of business solutions to customers. The key impact of adopting SFRS(I) 15 is detailed as below:

(a) Revenue from design and engineering projects

Previously, under FRS 11, the Group recognises revenue from design and engineering projects in relation to ticketing and vending machines based on percentage-of-completion method determined by reference to the percentage of contract costs incurred to date to the estimated total costs for the contract. Under SFRS(I) 15, the Group assesses that revenue will continue to be recognised over time for (i) contracts which create assets with no alternative use to the Group; and (ii) contracts which give the Group enforceable right to payment for performance completed to date according to the relevant laws and regulations. The Group will continue to use the "cost method" as an input method to measure progress. For contracts that create assets which can be redirected to other customers with minimal modification, the Group recognises the revenue at a point in time, i.e. when control of the asset is transferred to the customers with formal acknowledgement of receipt from customer. In accordance with the requirements of SFRS(I) 1, the Group adopted SFRS(I) 15 retrospectively. As a result, the Group recognised an adjustment to decrease retained earnings by RMB1,715,000 on 1 January 2017. The Group's statement of financial position as at 31 December 2017 was restated, resulting in the recognition of contract assets of RMB371,000, and a corresponding adjustment for the decrease of retained earnings by RMB1,975,000. The statement of profit or loss for the year ended 31 December 2017 was also restated, resulting in decrease in revenue of RMB1,016,000.

Previously, under FRS 11, the Group recognised revenue upon delivery when the risks and rewards are transferred for contracts relating to the engineering and assembling of electro-mechanical parts and components. Under SFRS(I) 15, as the performance does not create an asset with alternative use to the Group, given that these products are highly customised to individual customer's specifications and the contracts give the Group enforceable right to payment for performance completed to date according to the relevant laws and regulations, revenue is recognised over time. In accordance with the requirements of SFRS(I) 1, the Group adopted SFRS(I) 15 retrospectively. As a result, the Group recognised an adjustment to increase contract assets by RMB17,775,000 with a corresponding increase to retained earnings of RMB3,783,000 on 1 January 2017. The Group's statement of financial position as at 31 December 2017 was restated, resulting in the recognition of contract assets of RMB19,092,000, and a corresponding adjustment to retained earnings of RMB2,287,000. The statement of profit or loss for the year ended 31 December 2017 was also restated, resulting in decrease in revenue and cost of sales of RMB1,230,000 and RMB647,000 respectively.

# NOTES TO **THE FINANCIAL STATEMENTS**



## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (A) Adoption of new financial reporting framework, and new and revised standards (Continued)

**Explanation of transition to SFRS(I)s and adoption of new standards (Continued)**

Adoption of SFRS(I) 15 *Revenue from Contracts with Customers* (Continued)

(b) Freight and insurance on sale of high security products

For certain contracts with overseas customers for the sale of high security products, the shipping services continue after the control of the goods has been transferred to the customers, for example CIF incoterms. Previously, the Group recognises revenue upon the transfer of risks and rewards. Under SFRS(I) 15, the Group assessed that the freight and insurance services, which occurs after the control has been transferred to the customer upon onboarding of the vessel, are separate performance obligation. As the freight and insurance services are provided by another party, the Group also need to assess whether the Group is acting as principal or agent for such services. Management concludes that the Group is acting as an agent for arranging the freight and insurances on behalf of the customers because the Group does not obtain control over the services and the Group does not have the right to re-direct the services to another customer. The revenue from arranging the freight and insurance for the customers is recognised at the net amount retained, and is recognised when the arrangement is made, which coincides with the timing of recognition for the sale of goods.

Upon adoption of SFRS(I) 15, the Group's profit or loss for the year ended 31 December 2017 was restated, resulting in a decrease in revenue of RMB1,951,000 and selling and distribution expenses of RMB1,951,000.

(c) Change in presentation

Upon adoption of SFRS(I) 15, the Group has reclassified "Advances from customers" in "Other payables" amounting to RMB25,511,000 as at 31 December 2017 and RMB20,215,000 as at 1 January 2017 to "Contract liabilities". The Company has reclassified "Advances from customers" in "Other payables" amounting to RMB636,000 as at 31 December 2017 to "Contract liabilities".

(d) Tax impact

The corresponding tax impact to the Group arising from the adoption of SFRS(I) 15 resulted in increase in deferred tax liabilities of RMB811,000 with a corresponding decrease in retained earnings amounting to RMB811,000 on 1 January 2017; an increase in deferred tax liabilities of RMB515,000 on 31 December 2017; and a decrease in income tax expenses of RMB344,000 for the year ended 31 December 2017.

Adoption of SFRS(I) 9 *Financial instruments*

(I) Classification and measurement of financial assets

All recognised financial assets that are within the scope of SFRS(I) 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, at the following categories:

(i) Amortised costs

(ii) Fair value through profit or loss (FVPL)

(iii) Fair value through Other Comprehensive Income (FVOCI) – Debt investments

(iv) Fair value through Other Comprehensive Income (FVOCI) – Equity investments

SFRS(I) 9 eliminates the previous categories of financial assets, namely loans & receivables (L&R), held-to-maturity (HTM) financial assets and available-for-sale (AFS) financial assets.

As allowed by short-term exemption in SFRS(I) 1, the Group adopts SFRS(I) 9 on 1 January 2018. The classification and measurement categories are assessed based on facts and circumstances existed at 1 January 2018 for the determination of the business model. Accordingly, the requirement of FRS 39 *Financial Instruments: Recognition & Measurement* are applied to financial instruments up to the financial year ended 31 December 2017. Difference in carrying amounts of financial assets resulting from adoption of SFRS(I) 9 are adjusted to revenue reserve as at 1 January 2018.

# NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (A) Adoption of new financial reporting framework, and new and revised standards (Continued)

Adoption of SFRS(I) 9 *Financial instruments* (Continued)

(I) Classification and measurement of financial assets (Continued)

The reconciliation of the change in classification and measurement of financial assets (including impairment) and measurement of financial liabilities are explained below:

| | Classification of financial assets | | Carrying amount at 1 January 2018 | | Revenue reserve adjustment at 1 January 2018 |
|---|---|---|---|---|---|
| | FRS 39 | SFRS(I) 9 | FRS 39 RMB'000 | SFRS(I) 9 RMB'000 | RMB'000 |
| **Group** | | | | | |
| USD denominated bonds | AFS | FVOCI (Debt) | 16,748 | 16,748 | – |
| Trade receivables | L&R | Amortised cost | 285,247 | 283,381 | (1,866) |
| **Company** | | | | | |
| Other payables and accruals – financial guarantee contracts | | | – | 3,151 | – |

The Group classifies bonds as financial assets at FVOCI (Debt) as it is the Group's business model to collect contractual cash flows on those bonds and to sell those bonds. The contractual cash flows meets the solely payment of principal and interest test. There is no change in carrying amount as at 1 January 2018 arising from measurement of these instruments under SFRS(I) 9.

There were no financial assets or financial liabilities which the Group had previously designated as at FVTPL under FRS 39 that were subject to reclassification, or which the Group has elected to reclassify upon the application of SFRS(I) 9. There were no financial assets or financial liabilities which the Group has elected to designate as at FVPL on 1 January 2018 upon adoption of SFRS(I) 9.

(II) Impairment of financial assets

The "incurred loss" model in FRS 39 was replaced by the "Expected Credit Losses (ECL)" model in SFRS(I) 9, which applies to financial assets measured at amortised costs, FVOCI (debt investment), contract assets and intragroup financial guarantee contracts. Impairment loss for trade receivables and contract assets are provided using simplified approach at the lifetime ECL. For assets within the scope of SFRS(I) 9 impairment model, impairment losses are generally expected to be provided at a higher amount and earlier than what was provided using FRS 39.

Reconciliation of the movement in impairment loss allowance is as follows:

| | Group RMB'000 |
|---|---|
| Trade receivables | |
| Loss allowance as at 31 December 2017, under FRS 39 | (2,834) |
| Additional impairment recognised on 1 January 2018, under SFRS(I) 9 (debited against revenue reserve) | (1,866) |
| Adjusted loss allowance as at 1 January 2018, under SFRS(I) 9 (as restated) | (4,700) |

For financial guarantee where the Company issued corporate guarantee to banks for loans and banking facilities granted to its subsidiaries, the Company does not charge any fees or premium to the subsidiaries for the guarantees and determined that the fair value at inception cannot be reliably determined. Hence the financial guarantee contracts are subsequently measured at the amount of ECL determined based on SFRS(I) 9. Previously under FRS 39, such financial guarantee contracts were not recognised as financial liabilities on the Company's statement of financial position as the Group has been providing continuing advances to these subsidiaries to ensure repayment obligations are met, and hence the Company did not consider it probable that claims would be made against the Company under those guarantees.

# NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (A) Adoption of new financial reporting framework, and new and revised standards (Continued)

Adoption of SFRS(I) 9 *Financial instruments* (Continued)

(II) Impairment of financial assets (Continued)

Upon adoption of SFRS(I) 9, the Company recognised financial guarantee contracts amounting to RMB3,151,000 with a corresponding increase in carrying amount of investment in "Subsidiaries" as at 1 January 2018.

Further details of impairment allowance on trade receivables and the measurement of financial guarantee contracts are disclosed in Note 40(iii).

Adoption of SFRS(I) 9 also brought about consequential amendment to SFRS(I) 1 to require the impairment losses determined in accordance with SFRS(I) 9 be presented as a line item in the statement of profit or loss and other comprehensive income. A net amount of RMB328,000 has been reclassified from "Other income" and "Other expenses" to be presented separately on consolidated statement of profit or loss and other comprehensive income for the financial year ended 31 December 2017.

(III) Tax impact

The tax impact arising from the adoption of SFRS(I) 9 above is deemed immaterial and hence the Group did not recognise the corresponding tax impact to opening revenue reserve as at 1 January 2018.

Financial impact to the financial statement as at 1 January 2017 upon adoption of SFRS(I)

The following is the reconciliation of the impact arising from first-time adoption of SFRS(I) including application of the new accounting standards on 1 January 2017 to the statement of financial position of the Group. The adoption of SFRS(I) does not have any impact to the statement of financial position to the Company as at 1 January 2017.

| | 1 January 2017 (FRS) RMB'000 | Group SFRS(I) 15 adjustments[(i)] RMB'000 | 1 January 2017 (SFRS(I)) RMB'000 |
|---|---|---|---|
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | |
| Revenue reserve | 577,880 | 1,257 | 579,137 |
| Translation reserve | 12,587 | (96) | 12,491 |
| **ASSETS** | | | |
| **Current assets** | | | |
| Inventories | 274,299 | 18,635 | 292,934 |
| Contract assets | – | 17,775 | 17,775 |
| Trade receivables | 260,850 | (26,157) | 234,693 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Contract liabilities | – | 31,004 | 31,004 |
| Trade payables | 110,355 | (2,508) | 107,847 |
| Other payables and accruals | 153,335 | (20,215) | 133,120 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 40,139 | 811 | 40,950[(ii)] |

(i) Adjustment resulting from revenue from design and engineering projects.

(ii) Deferred tax assets of RMB19,885,000 remains unaffected, resulting in adjusted net deferred tax liabilities of RMB21,065,000 (Note 15).

# NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (A) Adoption of new financial reporting framework, and new and revised standards (Continued)

Financial impact to the financial statement as at 31 December 2017 and 1 January 2018 upon adoption of SFRS(I)

The following is the reconciliation of the impact arising from first-time adoption of SFRS(I) including application of the new accounting standards on 31 December 2017 and 1 January 2018 to the statement of financial position of the Group and the Company.

| | Group | | | | |
|---|---|---|---|---|---|
| | 31 December 2017 (FRS) RMB'000 | SFRS(I) 15 adjustments[i] RMB'000 | 31 December 2017 (SFRS(I)) RMB'000 | SFRS(I) 9 adjustments RMB'000 | 1 January 2018 (SFRS(I)) RMB'000 |
| **EQUITY** | | | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | | | |
| Revenue reserve | 623,313 | 312 | 623,625 | (1,907) | 621,718 |
| Translation reserve | 16,189 | (37) | 16,152 | 2 | 16,154 |
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Inventories | 373,661 | 38,446 | 412,107 | – | 412,107 |
| Contract assets | – | 19,463 | 19,463 | – | – |
| Trade receivables | 307,872 | (22,625) | 285,247 | (1,866) | 283,381 |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Contract liabilities | – | 64,307 | 64,307 | – | 64,307 |
| Trade payables | 160,972 | (4,302) | 156,670 | – | 156,670 |
| Other payables and accruals | 151,944 | (25,511) | 126,433 | – | 126,433 |
| **Non-current liabilities** | | | | | |
| Deferred tax liabilities | 24,618 | 515 | 25,133 | 39 | 25,172[ii] |

(i) Adjustment resulting from revenue from design and engineering projects.

(ii) Deferred tax assets of RMB19,360,000 remains unaffected, resulting in adjusted net deferred tax liabilities of RMB5,812,000 as at 1 January 2018.

# NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (A) Adoption of new financial reporting framework, and new and revised standards (Continued)

Financial impact to the financial statement as at 31 December 2017 and 1 January 2018 upon adoption of SFRS(I) (Continued)

| | | | Company | | |
|---|---|---|---|---|---|
| | 31 December 2017 (FRS) RMB'000 | SFRS(I) 15 adjustments RMB'000 | 31 December 2017 (SFRS(I)) RMB'000 | SFRS(I) 9 adjustments RMB'000 | 1 January 2018 (SFRS(I)) RMB'000 |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Subsidiaries | 92,517 | – | 92,517 | 3,151 | 95,668 |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Contract liabilities | – | 636 | 636 | – | 636 |
| Other payables and accruals | 1,548 | (636) | 912 | 3,151 | 4,063 |

The following is the reconciliation of the impact arising from first-time adoption of SFRS(I) including application of the new accounting standards to the consolidated statement of profit or loss and other comprehensive income for the financial year ended 31 December 2017.

| | | Group | | |
|---|---|---|---|---|
| | 2017 (FRS) RMB'000 | SFRS(I) 1 adjustments RMB'000 | SFRS(I) 15 adjustments RMB'000 | 2017 (SFRS(I)) RMB'000 |
| **Revenue** | 1,656,534 | – | (4,197)(i) | 1,652,337 |
| Cost of sales | (1,239,409) | – | 647 | (1,238,762) |
| Gross profit | 417,125 | – | (3,550) | 413,575 |
| Other income | 28,808 | (755) | – | 28,053 |
| Selling and distribution expenses | (80,507) | – | 2,261(i) | (78,246) |
| Administrative expenses | (274,011) | – | – | (274,011) |
| Finance income | 1,767 | – | – | 1,767 |
| Finance costs | (10,069) | – | – | (10,069) |
| Finance costs, net | (8,302) | – | – | (8,302) |
| Other expenses | (16,366) | 427 | – | (15,939) |
| Impairment losses of financial assets | – | 328 | – | 328 |
| Share of profits of associates | 417 | – | – | 417 |
| **Profit before tax** | 67,164 | – | (1,289) | 65,875 |
| Income tax | (2,905) | – | 344 | (2,561) |
| **Profit for the year** | 64,259 | – | (945) | 63,314 |

# NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (A) Adoption of new financial reporting framework, and new and revised standards (Continued)

Financial impact to the financial statement as at 31 December 2017 and 1 January 2018 upon adoption of SFRS(I) (Continued)

| | Group | | | |
|---|---|---|---|---|
| | 2017 (FRS) RMB'000 | SFRS(I) 1 adjustments RMB'000 | SFRS(I) 15 adjustments RMB'000 | 2017 (SFRS(I)) RMB'000 |
| **Other comprehensive income:** | | | | |
| Items that may be reclassified subsequently to profit or loss | | | | |
| Currency translation differences arising from consolidation | 3,602 | – | 59 | 3,661 |
| Available-for-sale financial assets | – | | | |
| – Changes of fair value | 419 | – | – | 419 |
| – Reclassification upon realisation of investment | (245) | – | – | (245) |
| | 3,776 | – | 59 | 3,835 |
| Items that will not be reclassified subsequently to profit or loss | | | | |
| Re-measurement losses on defined benefit pension scheme | (1,271) | – | – | (1,271) |
| Movement of deferred tax relating to pension deficit | 209 | – | – | 209 |
| | (1,062) | – | – | (1,062) |
| **Other comprehensive income, net of tax** | 2,714 | – | 59 | 2,773 |
| **Total comprehensive income for the year** | 66,973 | – | (886) | 66,087 |
| **Profit attributable to:** | | | | |
| Equity holders of the Company | 64,259 | – | (945) | 63,314 |
| **Total comprehensive income attributable to:** | | | | |
| Equity holders of the Company | 66,973 | – | (886) | 66,087 |
| **Earnings per share (cents)** | | | | |
| Basic and diluted | 18.02 | – | (0.26) | 17.76 |

(i) Amount includes an adjustment of RMB1,951,000 for freight and insurance charged on sale of high security products which the Group is deemed to be acting as agent. Other adjustments pertain to the accounting policy changes resulting from design and engineering projects.

# NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Group has not adopted the following standards and interpretations that have been issued but not yet effective:

| **Descriptions** | **Effective for annual periods** |
|---|---|
| SFRS(I) 16 *Leases* | 1 January 2019 |
| SFRS(I) INT 23: *Uncertainty over Income Tax Treatments* | 1 January 2019 |
| Amendments to SFRS(I) 9: *Prepayment Features with Negative Compensation* | 1 January 2019 |
| Amendments to SFRS(I) 1-28: *Long-term Interests in Associates and Joint Ventures* | 1 January 2019 |
| Improvements to SFRS(I)s 2015-2017 cycle (March 2018) | |
| – SFRS(I) 3 *Business Combinations* | 1 January 2019 |
| – SFRS(I) 11 *Joint Arrangements* | 1 January 2019 |
| – SFRS(I) 1-12 *Income Taxes* | 1 January 2019 |
| – SFRS(I) 1-23 Borrowing Costs | 1 January 2019 |
| Amendments to SFRS(I) 19: Plan Amendment, Curtailment or Settlement | 1 January 2019 |
| Amendments to SFRS(I) 3: *Definition of a Business* | 1 January 2020 |
| Amendments to SFRS(I) 1-1 and SFRS(I) 1-8: *Definition of Material* | 1 January 2020 |
| SFRS(I) 17 *Insurance Contracts* | 1 January 2021 |
| Amendments to SFRS(I) 10 and SFRS(I) 1-28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | To be determined |

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 following:

SFRS(I) 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.

As at 31 December 2018, the Group has non-cancellable operating lease commitments and cancellable (conditional) operating lease commitment of RMB63,663,000 and RMB11,697,000 respectively, which are an appropriate indicator of the SFRS(I) 16 implementation impact on the Group's consolidated statement of financial position. The Group will apply the new SFRS(I) 16 when it becomes effective in 2019 and will apply the modified retrospective approach for the transition. The Group expects to recognise right-of-use assets and lease liabilities for its leases currently classified as operating leases.

# NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi (“RMB’000”), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (C) Description of significant accounting policy

**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 SFRS(I) 9 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 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (C) Description of significant accounting policy (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 dollar.

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



## 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.

### 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. 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(*) | – |
| 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.

# NOTES TO THE FINANCIAL STATEMENTS



## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment (Continued)

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.

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

# NOTES TO **THE FINANCIAL STATEMENTS**



## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Intangible assets (Continued)**

*(c) Customer relationship*

Customer relationship arise 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.

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 and liabilities (Policy applicable from 1 January 2018)**

**(i) Initial recognition and measurement**

Trade receivables are initially recognised when they are originated. Other financial assets and financial liabilities 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.

# NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial assets and liabilities (Policy applicable from 1 January 2018) (Continued)

#### (i) Initial recognition and measurement (Continued)

Trade receivables without financing component is initially measured at the transaction price in accordance with SFRS(I) 15. Other financial assets or financial liabilities are initially recognised at fair value plus, in the case of financial assets or liabilities not at fair value through profit or loss, directly attributable transaction costs.

#### (ii) Classification and subsequent measurement

**Financial assets**

Financial assets are classified and subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, at the following categories:

(i) Amortised costs

(ii) Fair value through Other Comprehensive Income (FVOCI) – Debt investments

(iii) Fair value through Other Comprehensive Income (FVOCI) – Equity investments

(iv) Fair value through profit or loss (FVPL)

Financial assets are not reclassified after initial recognition unless the Group changes its business model for managing financial assets, in which case such reclassification will be applied prospectively from the reclassification date.

*Financial assets at amortised costs*

Unless designated at FVPL, financial assets are measured at amortised costs if:

– It is held within a business model with an objective to hold the assets to collect contractual cash flows; and

– Its contractual cash flows comprise of solely principal and interest on the principal amount outstanding

These assets, mainly trade and other receivables including amount due from related parties, cash and cash equivalents, are subsequently measured at amortised costs using the effective interest rate method, which is reduced by impairment losses. Interest income, foreign exchange differences, and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

*Debt investments at FVOCI*

Unless designated at FVPL, a debt investment is measured at FVOCI if:

– It is held within a business model with objectives of both collecting contractual cash flows and selling financial assets; and

– Its contractual cash flows comprise of solely principal and interest on the principal amount outstanding

These assets are subsequently measured at fair value. Interest income calculated on effective interest rate method, foreign exchange differences and impairment are recognised in profit or loss. Other net gains and losses (including changes in fair value) are recognised in OCI. The cumulative amounts in OCI are reclassified to profit or loss upon derecognition.

# NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial assets and liabilities (Policy applicable from 1 January 2018) (Continued)**

**(ii) Classification and subsequent measurement (Continued)**

**Financial assets (Continued)**

*Equity investments at FVOCI*

Unless held-for-trading, the Group may irrevocably elect on initial recognition, on an investment-by-investment basis, to present subsequent changes of fair value of the equity investments in OCI.

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses (including changes in fair value) are recognised in OCI which will never be reclassified to profit or loss.

*Financial assets at FVPL*

All financial assets not at amortised cost or FVOCI as described above are measured at fair value through profit or loss. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI to be measured at FVPL, if doing so eliminates or significantly reduce accounting mismatch that would otherwise arise.

Financial assets held for trading or are managed and whose performance is evaluated on a fair value basis would be mandatorily measured at FVPL.

These assets are subsequently measured at fair value. Net gains or losses, including any interest income or dividend income are recognised in profit or loss.

**Financial liabilities**

Financial liabilities are subsequently measured at amortised costs unless it is held for trading (including derivative liabilities), or designated as financial liabilities at FVPL on initial recognition to significantly reduce accounting mismatch or when a group of financial liabilities are managed whose performance is evaluated on a fair value basis.

Financial liabilities at amortised costs are subsequently measured at amortised costs using the effective interest rate method. Interest expense and foreign exchange differences are recognised in profit or loss. These financial liabilities mainly comprise trade and other payables including amount due to related parties, and loans and borrowings.

Financial liabilities at FVPL are measured at fair value with net gains and losses (including interest expense) recognised in profit or loss. Directly attributable transaction costs are recognised in profit or loss as incurred.

**(iii) Derecognition**

Financial assets

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 or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial assets. On derecognition of a financial asset in its entirety, the difference between the carrying amount measured at the derecognition date and the sum of the consideration received 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.

# NOTES TO **THE FINANCIAL STATEMENTS**



## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial assets and liabilities (Policy applicable from 1 January 2018) (Continued)**

**(iii) Derecognition (Continued)**

Financial liabilities

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires. The Group also derecognise a financial liabilities when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount of the financial liabilities extinguished, or transferred and the consideration paid (including non-cash transferred or liabilities assumed) is recognised in profit or loss.

**(iv) Offsetting**

Financial assets and liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to offset and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

**Impairment of financial assets (Policy applicable from 1 January 2018)**

The Group applies impairment model in SFRS(I) 9 to measure the Expected Credit Losses (ECL) of the following categories of assets:

– Financial assets at amortised costs (including trade receivables)

– Contract assets (determined in accordance with SFRS(I) 15)

– Debt investments at FVOCI

– Intragroup financial guarantee contracts

ECLs are probability-weighted estimates of credit losses, which are measured at the present value of all cash shortfalls (difference between the cash flows due to the Group in accordance with the contracts and the cash flows that the Group expects to receive), discounted at effective interest rate of the financial asset. The expected cash flows include cash flows from the sale of collaterals held, if any, or other credit enhancements that are integral to the contractual terms.

*Simplified approach*

The Group applies simplified approach to all trade receivables and contract assets. Impairment loss allowance is measured at lifetime ECL, which represents ECLs that result from all possible default events over the expected life of a financial instrument or contract asset ('lifetime ECL'). The Group uses qualitative and quantitative information like geographical location, profile of customers and historical repayment trends to group debtors with similar characteristics and adjusted with forward-looking factors for purposes of ECL assessment.

*General approach*

The Group applies general approach on all other financial instruments and financial guarantee contracts, and recognise a 12-month ECL on initial recognition. 12-month ECL are ECLs that result from possible default events within 12 months after the reporting date or up to the expected life of the instrument, if shorter.

Impairment loss allowance or reversals are recognised in profit or loss. Loss allowance on financial assets at amortised cost and contract assets are deducted from the gross carrying amount of those asset. Loss allowance on debt investments at FVOCI are recognised in OCI, and does not reduce the carrying amount of the financial assets.

# NOTES TO **THE FINANCIAL STATEMENTS**



## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Impairment of financial assets (Policy applicable from 1 January 2018) (Continued)**

*General approach (Continued)*

Significant increase in credit risk (Stage 2)

For credit exposures for which there has been a significant increase in credit risk since initial recognition, impairment loss allowance is measured at lifetime ECL. When a financial asset is determined to have a low credit risk at reporting date, the Group assumes that there has been no significant increase in credit risk since initial recognition. For debt investments, the Group uses its external credit rating to assess the credit quality and globally understood 'investment-grade' rating is considered low credit risk. For other cases, the Group uses reasonable and supportable forward-looking information available without undue cost or effort to determine, at each reporting date, whether there is significant increase in credit risk since initial recognition. In assessing whether there has been significant increase in credit risks, the Group takes into account factors such as:

– existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the debtor's ability to meet its debt obligations

– actual or expected significant adverse change in the regulatory, economic, or technological environment that are expected to cause a significant change in the debtor's ability to meet its debt obligations

– an actual or expected significant change in the operating results of the debtors

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

If credit risk has not increased significantly since initial recognition or if the credit quality improves such that there is no longer significant increase in credit risk since initial recognition, loss allowance is measured at 12-month ELC.

Definition of default

The Group considers a financial asset to be in default when:

– The borrower is unlikely to pay its credit obligation in full, without recourse by the Group; or

– The financial asset is more than 90 days past due.

The Group considers a contract asset to be in default when the customer is unlikely to pay the contractual obligations to the Group in full without recourse by the Group.

Credit-impaired (Stage 3)

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

– significant financial difficulty of the issuer or the borrower;

– a breach of contract, such as a default or past due event;

– the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

– it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group write off the gross carrying amount of a financial assets to the extent that there is no realistic prospect of recovery, for example when the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the Group.

# NOTES TO THE FINANCIAL STATEMENTS



## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial assets and liabilities (Policy applicable before 1 January 2018)**

**(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.

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.

# NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial assets and liabilities (Policy applicable before 1 January 2018) (Continued)**

**(ii) Subsequent measurement (Continued)**

*(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 the 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.

**(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.

**Financial liabilities (Policy applicable before 1 January 2018)**

**(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.

**(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.

# NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial liabilities (Policy applicable before 1 January 2018) (Continued)**

**(ii) Subsequent measurement (Continued)**

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

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 expired. 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.

**Impairment of financial assets (Policy applicable before 1 January 2018)**

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.

# NOTES TO THE FINANCIAL STATEMENTS



## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Impairment of financial assets (Policy applicable before 1 January 2018) (Continued)**

**(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.

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.

**Contract assets and liabilities**

Contract assets relate to the Group's right to consideration for work completed but yet to be billed at reporting date which will be transferred to trade receivables when the rights become unconditional upon invoicing. Contract liabilities are recognised if the receipts from the customer exceed the value of the contract work transferred by the Group.

**Derivative financial instruments**

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.

# NOTES TO THE FINANCIAL STATEMENTS



## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 has issued corporate guarantees to banks for loan and banking facilities granted to its subsidiaries. These guarantees are financial guarantee contracts as they require the Company to reimburse the banks if the subsidiaries fail to make principal or interest payments when due in accordance with the terms of their borrowings.

Financial guarantee contracts are initially recognised as a liability at their fair values, adjusted for transaction costs directly attributable to the issuance of the guarantees.

Subsequent to initial recognition, financial guarantees are measured at the higher of:

(a) the amount initial recognised less the cumulative amount of income recognised in accordance with the principles of SFRS(I) 15; and

(b) the amount of expected credit loss computed using the impairment methodology under SFRS(I) 9.

Prior to 1 January 2018, if it is probable that Company need to reimburse the banks, the financial guarantee liabilities are subsequently measured at the higher of the amount initially recognised less amortisation and the expected amount payable to the banks.

As the guarantee is issued for the benefits of the subsidiaries without recharge, the corresponding entry of financial guarantee liabilities and its movement are capitalised in cost of investment in subsidiaries as a deemed capital contribution.

### 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".

# NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue from contracts with customers

The Group 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, at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Unless otherwise mentioned, the Group concludes that it is acting as a principal in the provision of goods or services in its contracts with customers.

When contracts contains multiple performance obligations such as installation services, freight and insurance, the Group allocates the transaction price to the performance obligations in proportion of the relative stand-alone selling price.

Revenue from sale of products is recognised upon transfer of control to the customers and the acceptance criteria is met (either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied). The Group normally invoices the customers upon delivery of the goods with 30-60 days credit term. The Group provides standard warranty of 1 to 2 years which represents assurance-type and is provided for in accordance with SFRS(I) 1-37.

Service revenue in relation to design and engineering projects in business solution segment is recognised over time if the customised equipment has no alternative use to the Group and the contract gives the Group enforceable right to payment for performance completed to date. The progress of completion is measured by reference of contract costs incurred in proportion to the total estimated contract costs for each contract. Management considers that this input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under SFRS(I) 15. Costs that are not related to the contracts or do not contribute to the progress of satisfying the performance obligation are excluded when calculating the progress, and are expensed as incurred. For contracts that does not give the Group enforceable right to payment for performance completed to date, the Group recognise the revenue at a point in time, i.e. when control transferred to the customers and acceptance criteria is met.

### Other revenue

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.

<u>Foreign subsidiaries</u>

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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Employees' benefits (Continued)

### (i) Retirement benefits (Continued)

*(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.

### (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.

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 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 2018 (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).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting 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**



## 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 fair value of customer relationship is determined through a multi-period excess earnings method which is based on cash flows forecasts adjusted with the relevant contributory asset charges. 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 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. Based on the key assumptions, the Group has made an impairment loss of RMB13,676,000 (2017: RMB7,908,000) in respect of customer relationship during current financial year.

*(b) Impairment of financial assets*

Impairment allowance for financial assets measured at amortised costs and FVOCI are applied using the ECL model, which requires assumptions of risk of default and expected loss rates. The Group uses judgement in making these assumptions and determining key inputs to the impairment calculation, taking into account the Group's past history, probability of default from external credit rating agencies, existing market conditions as well as forward-looking information relating to industry, market development and macroeconomic factors. For trade receivables with no external credit rating, the Group apply the practical expedient of provision matrix based on ageing profile of the customers. Expected loss rate is based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. The key assumptions and inputs used are disclosed in Note 40(iii).

*(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% (2017: 10%) from management's estimate, the Group's allowance of inventory obsolescence will increase by RMB3,245,000 (2017: RMB3,416,000). The carrying amount of Group's inventories at the reporting date is disclosed in Note 16 to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (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) 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.

In October 2018, the High Court of United Kingdom ("UK") concluded that UK pension schemes will need to take steps to equalise the benefits for males and females, in relation to differences in Guaranteed Minimum Pension ("GMP") between the gender. The total estimated cost of RMB6,616,000 is treated as a past service cost (Note 27) for the year ended 31 December 2018, representing the management's best estimation of the cost based on actuarial advice. However, the final cost will differ from this amount when the actual method of equalisation is agreed with the authority and subsequently implemented.

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.

*(e) Useful lives of intangible assets*

Intangible assets are amortised on a straight-line basis over the estimated economic useful lives of 5 to10 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. The carrying amount of the Group's intangible assets at the reporting date is disclosed in Note 14 to the financial statements.

*(f) 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 of RMB20,696,000 (2017: RMB17,425,000) as at 31 December 2018 (Note 15) was recognised on tax losses with no expiry for 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 RMB27,000 and RMB246,000 (2017: RMB355,000 and RMB246,000) as at 31 December 2018 (Note 15) was recognised on tax losses of a PRC subsidiary which will expire on year 2021 and 2022 (2017: 2021 and 2022) respectively as the management expects that there are sufficient taxable temporary differences in the same timing of the reversal.

# NOTES TO **THE FINANCIAL STATEMENTS**



## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

*(f) Income tax (Continued)*

As disclosed in Note 34, the Group has unrecognised tax losses of approximately RMB716,000 (2017: RMB2,764,000) that are available to carry forward. These losses amounting to RMB716,000 (2017: RMB1,514,000 and RMB1,250,000), relate to a subsidiary in PRC that have history of losses, will expire in year 2022 (2017: 2021 and 2022 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 RMB179,000 (2017: RMB691,000).

As at 31 December 2018, the Group recorded deferred tax liabilities amounting to RMB16,835,000 (2017: RMB19,802,000) relating to the withholding taxes payable on the entire undistributed profits of the PRC subsidiaries (Note 15). 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.

### (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 24C.

*(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 is denominated is not as prominent as that of costs.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 3. SHARE CAPITAL

| | Group and Company | | | |
|---|---|---|---|---|
| | 31 December 2018 | | 31 December 2017 | |
| | 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.

## 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% (31 December 2017: 10%) 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% (31 December 2017: 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 | |
|---|---|---|
| | 2018 RMB'000 | 2017 RMB'000 |
| At 1 January | **114,798** | 2,364 |
| Profit for the financial year (Note A) | **20,044** | 129,872 |
| Dividend paid (Note 36) | **(17,773)** | (17,438) |
| At 31 December | **117,069** | 114,798 |

**Note A**

Consists of dividend income from a subsidiary amounting to RMB15,500,000 (2017: RMB54,073,000) and reversal of impairment loss on investment in subsidiaries amounting to Nil (2017: RMB46,715,000) (Note 12).

## 8. TRANSLATION RESERVE/(DEFICIT)

| | Company | |
|---|---|---|
| | 2018 RMB'000 | 2017 RMB'000 |
| At 1 January | **(2,467)** | 10,990 |
| Currency translation difference for the financial year | **14,055** | (13,457) |
| At 31 December | **11,588** | (2,467) |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 9. FAIR VALUE RESERVE

The fair value reserve arises from the changes in fair value of financial assets at FVOCI (2017: available-for-sale financial assets) as disclosed in Note 20 and Note 21 to the financial statements respectively.

## 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 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| 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 |
| At 1 January 2018 | **49,754** | **247,656** | **169,831** | **47,789** | **10,732** | **27,128** | **552,890** |
| Additions | **–** | **675** | **15,227** | **8,020** | **970** | **9,495** | **34,387** |
| Reclassified from/(to) | **–** | **23,756** | **3,909** | **–** | **–** | **(27,665)** | **–** |
| Disposals | **–** | **–** | **(1,603)** | **(745)** | **(138)** | **(273)** | **(2,759)** |
| Currency translation differences | **544** | **1,590** | **674** | **222** | **56** | **(341)** | **2,745** |
| At 31 December 2018 | **50,298** | **273,677** | **188,038** | **55,286** | **11,620** | **8,344** | **587,263** |
| **Accumulated depreciation** | | | | | | | |
| 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 |
| At 1 January 2018 | **–** | **87,649** | **99,922** | **30,901** | **7,817** | **–** | **226,289** |
| Charge for the financial year | **–** | **12,050** | **15,080** | **7,023** | **913** | **–** | **35,066** |
| Disposals | **–** | **–** | **(1,458)** | **(680)** | **(124)** | **–** | **(2,262)** |
| Currency translation differences | **–** | **481** | **282** | **165** | **51** | **–** | **979** |
| At 31 December 2018 | **–** | **100,180** | **113,826** | **37,409** | **8,657** | **–** | **260,072** |
| **Net carrying amount** | | | | | | | |
| At 31 December 2018 | **50,298** | **173,497** | **74,212** | **17,877** | **2,963** | **8,344** | **327,191** |
| At 31 December 2017 | 49,754 | 160,007 | 69,909 | 16,888 | 2,915 | 27,128 | 326,601 |

Assets pledged as security

The Group's freehold land and buildings with carrying amount of RMB26,742,000 (2017: RMB26,334,000) and RMB7,993,000 (2017: RMB8,111,000) 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 RMB8,943,000 and RMB2,242,000 (2017: RMB11,977,000 and RMB3,146,000) respectively.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 11. LAND USE RIGHTS

| | Group | |
|---|---|---|
| | 2018 RMB'000 | 2017 RMB'000 |
| **Cost** | | |
| At 1 January and 31 December | **67,490** | 67,490 |
| **Accumulated amortisation** | | |
| At 1 January | **7,990** | 6,640 |
| Amortisation for the financial year | **1,350** | 1,350 |
| At 31 December | **9,340** | 7,990 |
| **Net carrying amount** | **58,150** | 59,500 |
| 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 | **51,401** | 52,751 |

The Group has land use rights over four plots (2017: four plots) of state-owned land in the PRC with the remaining amortisation periods as follows:

| | Carrying amount | | Remaining amortisation periods | |
|---|---|---|---|---|
| | 31 December 2018 RMB'000 | 31 December 2017 RMB'000 | 2018 Years | 2017 Years |
| Land 1 | **8,331** | 8,535 | **42** | 43 |
| Land 2 | **30,264** | 30,984 | **43** | 44 |
| Land 3 | **12,073** | 12,336 | **46** | 47 |
| Land 4 | **7,482** | 7,645 | **46-47** | 47-48 |

## 12. SUBSIDIARIES

| | Company | |
|---|---|---|
| | 2018 RMB'000 | 2017 RMB'000 |
| <u>Unquoted equity shares, carried at cost</u> | | |
| Cost | **92,517** | 98,220 |
| Impairment losses | **–** | (49,595) |
| At 1 January | **92,517** | 48,625 |
| Deemed capital contribution | | |
| – Waiver of amount owed(i) | **150,985** | – |
| – Financial guarantee contracts(ii) (Note 24D) | **13,641** | – |
| Reversal of impairment losses(iii) | **–** | 46,715 |
| Currency translation differences | **12,260** | (2,823) |
| At 31 December | **269,403** | 92,517 |

(i) This represents the amount owing from a subsidiary, Tri Star Security Pte. Ltd., which was either likely nor plan to be recovered in the foreseeable future. During the year, the Company capitalised such amount due from a subsidiary amounting to RMB150,985,000 (Note 19(ii)).

(ii) The Company has issued financial guarantees to banks for borrowings of its subsidiaries. These guarantees are subsequently measured at the higher of (a) the amount of loss allowance determined under SFRS(I) 9; and (b) the initial recognised amount less cumulative amount recognised as income under SFRS(I) 15. The Company has assessed and determined that the loss allowance is the higher amount to be recognised arising from these guarantees and they are capitalised in the cost of investment as at year end.

(iii) During the financial year 2017, impairment loss previously recognised on Format is reversed in full and recognised as the Company's other income amounting to RMB46,715,000. The reversal of impairment losses was due to the subsidiary reported strong revenue and stable profit track record, which was supported by a value-in-use calculation.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (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 | |
|---|---|---|---|---|---|---|
| | | | 2018 % | 2017 % | 2018 RMB'000 | 2017 RMB'000 |
| **Held by the Company** | | | | | | |
| Tri Star Security Pte. Ltd.(1) | Investment holding and general wholesale of semi-conductor instruments and parts and precision machining parts | Singapore | **100** | 100 | **193,002** | 19,779 |
| Tri Star Semicon Pte. Ltd.(1) | Investment holding | Singapore | **100** | 100 | **8,080** | 7,692 |
| Format Tresorbau Beteiligungs-GmbH(2) ("Format") | Investment holding | Germany | **100** | 100 | **50,343** | 47,930 |
| Matrix Mechatronix Technology (Philippines) Corp(2) | Develop, manufacture, assemble, sell and undertake after-sales service for high security products | Philippines | **100** | 100 | **1,632** | 1,554 |
| Krauth Technology GmbH(2) | Design and manufacture of intelligent terminals and providing electro-mechanical solution to customers | Germany | **100** | 100 | **16,346** | 15,562 |
| Tristar B.V.(6) | Investment holding | Netherlands | **–** | 100 | **–** | –* |
| | | | | | **269,403** | 92,517 |

| Name of companies | Principal activities | Country of incorporation and place of business | Effective equity held by the Group | |
|---|---|---|---|---|
| | | | 2018 % | 2017 % |
| **Held through subsidiaries** | | | | |
| Tri Star Inc.(3) | Design and manufacture of high security products | PRC | **100** | 100 |
| Tri Star Technology Co., Ltd.(3) | Design and manufacture of semi-conductor instruments and parts and precision machining parts | PRC | **100** | 100 |
| Jiangsu Tri Star Technology Co., Ltd.(3) | Design and manufacture of semi-conductor instruments and parts and precision machining parts | PRC | **100** | 100 |
| Shanghai Tri Star Engineering Technology Co., Ltd.(4) | Research and development, engineering and prototype (inactive) | PRC | **100** | 100 |
| Jiangsu Tri Star Terminal Equipment Technology Co., Ltd.(3) | Manufacturing, assembly, maintenance and providing after-sales service of intelligent terminals; and Design and manufacture of high security products | PRC | **100** | 100 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (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 2018 % | Effective equity held by the Group 2017 % |
|---|---|---|---|---|
| **Held through subsidiaries (Continued)** | | | | |
| Jiangsu Tri Star Trading Co., Ltd.(4) | Sale and providing after-sales service of safe, auto testing instruments, mechanical and electrical products (inactive) | PRC | **100** | 100 |
| Jiangsu Tri Star Equipment Co., Ltd.(3) | Manufacturing of security products, ATM, terminals and mechanical parts | PRC | **100** | 100 |
| Matrix Technologies Company Limited(4)(7) | Develop, manufacture, assemble, sell and undertake after-sales service for high security products (inactive) | Vietnam | **100** | – |
| Format USA Inc.(4) | 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(4) | Property investment | USA | **100** | 100 |
| Format Tresorbau Verwaltungs GmbH(2) | Management service to Format Tresorbau GmbH & Co. KG | Germany | **100** | 100 |
| Format Tresorbau GmbH & Co. KG(2) | Design and manufacture of high security products | Germany | **100** | 100 |
| Tri Star GmbH(4) | Investment holding | Germany | **100** | 100 |
| Deutsche Mechatronics GmbH ("DTMT")(2) | Design and manufacture of intelligent terminals and providing electro-mechanical solution to customers | Germany | **100(5)** | 100(5) |
| Mechatronics Technology HK Limited(4) | Investment holding | Hong Kong | **100** | 100 |
| Almex GmbH ("Almex")(2) | Design and manufacture of intelligent terminals and providing electro-mechanical solution to customers | Germany | **100** | 100 |
| Metric Group Holdings Limited(2)(8) | Investment holding | United Kingdom | **100** | 100 |
| Metric Group Limited ("Metric UK")(2)(8) | Design and manufacture of intelligent terminals and providing electro-mechanical solution to customers | United Kingdom | **100** | 100 |
| Metric Group Inc.(4)(8) | 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 network firms of Crowe Global in the respective countries.

(3) 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.

(4) These subsidiaries are not subject to local statutory audit for the financial year ended 31 December 2018. Their financial statements were reviewed by Crowe Horwath First Trust LLP for the purpose of expressing an opinion on the consolidated financial statements.

(5) The current percentage of voting rights of DTMT legally owned by the Group is 90% (2017: 90%) which has been increased to 100% subsequent to year end, as disclosed in Note 24C.

(6) The subsidiary had been dissolved during the year.

(7) During the financial year, the Group has incorporated a new subsidiary, namely Matrix Technologies Company Limited with a paid up capital of US$500,000 (equivalent to RMB3,438,000), which is wholly owned by a subsidiary, Tri Star Security Pte. Ltd.

(8) Together, being referred as "Metric Group".

* Amount less than RMB1,000 (2017: RMB1,000).

# NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 13. ASSOCIATES

| | Group | |
|---|---|---|
| | **2018 RMB'000** | **2017 RMB'000** |
| Unquoted equity shares | | |
| At 1 January | **7,510** | 7,093 |
| Share of post-acquisition profit | **765** | 417 |
| At 31 December | **8,275** | 7,510 |

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 | |
|---|---|---|---|---|---|---|
| | | | **2018 %** | **2017 %** | **2018 RMB'000** | **2017 RMB'000** |
| Held through a subsidiary ("DTMT") | | | | | | |
| DTMT China Holding GmbH[(i)] | Investment holding | Germany | **50** | 50 | **2,932** | 2,932 |
| DTMT (Hangzhou) Co., Ltd.[(i)] | Design and manufacture of intelligent terminals and providing electro-mechanical solution to customers | PRC | **50** | 50 | **5,343** | 4,578 |
| | | | | | **8,275** | 7,510 |

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

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.

| | **31 December 2018 RMB'000** | **31 December 2017 RMB'000** |
|---|---|---|
| **Assets and liabilities** | | |
| Current assets | **13,656** | 10,876 |
| Non-current assets | **8,525** | 9,234 |
| Total assets | **22,181** | 20,110 |
| Total liabilities – current | **(5,631)** | (5,089) |
| Net assets | **16,550** | 15,021 |
| Carrying amounts of investments in associates at 50% shareholding | **8,275** | 7,510 |

# NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 13. ASSOCIATES (Continued)

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| **Results** | | |
| Revenue | **21,933** | 17,058 |
| Profit for the financial year, representing total comprehensive income for the financial year | **1,530** | 834 |

## 14. INTANGIBLE ASSETS

| Group | Technical know-how and patent RMB'000 | Development costs RMB'000 | Customer relationship RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| 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 |
| At 1 January 2018 | 17,586 | 81,103 | 33,481 | 132,170 |
| Additions | 4,771 | 15,688 | – | 20,459 |
| Currency translation differences | 128 | (616) | 193 | (295) |
| At 31 December 2018 | 22,485 | 96,175 | 33,674 | 152,334 |
| **Accumulated amortisation and impairment loss** | | | | |
| 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 |
| At 1 January 2018 | 4,575 | 38,512 | 12,263 | 55,350 |
| Amortisation for the financial year | 2,940 | 11,723 | 2,379 | 17,042 |
| Impairment loss | – | – | 13,676 | 13,676 |
| Currency translation differences | 65 | (234) | 197 | 28 |
| At 31 December 2018 | 7,580 | 50,001 | 28,515 | 86,096 |
| **Net carrying amount** | | | | |
| At 31 December 2018 | 14,905 | 46,174 | 5,159 | 66,238 |
| At 31 December 2017 | 13,011 | 42,591 | 21,218 | 76,820 |

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

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Cost of sales | **14,886** | 13,677 |
| Administrative expenses | **2,156** | 2,773 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 14. INTANGIBLE ASSETS (Continued)

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

| | Carrying amount | | Remaining amortisation periods | |
|---|---|---|---|---|
| | **2018 RMB'000** | **2017 RMB'000** | **2018 Years** | **2017 Years** |
| Development costs | | | | |
| – High security products | **–** | 888 | **–** | 1.0 |
| – Intelligent terminals | **28,529** | 28,868 | **1.7 – 3.0** | 2.7 – 4.0 |
| Customer relationship | **5,159** | 21,218 | **7.8** | 8.8 |
| Technical know-how and patent | | | | |
| – Intelligent terminals | **5,768** | 6,486 | **7.8** | 8.8 |

**Impairment assessment**

A subsidiary in the "Business Solutions" segment, Almex GmbH, continued to register losses and it failed to secure a major contract from a customer during financial year 2017. Consequently, management impaired the intangible assets resulting from the acquisition of RMB7,908,000 (Note 32) in 2017. During the year, the subsidiary has started making profit. At the reporting date, management performed an impairment test for the remaining intangible assets of the subsidiary and concluded that no further impairment is required.

A sub-group consisting of 3 entities, Metric Group Holdings Limited, Metric Group Limited and Metric Group Inc. (together, "Metric Group") in the "Business Solutions" segment, has reported significant losses and a net liability position, triggering the indication of impairment of its intangible assets. At the reporting date, management performed an impairment test for the intangible assets held by Metric Group. The total carrying amount of intangible assets, subject to impairment test, was RMB56,480,000 which was classified in the categories of "technical know-how and patent", "development costs" and "customer relationship" of RMB1,765,000, RMB35,880,000 and RMB18,835,000 respectively. These are classified as one cash-generating unit ("CGU").

The recoverable amount of the relevant CGU is determined using the multi-period excess earnings method and value-in-use calculation based on discounted cash flow projections approved by management, assuming a long-term growth rate applied to the remaining useful life of the relevant intangible assets and adjusted with historical attrition rate.

*Customer relationship:*

The recoverable amount determined using the multi-period excess earnings method representing the cash flows generated from the customer relationship existed at the acquisition date in 2016. The multi-period excess earnings method is adjusted with the relevant contributory asset charges. Accordingly, the customer relationship amounting to RMB13,676,000 was written down and recognised in the profit or loss within "Other expenses" (Note 32).

*Technical know-how and patent, and development costs:*

Management performed an impairment test using value-in-use calculation and concluded that no impairment is required.

The key estimated variables in the multi-period excess earnings method and value-in-use calculations are as follows:

| | Almex GmbH | | Metric Group |
|---|---|---|---|
| | **2018** | **2017** | **2018[(i)]** |
| Pre-tax discount rate | 11.84% | 8.9% | 11.8% |
| Sales growth | | | |
| – Year 1 | 89%[(ii)] | 10% to 15% | 1.6% |
| – Year 2 | 1.8% | 10% to 15% | 1.6% |
| – Year 3 to 8 | 1.8% | 5% | 1.6% |
| Gross profit margin | | | |
| – Year 1 | 25%[(ii)] | 40% | 51.5% |
| – Year 2 to 8 | 49% | 40% | 51.5% |

(i) There was no impairment review for Metric Group as at 31 December 2017 as Metric Group was able to meet its budgeted revenue and profit, hence, management concluded that there was no impairment indication in 2017.

(ii) The exceptional sales growth and gross profit margin in Year 1 are effected by a one-time project worth EUR 18 million (approximately RMB141,251,000).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 14. INTANGIBLE ASSETS (Continued)

### Impairment assessment (Continued)

*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.

*Gross profit margin* – The estimated gross profit margin is determined based on current year and historical results.

*Sensitivity analysis:*

Management has performed a sensitivity analysis of the pre-tax discount rate and gross profit margin and concluded that no impairment charge is required for the technical know-how and patent and the development costs as an increase in pre-tax discount rate to 15.8% or a decrease in the gross profit margin to 50.5% throughout the forecast period, would still result in the recoverable amount exceeding the carrying amounts of the technical know-how and patent and the development costs as at 31 December 2018.

## 15. DEFERRED TAX ASSETS/(LIABILITIES)

| | Group | |
|---|---|---|
| | **2018 RMB'000** | **2017 RMB'000 (Restated) (Note 2A)** |
| At 1 January (Restated) | **(5,773)** | (21,065) |
| Recognised in the profit or loss (Note 34) | **6,896** | 15,368 |
| Recognised in the other comprehensive income | **(278)** | 209 |
| Currency translation differences | **(330)** | (285) |
| At 31 December | **515** | (5,773) |
| Presented after appropriate offsetting as follows: | | |
| Deferred tax assets, net | **24,947** | 19,360 |
| Deferred tax liabilities, net | **(24,432)** | (25,133) |
| | **515** | (5,773) |

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** |
|---|---|---|---|---|---|
| **31 December 2018** | | | | | |
| Net difference between net carrying amount of property, plant and equipment, intangible assets and inventories, and their tax base | **(17,903)** | **932** | **–** | **(188)** | **(17,159)** |
| Provision for withholding tax | **(19,802)** | **2,967** | **–** | **–** | **(16,835)** |
| Derivative financial instruments | **91** | **–** | **–** | **–** | **91** |
| Unutilised tax losses | **18,026** | **2,992** | **–** | **(49)** | **20,969** |
| Deferred government grants | **3,114** | **(1,612)** | **–** | **–** | **1,502** |
| Allowances for doubtful debts and inventories obsolescence | **727** | **(42)** | **–** | **–** | **685** |
| Deferred tax on pension scheme liability | **13,669** | **–** | **(278)** | **795** | **14,186** |
| Contract assets and liabilities | **(515)** | **(1,718)** | **–** | **(329)** | **(2,562)** |
| Others* | **(3,180)** | **3,377** | **–** | **(559)** | **(362)** |
| | **(5,773)** | **6,896** | **(278)** | **(330)** | **515** |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 15. DEFERRED TAX ASSETS/(LIABILITIES) (Continued)

| 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 |
|---|---|---|---|---|---|
| **31 December 2017 (Restated)** | | | | | |
| 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 |
| Contract assets and contract liabilities | (811) | 344 | – | (48) | (515) |
| Others * | (1,033) | (1,874) | – | (273) | (3,180) |
| | (21,065) | 15,368 | 209 | (285) | (5,773) |

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

As at 31 December 2018, the Group recorded deferred tax liabilities amounting to RMB16,835,000 (31 December 2017: RMB19,802,000) 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.

As at 31 December 2018, the Group has unused tax losses of RMB716,000 (2017: RMB1,514,000 and RMB1,250,000) related to a subsidiary in PRC that will expire in 2022 (2017: 2021 and 2022 respectively). 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.

## 16. INVENTORIES

| | Group | | |
|---|---|---|---|
| | 31 December | | 1 January |
| | 2018 RMB'000 | 2017 RMB'000 (Restated) (Note 2) | 2017 RMB'000 (Restated) (Note 2) |
| Raw materials | **186,089** | 178,810 | 161,627 |
| Raw materials-in-transit | **622** | 7,441 | 4,033 |
| Work-in-progress | **142,408** | 69,340 | 41,971 |
| Finished goods | **82,944** | 151,566 | 76,462 |
| Finished goods-in-transit | **194** | 4,950 | 8,841 |
| | **412,257** | 412,107 | 292,934 |

The cost of inventories recognised as expenses in "Cost of sale" amounted to RMB892,254,000 (2017: RMB785,225,000), which includes the amount recognised during the year for write-down and write back amounting to RMB1,746,000 and RMB3,427,000 (2017: RMB7,763,000 and RMB3,972,000) respectively.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 17. TRADE RECEIVABLES

| | Group 31 December | | Group 1 January | Company 31 December | |
|---|---|---|---|---|---|
| | 2018 RMB'000 | 2017 RMB'000 (Restated) (Note 2) | 2017 RMB'000 (Restated) (Note 2) | 2018 RMB'000 | 2017 RMB'000 |
| Trade receivables | **217,785** | 284,769 | 234,748 | **6,118** | 6,826 |
| Less: Allowance for impairment loss (Note 40(iii)) | **(7,566)** | (2,834) | (3,255) | **–** | – |
| | **210,219** | 281,935 | 231,493 | **6,118** | 6,826 |
| Value-added tax receivables | **9,878** | 3,312 | 3,200 | **–** | – |
| | **220,097** | 285,247 | 234,693 | **6,118** | 6,826 |

## 18. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 RMB'000 | 2017 RMB'000 | 2018 RMB'000 | 2017 RMB'000 |
| Other receivables | **8,616**[(i)] | 4,797 | **–** | 332 |
| Deposits | **1,972** | 1,570 | **–** | – |
| Prepayments | **3,924** | 4,058 | **–** | – |
| Tax refundable | **331** | 156 | **–** | – |
| | **14,843** | 10,581 | **–** | 332 |

(i) Amount includes capitalised incremental cost to obtain contract amounting to RMB1,781,000.

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 RMB'000 | 2017 RMB'000 | 2018 RMB'000 | 2017 RMB'000 |
| Due from a related party (trade)[(i)(v)] | **680** | – | **–** | – |
| Due from subsidiaries[(v)] | | | | |
| – trade | **–** | – | **–** | 5,578 |
| – non-trade[(ii)] | **–** | – | **41,336** | 212,314 |
| | **680** | – | **41,336** | 217,892 |

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 RMB'000 | 2017 RMB'000 | 2018 RMB'000 | 2017 RMB'000 |
| Due to related parties[(v)] | | | | |
| – trade[(iii)] | **244** | 243 | **–** | – |
| – non-trade[(iv)] | **9,069** | – | **9,069** | – |
| Due to subsidiaries (trade)[(v)] | **–** | – | **74,213** | 58,212 |
| | **9,313** | 243 | **83,282** | 58,212 |

(i) The trade balance due from a related party arose from the sales of product to a company in which a director of the Company has controlling financial interest.

(ii) In 2017, out of the non-trade balances, loans to subsidiaries amounting to RMB38,568,000 bear interest at 1.0% per annum. A total of RMB150,985,000 has been waived during the year (Note 12(i)).

(iii) The balance arose from the purchases of raw materials from a company in which a director of the Company has controlling financial interest.

(iv) Amount of RMB9,069,000 pertaining to amount due to a director.

(v) The above balances are unsecured and repayable on demand.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Group | |
|---|---|---|
| | **2018 RMB'000** | **2017 RMB'000** |
| At 1 January, at fair value | **16,748** | 10,596 |
| Reclassification at 1 January 2018 upon initial adoption of SFRS(I) 9 (Note 21) | **(16,748)** | – |
| Additions | **–** | 13,518 |
| Disposal | **–** | (6,937) |
| Gain on fair value changes | **–** | 419 |
| Currency translation differences | **–** | (848) |
| At 31 December, at fair value | **–** | 16,748 |

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

## 21. FINANCIAL ASSETS, AT FVOCI

| | Group |
|---|---|
| | **2018 RMB'000** |
| At 1 January | **–** |
| Reclassification at 1 January 2018 upon initial adoption of SFRS(I) 9 (Note 20) | **16,748** |
| Additions | **3,279** |
| Disposal | **(3,330)** |
| Gain on fair value changes | **(994)** |
| Currency translation differences | **777** |
| At 31 December, at fair value | **16,480** |

At initial adoption of SFRS(I) 9, the Group classifies the financial assets at FVOCI, according to the Group's business model with objectives of both collecting contractual cash flows and selling financial assets, and meeting the solely principle payment and interest test.

Those investments were classified as available-for-sale financial assets under FRS 39. During the financial year, interest amounting to RMB374,000 is included in finance income (Note 31).

## 22. CASH AND BANK BALANCES

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 RMB'000** | **2017 RMB'000** | **2018 RMB'000** | **2017 RMB'000** |
| Cash in hand | **641** | 642 | **–** | – |
| Cash at banks | **257,547** | 210,191 | **34,521** | 11,846 |
| Fixed deposits (Note A) | **77,093** | 87,386 | **32,021** | – |
| Cash and bank balances | **335,281** | 298,219 | **66,542** | 11,846 |
| Less: Pledged bank balances and fixed deposits (Note B) | **(47,586)** | (49,068) | | |
| Cash and cash equivalents as stated in consolidated statement of cash flows | **287,695** | 249,151 | | |

As at 31 December 2018, the Group has cash and bank balances deposited with banks in the PRC, denominated in Chinese Renminbi ("RMB") amounting to approximately RMB61,540,000 (2017: RMB14,945,000). 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 22. CASH AND BANK BALANCES (Continued)

Note A

The fixed deposits of the Group have remaining maturity periods of 1 to 3 months (2017: 1 to 2 months). The fixed deposits bear interest of 0.05% to 2.34% (2017: 0.05% to 1.058%) per annum.

Note B

As at 31 December 2018, bank balances and fixed deposits of RMB47,586,000 (31 December 2017: RMB49,068,000) are pledged in connection with bank borrowings by subsidiaries and bank guarantee provided to subsidiaries and a customer (Note 25).

## 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 | |
|---|---|---|
| | 2018 RMB'000 | 2017 RMB'000 |
| **Notional principal** | | |
| Forward currency contracts | – | 10,426 |
| **Derivative liabilities** | | |
| Forward currency contracts | – | (608) |

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. A settlement loss of RMB5,407,000 (2017: RMB456,000) (Note 32) have been recognised in the profit or loss for the financial year on the closed contracts in the financial year. All forward currency contract had been settled as at current year end.

## 24. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

| | Group | | | Company | |
|---|---|---|---|---|---|
| | 31 December | | 1 January | 31 December | |
| | 2018 RMB'000 | 2017 RMB'000 (Restated) (Note 2) | 2017 RMB'000 (Restated) (Note 2) | 2018 RMB'000 | 2017 RMB'000 |
| **Trade** | | | | | |
| Trade payables | **124,579** | 151,539 | 107,847 | **161** | 1,858 |
| Value-added tax payables | **2,715** | 5,131 | – | **–** | – |
| | **127,294** | 156,670 | 107,847 | **161** | 1,858 |
| **Non-trade** | | | | | |
| Current | | | | | |
| Accrued expenses (Note A) | **43,171** | 47,868 | 51,738 | **1,490** | 912 |
| Other payables (Note B) | **59,750** | 72,344 | 78,439 | **–** | – |
| Contingent consideration | **–** | – | 1,461 | **–** | – |
| Redemption liability (Note C) | **877** | – | – | **–** | – |
| Financial guarantee liability (Note D) | **–** | – | – | **13,641** | – |
| Other taxes payable | **3,355** | 6,221 | 1,482 | **–** | – |
| | **107,153** | 126,433 | 133,120 | **15,131** | 912 |
| Non-current | | | | | |
| Other payables | | | | | |
| – Redemption liability (Note C) | **–** | 3,503 | 2,961 | **–** | – |
| – Contingent consideration (Note 41(i)) | **–** | – | – | **–** | – |
| | **–** | 3,503 | 2,961 | **–** | – |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 24. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS (Continued)

Note A

Included in accrued expenses is accrued payroll expenses amounting to RMB42,671,000 and RMB946,000 (2017: RMB43,276,000 and RMB421,000) of the Group and Company respectively.

Note B

(a) Included in other payables in financial year 2017 was a 3.5%-interest EUR3,000,000 loan from former owner of Metric Group Limited (equivalent to RMB23,403,000) that was originally repayable by 29 December 2017. After a prolongation, the loan was fully repaid by 28 February 2018.

(b) EUR220,875 (equivalent to RMB1,733,000) (2017: EUR220,875, equivalent to RMB1,723,000), 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.

Note C

As part of the acquisition of additional 30% equity interest in DTMT in October 2014, the Group entered into an agreement with the non-controlling shareholder to acquire the remaining 10% equity interest in DTMT ("Purchase Agreement") at a consideration of EUR500,000 (equivalent to RMB3,852,000) payable on 1 January 2019. Management assessed that as both parties are unable to terminate the Purchase Agreement, the risk and rewards of the remaining 10% interest in DTMT are deemed to be transferred to the Group in October 2014, given that the Group is the majority shareholder of DTMT and is able to fully control and direct the financing and operational activities of DTMT.

In December 2018, the Group entered into another agreement with the non-controlling shareholder to reduce the consideration to EUR112,000 (equivalent to RMB877,000), due to value added tax losses incurred by DTMT arising from tax dispute prior to the acquisition. The gain on the reduction of the purchase consideration of RMB2,975,000 is recognised in profit or loss within "Other income" (Note 29), after the unwinding of discount of RMB349,000 (2017: RMB334,000) recognised in profit or loss as "Finance costs" (Note 31). The amount has been fully paid subsequent to the year end and the Group obtained 100% legal ownership of DTMT from January 2019.

Note D

The Company has issued financial guarantees to banks for borrowings and banking facilities of its subsidiaries. As at 31 December 2018, the borrowings and banking facilities granted to the subsidiaries subject to guarantees given to the banks were utilised up to RMB67,970,000. These guarantees are subject to the impairment requirements of SFRS(I) 9. The Company has assessed the expected credit losses arising from these guarantees, capitalised in cost of investment (Note 12(ii)) and recognised the financial guarantee liability of RMB13,641,000 as at 31 December 2018.

## 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 |
|---|---|---|---|---|
| **2018** | | | | |
| Loans(i) | **149,909** | **11,691** | **6,376** | **167,976** |
| Finance lease obligations(ii) | **3,591** | **9,056** | **–** | **12,647** |
| | **153,500** | **20,747** | **6,376** | **180,623** |
| **2017** | | | | |
| Loans(i) | 180,903 | 12,477 | 8,290 | 201,670 |
| Finance lease obligations(ii) | 4,297 | 10,316 | 335 | 14,948 |
| | 185,200 | 22,793 | 8,625 | 216,618 |

# NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 25. BORROWINGS (Continued)

### (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 |
|---|---|---|---|---|
| **2018** | | | | |
| Loan 8 (Secured) – Floating rate | **25,504** | **–** | **–** | **25,504** |
| Loan 9 (Secured) – Fixed rate | **21,314** | **–** | **–** | **21,314** |
| Loan 10 (Secured) – Fixed rate | **1,471** | **7,847** | **6,376** | **15,694** |
| Loan 11 (Secured) – Fixed rate | **2,155** | **–** | **–** | **2,155** |
| Loan 12 (Secured) – Fixed rate | **1,348** | **3,844** | **–** | **5,192** |
| Loan 13 (Unsecured) – Floating rate | **25,000** | **–** | **–** | **25,000** |
| Loan 14 (Unsecured) – Floating rate | **20,000** | **–** | **–** | **20,000** |
| Loan 15 (Unsecured) – Floating rate | **28,500** | **–** | **–** | **28,500** |
| Loan 16 (Unsecured) –Fixed rate | **3,956** | **–** | **–** | **3,956** |
| Loan 17 (Secured) – Floating rate | **20,661** | **–** | **–** | **20,661** |
| | **149,909** | **11,691** | **6,376** | **167,976** |
| **2017** | | | | |
| Loan 1 (Unsecured) – Floating rate | 15,000 | – | – | 15,000 |
| Loan 2 (Unsecured) – Floating rate | 20,000 | – | – | 20,000 |
| Loan 3 (Unsecured) – Floating rate | 5,000 | – | – | 5,000 |
| Loan 4 (Unsecured) – Floating rate | 20,000 | – | – | 20,000 |
| Loan 5 (Unsecured) – Floating rate | 20,000 | – | – | 20,000 |
| Loan 6 (Secured) – Floating rate | 27,962 | – | – | 27,962 |
| Loan 7 (Secured) – Floating rate | 13,676 | – | – | 13,676 |
| Loan 8 (Secured) – Floating rate | 30,429 | – | – | 30,429 |
| Loan 9 (Secured) – Fixed rate | 24,641 | – | – | 24,641 |
| Loan 10 (Secured) – Fixed rate | – | 7,315 | 8,290 | 15,605 |
| Loan 11 (Secured) – Fixed rate | 2,873 | – | – | 2,873 |
| Loan 12 (Secured) – Fixed rate | 1,322 | 5,162 | – | 6,484 |
| | 180,903 | 12,477 | 8,290 | 201,670 |

Loan 1, Loan 2, Loan 3, Loan 4, Loan 5 (Unsecured)

These RMB-denominated loans are obtained by a PRC subsidiary during the year, from a PRC branch of a multinational bank, to finance the working capital. These loans, which bear interest at PRC loan prime rate plus 0.05% per annum, subject to monthly review by the banks, have been fully repaid in 2018.

Loan 6 (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 corporate guarantees for the loan. The loan is secured by a pledge over a German subsidiary, Tri Star GmbH's fixed deposits (Note 22B). The loan bears interest at 3-month EURIBOR, plus a margin of 150 basis points per annum, and has been fully repaid in 2018.

Loan 7 (Secured)

This GBP-denominated loan is obtained by a UK subsidiary during the year from a UK bank to finance the working capital. A subsidiary, Tri Star Inc. provided a corporate guarantee for the loan. The loan is secured by a pledge over the Group's fixed deposits (Note 22B). The loan bears interest at LIBOR plus 1% per annum, and has been fully repaid in 2018.

Loan 8 (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., corporate provided guarantees for the loan. The loan is secured by a pledge over a PRC subsidiary, Tri Star Inc.'s fixed deposits (Note 22B). The loan bears interest at EURIBOR plus a margin of 150 basis points per annum. The loan has been fully drawn down and is repayable within one year after the drawdown date.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 25. BORROWINGS (Continued)

### (i) Loans (Continued)

Loan 9 (Secured)

This EUR-denominated loan secured by the land of the German subsidiary and is 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 2018 and 2017.

Loan 10 (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 a corporate 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 11 (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 corporate guarantees 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 2018 and 2017, the entire amount of the loan including instalments due after 12 months amounting to RMB2,155,000 (2017: RMB2,051,000) was classified as current liabilities due to a technical breach of financial covenant relating to a minimum debt coverage ratio. The bank has not requested for early repayment of the loan as of the date when these financial statements were approved by the Board of Directors.

Loan 12 (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 8 August 2022. The loan is secured by a pledge over the freehold land and building of the subsidiary (Note 10).

Loan 13, Loan 14, Loan 15 (Unsecured)

These RMB-denominated loans are 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 PRC loan prime rate plus 0.05% per annum, subject to monthly review by the bank, and are repayable by 14 March 2019, 13 May 2019 and 19 December 2019 respectively.

Loan 16 (Unsecured)

This EUR-denominated loan is obtained by a German subsidiary from a German bank to finance the working capital. The Company provided guarantee for the loan. The loan bears interest at 2.55% per annum and repayable by 30 August 2019.

Loan 17 (Secured)

This GBP-denominated loan is obtained by a UK subsidiary during the year from a UK bank to finance the working capital. The Company provided corporate guarantee for the loan. The loan is secured by a pledge over the Company's fixed deposit (Note 22B). The loan bears interest at LIBOR plus 1%, and is repayable by 25 April 2019.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 25. BORROWINGS (Continued)

### (ii) Finance lease obligations

Interest is payable at fixed interest rate ranging from 1.25% to 15.11% (2017: 1.25% to 15.11%) per annum and the finance lease obligation of the Group are effectively secured by pledge 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 | |
|---|---|---|
| | 2018 RMB'000 | 2017 RMB'000 |
| **Due within 1 year (current)** | | |
| Minimum lease payment | **3,794** | 4,654 |
| Interest | **(203)** | (357) |
| **Present value of minimum lease payment** | **3,591** | 4,297 |
| **Due after 1 year less than 5 years (non-current)** | | |
| Minimum lease payment | **9,231** | 10,679 |
| Interest | **(175)** | (363) |
| **Present value of minimum lease payment** | **9,056** | 10,316 |
| **Due after 5 years (non-current)** | | |
| Minimum lease payment | **–** | 364 |
| Interest | **–** | (29) |
| **Present value of minimum lease payment** | **–** | 335 |
| **Total finance lease obligations** | **12,647** | 14,948 |

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

| | At beginning of the year RMB'000 | Financing cash flows, net RMB'000 | Non-cash changes: Acquisition of property, plant & equipment RMB'000 | Non-cash changes: New finance lease RMB'000 | Non-cash changes: Foreign exchange movement RMB'000 | Non-cash changes: Others RMB'000 | At end of the year RMB'000 |
|---|---|---|---|---|---|---|---|
| **2018** | | | | | | | |
| Loans | | | | | | | |
| – current | **180,903** | **(34,295)** | **–** | **–** | **539** | **2,762** | **149,909** |
| – non-current | **20,767** | **–** | **–** | **–** | **62** | **(2,762)** | **18,067** |
| Finance lease obligations | | | | | | | |
| – current | **4,297** | **(4,434)** | **–** | **–** | **13** | **3,715** | **3,591** |
| – non-current | **10,651** | **–** | **–** | **2,088** | **32** | **(3,715)** | **9,056** |
| | **216,618** | **(38,729)** | **–** | **2,088** | **646** | **–** | **180,623** |

| | At beginning of the year RMB'000 | Financing cash flows, net RMB'000 | Non-cash changes: Acquisition of property, plant & equipment RMB'000 | Non-cash changes: New finance lease RMB'000 | Non-cash changes: Foreign exchange movement RMB'000 | Non-cash changes: Others RMB'000 | At end of the year RMB'000 |
|---|---|---|---|---|---|---|---|
| **2017** | | | | | | | |
| 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 |
| | 123,731 | 66,064 | 15,605 | 6,785 | 4,433 | – | 216,618 |

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

# NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 26. DEFERRED INCOME

| | Group | |
|---|---|---|
| | **2018 RMB'000** | **2017 RMB'000** |
| Government grant I | **5,642** | 6,006 |
| Government grant II | **6,256** | 6,444 |
| | **11,898** | 12,450 |

The movement in the government grants is as follows:

| | Group | |
|---|---|---|
| | **2018 RMB'000** | **2017 RMB'000** |
| At 1 January | **12,450** | 13,214 |
| Amortisation for the financial year (Note 29) | **(552)** | (764) |
| At 31 December | **11,898** | 12,450 |

Government grant I

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.

Government grant II

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 amount received is amortised over the useful life of the building commencing from June 2018.

## 27. PENSION LIABILITY

| | Group | |
|---|---|---|
| | **RMB'000** | **RMB'000** |
| The amount recognised is determined as follows: | | |
| Fair value of plan assets | 55,042 | 61,419 |
| Present value of plan liabilities | (135,991) | (140,783) |
| Net liability recognised | (80,949) | (79,364) |

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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 27. PENSION LIABILITY (Continued)

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 2018 by the independent consulting actuaries, Hughes Price Walker Limited.

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Movement of net liabilities recognised | | |
| At the beginning of the year | **(79,364)** | (76,423) |
| Interest expenses | **(1,879)** | (2,045) |
| Administrative expenses | **–** | (96) |
| Past service cost (Note A) | **(6,616)** | – |
| Re-measurement gains/(losses) | **3,236** | (1,271) |
| Contribution by scheme participants | **2,646** | 2,684 |
| Currency translation differences | **1,028** | (2,213) |
| At the end of the year | **(80,949)** | (79,364) |
| Reconciliation of present value of plan liabilities | | |
| At the beginning of the year | **(140,783)** | (135,631) |
| Interest expenses | **(3,317)** | (3,619) |
| Past service cost | **(6,616)** | – |
| Re-measurement gains | | |
| – Actuarial gains/(losses) arising from changes in financial assumptions | **5,830** | (4,730) |
| – Actuarial gains arising from changes in demographic assumptions | **807** | 1,308 |
| – Actuarial (losses)/gains arising from changes in experience adjustment | **(165)** | 702 |
| Benefits paid | **6,545** | 5,272 |
| Currency translation differences | **1,708** | (4,085) |
| At the end of the year | **(135,991)** | (140,783) |
| Reconciliation of present value of plan assets | | |
| At the beginning of the year/the date of acquisition | **61,419** | 59,208 |
| Interest income | **1,438** | 1,574 |
| Administrative expenses | **–** | (96) |
| Re-measurement (losses)/gains | | |
| – Return on plan asset | **(3,236)** | 1,449 |
| Contributions by scheme participants | **2,646** | 2,684 |
| Benefits paid | **(6,545)** | (5,272) |
| Currency translation differences | **(680)** | 1,872 |
| At the end of the year | **55,042** | 61,419 |
| Composition of plan assets | | |
| Equities and structured investments | **8,242** | 9,552 |
| Gilts | **10,975** | 11,826 |
| Bonds | **6,490** | 7,146 |
| Absolute return investments | **16,537** | 18,910 |
| Cash annuities | **5,206** | 5,619 |
| Individual member funds at 1992-1997 DC section | **7,592** | 8,366 |
| Total plans assets | **55,042** | 61,419 |

The net interest expense on obligation amounting to RMB1,879,000 (2017: RMB2,045,000) was recognised in profit or loss as finance cost (Note 31). Past service cost amounting to RMB6,616,000 was recognised in profit or loss as other expenses (Note 32). The re-measurement gains amounting to RMB3,236,000 (2017: losses amounting to RMB1,271,000) was recognised in other comprehensive income.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (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:

| | 2018 | 2017 |
|---|---|---|
| **Financial assumptions (%)** | | |
| Discount rate | **2.75** | 2.40 |
| Future pension increase | **3.00** | 3.00 |
| Inflation – RPI[(i)] | **3.35** | 3.25 |
| Inflation – CPI[(ii)] | **2.35** | 2.25 |
| **Demographic assumptions (years)** | | |
| Mortality rates (expected future lifetime from age 65) | | |
| – Male currently aged 65 | **21.80** | 21.90 |
| – Male currently aged 45 | **23.70** | 23.80 |
| – Female currently aged 65 | **22.90** | 23.10 |
| – Female currently aged 45 | **25.00** | 25.00 |

(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 | |
|---|---|---|---|
| | | 2018 RMB'000 | 2017 RMB'000 |
| Discount rate | 0.10% (2017: 0.10%) p.a. lower | **1,744** | 1,870 |
| Rate of mortality | improved by 0.5% (2017: 0.5%) | **2,013** | 2,195 |

Note A

The above charges relate to Guaranteed Minimum Pension ("GMP") equalisation. In October 2018, the High Court of United Kingdom ("UK") concluded that UK pension schemes will need to take steps to equalise the benefits for males and females, in relation to differences in GMP between the gender. This is an estimated liability and is treated as a past service cost (Note 32) for the year ended 31 December 2018.

## 28. REVENUE FROM CONTRACTS WITH CUSTOMERS

### (a) Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major type of goods and services. The initial effect of adoption of SFRS(I) 15 is disclosed in Note 2A.

| | Group | | |
|---|---|---|---|
| | At a point in time RMB'000 | Over time RMB'000 | Total RMB'000 |
| By type of goods and services and timing of revenue recognition | | | |
| **2018** | | | |
| High Security | | | |
| – Sale of products | **960,146** | **–** | **960,146** |
| – Freight service income | **102** | **–** | **102** |
| Business Solution | | | |
| – Sale of products | **206,449** | **–** | **206,449** |
| – Projects revenue | **605,029** | **44,069** | **649,098** |
| | **1,771,726** | **44,069** | **1,815,795** |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 28. REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

### (a) Disaggregation of revenue from contracts with customers (Continued)

| | Group | | |
|---|---|---|---|
| | At a point in time RMB'000 | Over time RMB'000 | Total RMB'000 |
| **2017** | | | |
| High Security | | | |
| – Sale of products | 793,378 | – | 793,378 |
| – Freight service income | 64 | – | 64 |
| Business Solution | | | |
| – Sale of products | 219,765 | – | 219,765 |
| – Projects revenue | 619,583 | 19,547 | 639,130 |
| | 1,632,790 | 19,547 | 1,652,337 |

Payment is typically due when the goods are delivered to customers or completion of the project for both High Security and Business Solution segments, with 30 to 60 days credit term. No upfront payment is received from customers except as disclosed in part (b) below.

Breakdown of revenue by geographical location of customers is disclosed in Note 39.

### (b) Contract balances

Contract with customers give rise to the following balances as at the reporting date:

| | Group | | |
|---|---|---|---|
| | 31 December | | 1 January |
| | 2018 RMB'000 | 2017 RMB'000 | 2017 RMB'000 |
| Trade receivables (Note 17) | **210,219** | 281,935 | 231,493 |
| Contract assets | **39,169** | 19,463 | 17,775 |
| Contract liabilities | **(74,425)** | (64,307) | (31,004) |

Contract assets relate to the Group's right to consideration for work completed but yet to be billed at reporting date, which will be transferred to trade receivables when the rights become unconditional upon invoicing, which is normally raised upon delivery of those customised assembled electro mechanical parts and components. Contract assets increase significantly as at 31 December 2018 as compared to 31 December 2017 are mainly due to higher contract sum and higher progress of completion for those projects as at the reporting date.

Significant changes in the contract liabilities balance during the year are:

| | Contract Liabilities | |
|---|---|---|
| | 2018 RMB'000 | 2017 RMB'000 |
| Amount included in opening balance recognised as revenue | **64,307** | 31,004 |

Contract liabilities mainly relate to advance consideration received from customers for design and engineering of ticketing and vending machines. Contract liabilities increase significantly as at 31 December 2018 as compared to 31 December 2017 mainly due to higher advances received from a transportation company in Germany. During previous financial year, contract liabilities increase significantly are due to expansion of business volume for ticketing and vending machines.

### (c) Performance obligations

The Group has applied the practical expedient not to disclose information about its remaining performance obligation as all of the Group's contracts has an original expected duration for one year or less.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 28. REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

### (d) Assets recognised from incremental costs to obtain contracts

In addition to the contract balances disclosed above, the Group has also recognised an asset in relation to incremental costs to obtain design and engineering project contracts amounting to RMB1,781,000 during the year. The amount is not deemed to be significant, hence, it is included within "Other receivables, deposits and prepayments" (Note 18).

The incremental costs to obtain contracts related to sales commission paid or payable to employees for obtaining the contracts. These costs are amortised to the profit or loss as selling and distribution expenses on a basis consistent with the pattern of recognition of the associated revenue.

## 29. OTHER INCOME

| | Group | |
|---|---|---|
| | **2018 RMB'000** | **2017 RMB'000** |
| Amortisation of deferred government grant (Note 26) | **552** | 764 |
| Gain on disposal of property, plant and equipment | **19** | – |
| Government grants (Note A) | **2,162** | 8,004 |
| Foreign exchange gain, net | **6,643** | – |
| Reversal of long term unclaimed payable | **–** | 658 |
| Sales of raw materials | **8,051** | 9,744 |
| Sales of steel scrap | **3,078** | 3,177 |
| Mould income | **6,562** | – |
| Write back of contingent consideration | **–** | 1,527 |
| Gain on reduction of redemption liability (Note 24C) | **2,975** | – |
| Write back of other liabilities | **2,025** | 934 |
| Others | **3,384** | 3,245 |
| | **35,451** | 28,053 |

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.

Details of government grants are as follows:

| | Group | |
|---|---|---|
| | **2018 RMB'000** | **2017 RMB'000** |
| Research and development subsidy | **118** | 2,099 |
| Technology grant | **10** | 336 |
| Company growth incentives | **1,734** | 5,045 |
| Others | **300** | 524 |
| | **2,162** | 8,004 |

## 30. PERSONNEL EXPENSES

| | Group | |
|---|---|---|
| | **2018 RMB'000** | **2017 RMB'000** |
| Wages, salaries and bonuses(i) | **470,499** | 459,845 |
| Other short-term employees' benefits(ii) | **10,433** | 12,725 |
| Total short-term employees' benefits | **480,932** | 472,570 |
| Post-employment benefits | | |
| – Defined contribution plans(i) | **24,710** | 17,463 |
| – Defined benefit pension scheme | **2,646** | 2,684 |
| | **508,288** | 492,717 |

(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 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 31. FINANCE COSTS, NET

| | Group | |
|---|---|---|
| | **2018 RMB'000** | **2017 RMB'000** |
| Finance income | | |
| Interest income under effective interest rate method | | |
| – Available-for-sale financial assets (Note 20) | **–** | 574 |
| – Financial assets, at FVOCI (Note 21) | **374** | – |
| – Bank interest | **3,097** | 972 |
| Gain on disposal of held-to-maturity investments (Note A) | **–** | 221 |
| | **3,471** | 1,767 |
| Finance costs | | |
| Interest expenses on bank loans and finance leases | **(8,830)** | (7,690) |
| Unwinding discount on redemption liability (Note 24C) | **(349)** | (334) |
| Net interest on net defined benefit liability (Note 27) | **(1,879)** | (2,045) |
| | **(11,058)** | (10,069) |
| Finance costs, net | **(7,587)** | (8,302) |

Note A

In 2017, the Group disposed 2 USD denominated bonds that classified as held to maturity under FRS 39 and recognised a gain on disposal amounting to RMB221,000.

## 32. OTHER EXPENSES

| | Group | |
|---|---|---|
| | **2018 RMB'000** | **2017 RMB'000** |
| Amortisation of land use rights (Note 11) | **1,350** | 1,350 |
| Loss on disposal of property, plant and equipment | **–** | 589 |
| Loss on settlement of forward contracts (Note 23) | **5,407** | 456 |
| Foreign exchange loss, net | **–** | 3,411 |
| Fair value loss on derivative financial instruments | **–** | 2,035 |
| Impairment loss on intangible assets (Note 14) | **13,676** | 7,908 |
| GMP equalisation past service cost (Note 27A) | **6,616** | – |
| Others | **750** | 190 |
| | **27,799** | 15,939 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 33. PROFIT BEFORE TAX

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

| | Note | Group 2018 RMB'000 | Group 2017 RMB'000 |
|---|---|---|---|
| Amortisation of intangible assets | 14 | **17,042** | 16,450 |
| Amortisation of land use rights | 11 | **1,350** | 1,350 |
| Allowance for impairment loss | 40(iii) | **8,297** | (328) |
| Allowance for stock obsolescence | 16 | **1,746** | 7,763 |
| Allowance for stock obsolescence written back | 16 | **(3,427)** | (3,972) |
| Auditors' remuneration | | | |
| – auditors of the Company | | **1,287** | 1,077 |
| – other auditors | | **1,627** | 1,654 |
| Non-audit fees paid to | | | |
| – auditors of the Company | | **16** | 15 |
| Depreciation of property, plant and equipment | 10 | **35,066** | 28,349 |
| Directors' fees | | | |
| – directors of the Company | 37 | **1,937** | 1,952 |
| Directors' remuneration | | | |
| – directors of the Company | | **2,152** | 1,848 |
| Operating lease expenses | | **19,332** | 16,287 |
| Personnel expenses * | 30 | **508,288** | 492,717 |
| Research and development costs | | **78,705** | 55,557 |

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

## 34. INCOME TAX

| | Group 2018 RMB'000 | Group 2017 RMB'000 (Restated) (Note 2) |
|---|---|---|
| Income tax | | |
| – Current financial year | **22,706** | 22,110 |
| – Over provision in the previous financial years | **(2,513)** | (4,181) |
| Deferred tax (Note 15) | | |
| – Current financial year | **(6,896)** | (15,368) |
| Withholding tax | **775** | – |
| | **14,072** | 2,561 |

# NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 34. INCOME TAX (Continued)

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

| | Group | |
|---|---|---|
| | **2018 RMB'000** | **2017 RMB'000** |
| Profit before tax | 67,198 | 65,875 |
| Tax expenses based on PRC statutory tax rate of 25% (2017: 25%) | 16,800 | 16,469 |
| Tax concession in PRC | (5,930) | (4,501) |
| Differences in tax rates in different jurisdictions | 3,388 | (920) |
| Income not subject to tax | (2,106) | (5,321) |
| Tax incentive | (350) | (401) |
| Expenses not deductible | 5,018 | 1,925 |
| Current financial year tax losses carried forward not recognised as deferred tax assets | – | 228 |
| Utilisation of tax losses brought forward previously not recognised as deferred tax assets | (512) | (1,581) |
| Withholding tax | 775 | – |
| Over provision in the previous financial years | (2,513) | (4,181) |
| Others | (498) | 844 |
| Income tax expense | 14,072 | 2,561 |

The Company and Singapore subsidiaries

The Company and these subsidiaries are subjected to applicable tax rate of 17% (2017: 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)

The above subsidiaries are subjected to applicable tax rate of 25% (2017: 25%).

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

The subsidiaries are subjected to applicable tax rate of 25% (2017: 25%). They are dormant and have no taxable income for the period from the date of incorporation to 31 December 2018.

German subsidiaries

The subsidiaries are subjected to applicable tax rates ranged from 13.65% to 33.26% (2017: 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% (2017: 8.84%) and federal tax rate of 35% (2017: 35%).

Matrix Mechatronix IX Technology (Philippines) Corp.

This subsidiary is subjected to applicable tax rate of 30% (2017: 30%).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 34. INCOME TAX (Continued)

Matrix Technologies Co., Ltd.

This newly incorporated subsidiary is subjected to applicable tax rate of 20%.

Mechatronics Technology HK Limited

This subsidiary is subjected to applicable tax rate of 16.5% (2017: 16.5%). It has no taxable income for the period from the date of incorporation to 31 December 2018.

The United Kingdom subsidiaries

The subsidiaries are subjected to applicable tax rate of 19% (2017: 19%).

## 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.

| | 2018 | 2017 |
|---|---|---|
| Profit attributable to the equity holders of the Company (RMB'000) | **53,126** | 63,314 |
| Weighted average number of ordinary shares outstanding for basic earnings per share ('000) | **356,536** | 356,536 |
| Basic earnings per share (RMB cents per share) | **14.90** | 17.76 |

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 | |
|---|---|---|
| | 2018 RMB'000 | 2017 RMB'000 |
| Declared and paid during the financial year | | |
| Dividends on ordinary shares: | | |
| – Interim exempt (one-tier) dividend of SGD0.01 (2017: SGD0.01) per share | **17,773** | 17,438 |

## 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 | |
|---|---|---|
| | 2018 RMB'000 | 2017 RMB'000 |
| **(a) Transactions** | | |
| Purchase of raw materials from a related party[i] | **1** | 4 |
| Sales of finished goods to related party[i] | **2,440** | – |
| Rental expenses paid to a related party[i] | **3,969** | 3,969 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 37. RELATED PARTY INFORMATION (Continued)

### (b) Compensation of key management personnel

| | Group 2018 RMB'000 | Group 2017 RMB'000 |
|---|---|---|
| Short-term employees benefits[(ii)] | **8,028** | 7,368 |
| Defined contribution pension scheme | **231** | 194 |
| *Comprise amounts paid/payable to:* | | |
| Directors of the Company | **4,089** | 3,800 |
| Other key management personnel | **4,170** | 3,762 |

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

(ii) Includes director fees of RMB1,937,000 (2017: RMB1,952,000).

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 31 December 2018 RMB'000 | Group 31 December 2017 RMB'000 |
|---|---|---|
| Future minimum lease payments | | |
| – Not later than 1 year | **26,517** | 13,708 |
| – Later than 1 year and not later than 5 years | **36,857** | 11,553 |
| – Later than 5 years | **289** | 274 |
| | **63,663** | 25,535 |

# NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (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 RMB187,000 (2017: RMB197,000), which is subject to an annual increase of 5% (2017: 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 | |
|---|---|---|
| | **31 December 2018 RMB'000** | **31 December 2017 RMB'000** |
| Future minimum lease payments | | |
| – Not later than 1 year | **187** | 196 |
| – Later than 1 year and not later than 5 years | **845** | 888 |
| – Later than 5 years | **10,665** | 11,202 |
| | **11,697** | 12,286 |

### (ii) Future capital expenditure

| | Group | |
|---|---|---|
| | **2018 RMB'000** | **2017 RMB'000** |
| Capital expenditure contracted but not provided in the financial statements: | | |
| – In respect of plant and machinery | **4,932** | 8,609 |
| – In respect building construction in progress | **1,307** | 10,076 |
| | **6,239** | 18,685 |
| Capital expenditure approved but not contracted for and provided in the financial statements: | | |
| – Commitments in respect of a new research and development center | **108,978** | 109,802 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (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.

| **2018** | **High Security RMB'000** | **Business Solutions RMB'000** | **Total RMB'000** |
|---|---|---|---|
| **Revenue** | | | |
| External sales | 960,248 | 855,547 | 1,815,795 |
| **Segment results** | | | |
| Profit from operations | 76,783 | 1,825 | 78,608 |
| Finance cost, net | | | (7,587) |
| Unallocated expenses | | | (3,823) |
| **Profit before tax** | | | 67,198 |
| Income tax | | | (14,072) |
| **Profit for the financial year** | | | 53,126 |
| **Segment assets** | | | |
| Reportable segment assets | 667,059 | 817,120 | 1,484,179 |
| Unallocated assets | | | |
| – Cash and bank balances | | | 39,355 |
| – Financial assets, at FVOCI | | | 16,480 |
| – Others | | | 4,697 |
| | | | 1,544,711 |

# NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 39. SEGMENT INFORMATION (Continued)

| **2018** | **High Security RMB'000** | **Business Solutions RMB'000** | **Total RMB'000** |
|---|---|---|---|
| **Other segment items** | | | |
| *Amounts included in the measure of segment assets:* | | | |
| Additions to property, plant and equipment | 12,743 | 21,644 | 34,387 |
| Additions to intangible assets | – | 20,459 | 20,459 |
| Investment in associates | – | 8,275 | 8,275 |
| *Amounts included in the measure of segment results:* | | | |
| Depreciation of property, plant and equipment | 20,959 | 14,107 | 35,066 |
| Amortisation of intangible assets | 711 | 16,331 | 17,042 |
| Amortisation of land use rights | 629 | 721 | 1,350 |
| Amortisation of deferred government grants | 188 | 364 | 552 |
| Settlement loss on forward contract | 5,407 | – | 5,407 |
| Share of profits of associates | – | 765 | 765 |
| Allowance for stock obsolescence | 620 | 1,126 | 1,746 |
| Allowance for stock obsolescence written back | 1,547 | 1,880 | 3,427 |
| Allowance for impairment loss | 3,474 | 4,823 | 8,297 |
| Sale of raw materials and steel scrap | 8,509 | 2,620 | 11,129 |
| Impairment of intangible assets | – | 13,676 | 13,676 |
| Research and development costs | 40,121 | 38,584 | 78,705 |

| **2017 (Restated)** | **High Security RMB'000** | **Business Solutions RMB'000** | **Total RMB'000** |
|---|---|---|---|
| **Revenue** | | | |
| External sales | 793,442 | 858,895 | 1,652,337 |
| **Segment results** | | | |
| Profit from operations | 78,729 | 2,084 | 80,813 |
| Finance cost, net | | | (8,302) |
| Unallocated expenses | | | (6,636) |
| **Profit before tax** | | | 65,875 |
| Income tax | | | (2,561) |
| **Profit for the financial year** | | | 63,314 |
| **Segment assets** | | | |
| Reportable segment assets | 665,133 | 832,644 | 1,497,777 |
| Unallocated assets | | | |
| – Cash and bank balances | | | 52,955 |
| – Available-for-sale financial assets | | | 16,748 |
| – Others | | | 15 |
| | | | 1,567,495 |

# NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 39. SEGMENT INFORMATION (Continued)

| **2017** | **High Security RMB'000** | **Business Solutions RMB'000** | **Total RMB'000** |
|---|---|---|---|
| **Other segment items** | | | |
| *Amounts included in the measure of segment assets:* | | | |
| Additions to property, plant and equipment | 40,930 | 17,359 | 58,289 |
| Additions to intangible assets | – | 16,698 | 16,698 |
| Investment in associates | – | 7,510 | 7,510 |
| *Amounts included in the measure of segment results:* | | | |
| Depreciation of property, plant and equipment | 16,877 | 11,472 | 28,349 |
| Amortisation of intangible assets | 3,687 | 12,763 | 16,450 |
| Amortisation of land use rights | 629 | 721 | 1,350 |
| Amortisation of deferred government grants | 400 | 364 | 764 |
| Fair value loss on forward contract | 2,035 | – | 2,035 |
| Share of profits of associates | – | 417 | 417 |
| Allowance for stock obsolescence | 4,220 | 3,543 | 7,763 |
| Allowance for stock obsolescence written back | – | 3,972 | 3,972 |
| Allowance for/(Reversal of) impairment loss | 8 | (336) | (328) |
| Sale of raw materials and steel scrap | 1,078 | 11,843 | 12,921 |
| Impairment of intangible assets | – | 7,908 | 7,908 |
| Research and development costs | 36,311 | 19,246 | 55,557 |

### 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 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** |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| Revenue | **72,204** | **475,791** | **1,075,421(i)** | **190,454** | **1,925** | **1,815,795** |
| Non-current assets | **197,673** | **9,820** | **246,319(ii)** | **6,042** | **–** | **459,854** |
| **2017 (Restated)** | | | | | | |
| Revenue | 77,231 | 270,695 | 1,044,622(i) | 245,818 | 13,971 | 1,652,337 |
| Non-current assets | 204,354 | 9,557 | 250,926(ii) | 5,594 | – | 470,431 |

(i) Include revenue totaling RMB688,967,000 and RMB132,781,000 (2017: RMB780,514,000 and RMB155,123,000) derived from Germany and UK respectively.

(ii) Include assets of RMB195,327,000 and RMB42,166,000 (2017: RMB177,833,000 and RMB41,059,000) derived from Germany and UK respectively.

### Major customers

High Security Segment

Revenue of approximately RMB253,079,000 (2017: RMB144,899,000) is derived from a single external customer, a listed company in the USA with operation worldwide.

Revenue of approximately RMB114,814,000 (2017: RMB95,871,000) is derived from a German company.

Revenue of approximately RMB110,949,000 (2017: RMB84,963,000) is derived from a multi-national company with headquarter in USA.

Business Solutions Segment

Revenue of approximately RMB144,570,000 (2017: RMB136,510,730) is derived from a listed company in the Germany.

# NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

## 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 | |
|---|---|---|---|---|---|
| | 31 December 2018 RMB'000 | 31 December 2017 RMB'000 (Restated) | 1 January 2017 RMB'000 (Restated) | 31 December 2018 RMB'000 | 31 December 2017 RMB'000 |
| Financial assets at fair value through profit or loss – derivative instruments | – | – | 1,427 | – | – |
| Held-to-maturity investments | – | – | 9,829 | – | – |
| Available-for-sale financial assets | – | 16,748 | 10,596 | – | – |
| Financial assets at amortised cost | 595,937 | – | – | 113,996 | – |
| Loans and receivables | – | 605,984 | 549,856 | – | 236,896 |
| Financial assets at FVOCI – Debt investments | 16,480 | – | – | – | – |
| Financial assets | 612,417 | 622,732 | 571,708 | 113,996 | 236,896 |

| | Group | | | Company | |
|---|---|---|---|---|---|
| | 31 December 2018 RMB'000 | 31 December 2017 RMB'000 (Restated) | 1 January 2017 RMB'000 (Restated) | 31 December 2018 RMB'000 | 31 December 2017 RMB'000 |
| Financial liabilities at amortised cost | 418,313 | 492,115 | 364,958 | 98,574 | 60,982 |
| Financial liabilities at fair value through profit or loss | | | | | |
| – designated at inception | – | – | 1,461 | – | – |
| – derivative instruments | – | 608 | – | – | – |
| Financial liabilities | 418,313 | 492,723 | 366,419 | 98,574 | 60,982 |

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 2018 (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 2018 | 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 |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Contract assets | – | – | – | 39,169 | – | – | 39,169 |
| Trade receivables | – | 108,316 | 17,426 | 69,312 | 15,165 | – | 210,219 |
| Other receivables and deposits | – | 60 | 3,097 | 5,934 | 355 | 1,142 | 10,588 |
| Due from a related party | – | – | 680 | – | – | – | 680 |
| Financial assets at FVOCI – Debt investments | – | 16,480 | – | – | – | – | 16,480 |
| Cash and bank balances | 2,973 | 184,117 | 61,719 | 70,430 | 13,367 | 2,675 | 335,281 |
| Intragroup receivables | 100,442 | 161,558 | 40,853 | 286,546 | 81,394 | – | 670,793 |
| | 103,415 | 470,531 | 123,775 | 471,391 | 110,281 | 3,817 | 1,283,210 |
| **Financial liabilities** | | | | | | | |
| Borrowings | – | 2,154 | 73,500 | 83,398 | 21,571 | – | 180,623 |
| Trade payables | 138 | 11,443 | 71,874 | 30,699 | 8,463 | 1,962 | 124,579 |
| Other payables and accruals | 1,487 | 6,734 | 36,091 | 54,267 | 5,045 | 174 | 103,798 |
| Due to a related party (trade) | 9,070 | – | 243 | – | – | – | 9,313 |
| Intragroup payables | 100,442 | 161,558 | 40,853 | 286,546 | 81,394 | – | 670,793 |
| | 111,137 | 181,889 | 222,561 | 454,910 | 116,473 | 2,136 | 1,089,106 |
| Net financial (liabilities)/ assets | (7,722) | 288,642 | (98,786) | 16,481 | (6,192) | 1,681 | 194,104 |
| Add/(Less): Net financial (assets)/ liabilities denominated in the respective entities' functional currencies | 995 | (55,865) | 99,645 | 252,156 | 50,915 | – | 347,846 |
| Net foreign currency exposure | (6,727) | 232,777 | 859 | 268,637 | 44,723 | 1,681 | 541,950 |

* Others mainly comprise of Peso, Vietnam Dollar and Swiss Franc

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (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<br>As at 31 December 2017<br>(Restated) | Singapore dollar<br>RMB'000 | United States dollar<br>RMB'000 | Chinese Renminbi<br>RMB'000 | Euro<br>RMB'000 | Great Britain Pound<br>RMB'000 | Others*<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Contract assets | – | – | – | 19,463 | – | – | 19,463 |
| Trade receivables | – | 130,154 | 15,944 | 119,324 | 16,513 | – | 281,935 |
| 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 |
| | 231,632 | 611,116 | 131,599 | 416,445 | 58,314 | 617 | 1,449,723 |
| **Financial liabilities** | | | | | | | |
| Borrowings | – | 2,872 | 80,000 | 118,294 | 15,452 | – | 216,618 |
| Trade payables | 8 | 19,828 | 69,620 | 51,530 | 8,862 | 1,691 | 151,539 |
| Other payables and accruals | 1,326 | 3,556 | 46,961 | 60,231 | 11,502 | 139 | 123,715 |
| 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 |
| | 232,355 | 277,494 | 296,740 | 438,273 | 73,022 | 1,830 | 1,319,714 |
| Net financial (liabilities)/assets | (723) | 333,622 | (165,141) | (21,828) | (14,708) | (1,213) | 130,009 |
| Add/(Less): Net financial (assets)/liabilities denominated in the respective entities' functional currencies | 26,543 | 12,827 | 165,143 | 184,545 | 20,511 | – | 409,569 |
| Less: Forward currency contract | – | (10,426) | – | – | – | – | (10,426) |
| Net foreign currency exposure | 25,820 | 336,023 | 2 | 162,717 | 5,803 | (1,213) | 529,152 |

* Others mainly comprise of Peso, Vietnam Dollar and Swiss Franc

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (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 1 January 2017 (Restated) | 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 |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Held-to-maturity investments | – | 9,829 | – | – | – | – | 9,829 |
| Contract assets | – | – | – | 17,775 | – | – | 17,775 |
| Trade receivables | – | 125,205 | 22,419 | 69,074 | 14,795 | – | 231,493 |
| 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 |
| | 173,003 | 641,582 | 144,471 | 331,094 | 122,617 | 2,796 | 1,415,563 |
| **Financial liabilities** | | | | | | | |
| Borrowings | – | 3,920 | 50,000 | 67,284 | 2,527 | – | 123,731 |
| Trade payables | – | 11,788 | 51,082 | 34,916 | 10,061 | – | 107,847 |
| 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 |
| | 172,501 | 295,268 | 258,490 | 354,363 | 127,697 | 1,955 | 1,210,274 |
| Net financial assets/ (liabilities) | 502 | 346,314 | (114,019) | (23,269) | (5,080) | 841 | 205,289 |
| Add/(Less): Net financial (assets)/liabilities denominated in the respective entities' functional currencies | 26,054 | (16,332) | 114,019 | 123,478 | 6,359 | – | 253,578 |
| Less: Forward currency contract | – | (39,096) | – | – | – | – | (39,096) |
| Net foreign currency exposure | 26,556 | 290,886 | – | 100,209 | 1,279 | 841 | 419,771 |

* Others comprise of South Korean Won and Peso.

# NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (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 2018** | **Singapore dollar RMB'000** | **United States dollar RMB'000** | **Euro RMB'000** | **Peso RMB'000** | **Great Britain Pound RMB'000** | **Total RMB'000** |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Trade receivables | – | 6,118 | – | – | – | 6,118 |
| Due from subsidiaries | 41,458 | (39,425) | 39,303 | – | – | 41,336 |
| Cash and bank balances | 2,911 | 47,499 | 16,132 | – | – | 66,542 |
| | 44,369 | 14,192 | 55,435 | – | – | 113,996 |
| **Financial liabilities** | | | | | | |
| Trade payables | – | 161 | – | – | – | 161 |
| Other payables and accruals | 1,490 | – | 3,259 | – | 10,382 | 15,131 |
| Due to related parties | 9,069 | – | – | – | – | 9,069 |
| Due to subsidiaries | 3,186 | 72,734 | – | (1,707) | – | 74,213 |
| | 13,745 | 72,895 | 3,259 | (1,707) | 10,382 | 98,574 |
| Net financial assets/(liabilities) | 30,624 | (58,703) | 52,176 | 1,707 | (10,382) | 15,422 |
| Less: Net financial liabilities denominated in the Company's functional currency | – | 58,703 | – | – | – | 58,703 |
| Foreign currency exposure | 30,624 | – | 52,176 | 1,707 | (10,382) | 74,125 |

| **Company As at 31 December 2017** | **Singapore dollar RMB'000** | **United States dollar RMB'000** | **Euro RMB'000** | **Peso RMB'000** | **Total RMB'000** |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| 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 |
| | 217,589 | (19,347) | 38,654 | – | 236,896 |
| **Financial liabilities** | | | | | |
| Trade payables | – | 1,858 | – | – | 1,858 |
| Other payables and accruals | 912 | – | – | – | 912 |
| Due to subsidiaries | – | 59,950 | – | (1,738) | 58,212 |
| | 912 | 61,808 | – | (1,738) | 60,982 |
| Net financial assets/(liabilities) | 216,677 | (81,155) | 38,654 | 1,738 | 175,914 |
| Less: Net financial liabilities denominated in the Company's functional currency | – | 81,155 | – | – | 81,155 |
| Foreign currency exposure | 216,677 | – | 38,654 | 1,738 | 257,069 |

# NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (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% (31 December 2017: 10%; 1 January 2017: 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% (31 December 2017: 10%; 1 January 2017: 10%) change in foreign currency rates.

If the respective functional currency strengthens by 10% (31 December 2017: 10%; 1 January 2017: 10%) against the relevant foreign currency (SGD/USD/RMB/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 |
|---|---|---|
| **31 December 2018** | | |
| SGD | **505** | **(2,542)** |
| USD | **(17,458)** | **–** |
| EUR | **(20,148)** | **(4,331)** |
| GBP | **(3,354)** | **862** |
| Others | **(126)** | **(142)** |
| **31 December 2017 (Restated)** | | |
| SGD | (1,937) | (17,984) |
| USD | (25,202) | – |
| EUR | (12,204) | (3,208) |
| GBP | (435) | – |
| Others | 91 | (144) |

| | Group Profit for the year RMB'000 |
|---|---|
| **1 January 2017 (Restated)** | |
| SGD | (1,992) |
| USD | (21,816) |
| EUR | (7,516) |
| GBP | (96) |
| Others | (63) |

A weakening of the RMB against the above currencies at 31 December 2018, 31 December 2017 and 1 January 2017 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 2018, the Group has no outstanding balance in forward currency contract (31 December 2017: RMB10,426,000 with settlement dates ranging from 1 to 12 months) as disclosed in Note 23.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (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 (Continued)

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 2018, there were no such arrangements, interest rate swap contracts or other derivative instruments outstanding.

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

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | | 31 December 2018 RMB'000 | 31 December 2017 RMB'000 | 31 December 2018 RMB'000 | 31 December 2017 RMB'000 |
| **Fixed rate instruments** | | | | | |
| Financial assets | | | | | |
| – Fixed deposits | 22 | **77,093** | 87,386 | **–** | – |
| – Available-for-sale financial assets | 20 | **–** | 16,748 | **–** | – |
| – Financial assets at FVOCI – Debt investments | 21 | **16,480** | – | **–** | – |
| – Loan to a subsidiary | 19 | **–** | – | **–** | 38,568 |
| Financial liabilities | | | | | |
| – Other payables | 24B | **–** | (23,403) | **–** | – |
| – Borrowings | 25 | **(60,958)** | (64,551) | **–** | – |
| | | **32,615** | 16,180 | **–** | 38,568 |
| **Variable rate instruments** | | | | | |
| Financial liabilities – borrowings | 25 | **(119,665)** | (152,067) | **–** | – |

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 2018 would increase/decrease by RMB897,000 (31 December 2017: RMB1,141,000) attributable to the Group's exposure to interest rate risk on its variable rates borrowings.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (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

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.

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 |
|---|---|---|---|---|---|
| **31 December 2018** | | | | | |
| *Non-derivative instruments* | | | | | |
| Borrowings | | | | | |
| – Loans(i) | **154,973** | **12,453** | **6,749** | **174,175** | **167,976** |
| – Finance lease obligations | **3,794** | **9,231** | **–** | **13,025** | **12,647** |
| Trade payables | **124,579** | **–** | **–** | **124,579** | **124,579** |
| Other payables and accruals | **103,798** | **–** | **–** | **103,798** | **103,798** |
| Due to a related party (trade) | **9,313** | **–** | **–** | **9,313** | **9,313** |
| | **396,457** | **21,684** | **6,749** | **424,890** | **418,313** |
| **31 December 2017 (Restated)** | | | | | |
| *Non-derivative instruments* | | | | | |
| Loans(i) | 186,773 | 13,269 | 8,924 | 208,966 | 201,670 |
| Finance lease obligations | 4,654 | 10,679 | 364 | 15,697 | 14,948 |
| Trade payables | 151,539 | – | – | 151,539 | 151,539 |
| Other payables and accruals | 120,347 | 3,901 | – | 124,248 | 123,715 |
| Due to a related party (trade) | 243 | – | – | 243 | 243 |
| | 463,556 | 27,849 | 9,288 | 500,693 | 492,115 |
| **1 January 2017 (Restated)** | | | | | |
| *Non-derivative instruments* | | | | | |
| Loans(i) | 107,942 | 8,975 | 1,024 | 117,941 | 112,953 |
| Finance lease obligations | 3,497 | 7,466 | 797 | 11,760 | 10,778 |
| Trade payables | 107,847 | – | – | 107,847 | 107,847 |
| Other payables and accruals | 132,458 | 3,653 | – | 136,111 | 134,599 |
| Due to a related party (trade) | 242 | – | – | 242 | 242 |
| | 351,986 | 20,094 | 1,821 | 373,901 | 366,419 |

(i) Included in the loans are Loan 9 and Loan 11 which are classified as current liabilities due to the breach of overriding clause and financial covenant of demand by the bank respectively (Note 25).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (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)

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 |
|---|---|---|---|---|---|
| **31 December 2018** | **134,998** | **34,390** | **7,564** | **176,952** | **167,976** |
| **31 December 2017** | 162,266 | 34,908 | 14,629 | 211,803 | 201,670 |
| **1 January 2017** | 83,626 | 19,982 | 15,628 | 119,236 | 112,953 |

| 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 |
|---|---|---|---|---|---|
| **31 December 2018** | | | | | |
| **Non-derivative instruments** | | | | | |
| Trade payables | **161** | **–** | **–** | **161** | **161** |
| Other payables and accruals | **15,131** | **–** | **–** | **15,131** | **15,131** |
| Due to related parties | **9,069** | **–** | **–** | **9,069** | **9,069** |
| Due to subsidiaries | **74,213** | **–** | **–** | **74,213** | **74,213** |
| | **98,574** | **–** | **–** | **98,574** | **98,574** |
| **31 December 2017** | | | | | |
| **Non-derivative instruments** | | | | | |
| Trade payables | 1,858 | – | – | 1,858 | 1,858 |
| Other payables and accruals | 912 | – | – | 912 | 912 |
| Due to subsidiaries | 58,212 | – | – | 58,212 | 58,212 |
| Guarantees for subsidiaries' borrowings (Note 25(i))[(i)] | 59,923 | 10,138 | 8,924 | 78,985 | – |
| | 120,905 | 10,138 | 8,924 | 139,967 | 60,982 |

(i) The maximum amount of the guarantees is allocated to the earliest period in which the guarantee could be called until and up to 31 December 2017. The guarantees were 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. With adoption of SFRS(I) 9, the Company recognised the financial guarantee liabilities on corporate guarantees issued to banks for bank borrowings of its subsidiaries (Note 24D).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (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

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 contract assets, trade and other receivables, financial assets at FVOCI – debt investment (31 December 2017: held-to-maturity investments and 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. Financial assets at FVOCI – debt investment (2017: 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 (31 December 2017: 30 – 60 days; 1 January 2017: 30 – 60 days) term. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

The Group's contract assets and trade receivables comprise 3 major customers from the USA that individually represented 9% to 23% (31 December 2017: 7% to 15%; 1 January 2017: 7% to 16%) of trade receivables.

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 | | |
|---|---|---|---|
| | **31 December 2018 RMB'000** | **31 December 2017 RMB'000 (Restated)** | **1 January 2017 RMB'000 (Restated)** |
| By geographical location of the customers | | | |
| – People's Republic of China | **20,867** | 38,500 | 45,039 |
| – Asia Pacific | **6,953** | 22,370 | 28,438 |
| – Europe[(i)] | **91,064** | 142,948 | 80,495 |
| – North & South America | **91,323** | 78,090 | 77,521 |
| – Africa | **12** | 27 | – |
| | **210,219** | 281,935 | 231,493 |

(i) Included amount of RMB69,188,000 and RMB15,264,000 (31 December 2017: RMB115,606,000 and RMB13,341,000; 1 January 2017: RMB64,081,000 and RMB14,788,000) which are derived from Germany and United Kingdom respectively.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (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)

#### Expected Credit Losses

The Group manages credit losses based on Expected Credit Losses (ECL) model.

#### (A) Trade receivables

The Group's exposure to credit risk from trade receivables are linked to the individual characteristics of each customer, and also influenced by the default risk specific to the country and industry brought about by the general economic condition.

The Group uses qualitative and quantitative information like geographical location, profile of the customers, historical repayment trend, historical loss rates, probability of default from external credit rating agencies, if any, to group debtors with similar characteristics for purposes of the ECL assessment.

A summary of the Group's exposures to credit risk for trade receivables is as follows:

| | 31 December 2018 | | | |
|---|---|---|---|---|
| Group | Gross carrying amount RMB'000 | Probability of default rate % | ECL allowance RMB'000 | Total RMB'000 |
| Major customers | | | | |
| – Customer A and its related entities[(i)] | 47,468 | 3.60 | 1,709 | 45,759 |
| – Customer B and its related entities[(i)] | 30,110 | 7.15 | 2,153 | 27,957 |
| Other customers | | | | |
| – Customers without credit ratings[(ii)] | 27,110 | 0.78 – 4.32 | 333 | 26,777 |
| – Credit impaired[(iii)] | 3,371 | 100.00 | 3,371 | – |
| | 108,059 | | 7,566 | 100,493 |
| Remaining trade receivables[(iv)] | 109,726 | | – | 109,726 |
| | 217,785 | | 7,566 | 210,219 |

(i) The Group applied published credit ratings of these major customers from external credit rating agencies.

(ii) The Group applied the provision matrix to measure the ECLs of trade receivables, which comprise a large number of smaller balances. The provision matrix is based on historical credit loss experience over the past three years and adjusted with forward-looking elements.

(iii) Trade receivables classified as credit impaired are customers individually identified, when customers fails to make contractual payment within 90 days when due, and their debts collection are not probable.

(iv) The Group has assessed ECL allowance for the remaining trade receivables using published credit ratings or probability of default by industry extracted from external credit agencies' publication. These are credit worthy customers with good payment history, and management has considered forward-looking information and concluded that the ECL allowance is insignificant to the Group.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (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)

**Expected Credit Losses (Continued)**

**(A) Trade receivables (Continued)**

The Group considers trade receivables are in default (credit-impaired) when the customers fails to make contractual payments within 90 days when due. When the receivables are overdue for 1 year, the Group write-off the balances while continuing to engage in enforcement activity to recover the balances.

The movement of the lifetime ECL on trade receivables and contract assets are as follows:

| Group | 2018<br>RMB'000 |
|---|---|
| As at 1 January 2018 | |
| – Per FRS 39 | 2,834 |
| – initial adoption of SFRS(I) 9 (Note 2) | 1,866 |
| | 4,700 |
| ECL allowance recognised during the year (Note A) | |
| – New assets originated | 2,918 |
| – Reversal of unutilised amount | (39) |
| | 2,879 |
| Currency translation differences | (13) |
| As at 31 December 2018 | 7,566 |

Note A

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| ECL allowance recognised during the year | 2,879 | (551) |
| Bad debts written off during the year(i) | 5,418 | 223 |
| Impairment losses of financial assets | 8,297 | (328) |

(i) Amount includes bad debt of RMB4,044,000 resulting from a restructuring order by the court on one of the Group's major customer during the year. As at the reporting date, the restructuring is still in progress.

**(B) FVOCI – Debt investment and cash and cash equivalents**

The Group held FVOCI – debt investment of RMB16,480,000 and cash and cash equivalents of RMB335,281,000 as at 31 December 2018. The FVOCI – debt investments and cash and cash equivalents are held with financial institution counterparties, which is rated BB- to AA-, based on a reputable external credit rating agency.

Impairment on FVOCI – debt investments and cash and cash equivalents has been measured on the 12-month expected loss basis and reflects the short maturities of the exposures. The amounts of the ECL allowances on FVOCI – debt investments and cash and cash equivalents are insignificant.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (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)

**Expected Credit Losses (Continued)**

**(C) Financial guarantees**

At the end of the reporting period, the Company has assessed the loans of its subsidiaries under its guarantee, the financial position of the subsidiaries as well as the economic outlook of the industries and countries in which its subsidiaries operate, and concluded that there has not been a significant increase in the credit risk since initial recognition of the financial guarantee contracts. Accordingly, the loss allowance for financial guarantee contracts issued by the Company is measured at an amount equal to 12-month expected credit losses (ECL) based on the probability of default from external rating agency where available and historical loss rates for each category of counterparty, and adjusts for forward looking data.

| | Company<br>RMB'000 |
|---|---|
| At initial adoption of SFRS(I) 9, on 1 January 2018 | 3,151 |
| Reversal of unutilised ECL allowance | (357) |
| New financial guarantee originated | 10,847 |
| As at 31 December 2018 | 13,641 |

**(D) Contract assets and other receivables**

The Group and Company uses a similar approach for assessment of ECL for its contract assets and other receivables. Impairment on these balances has been calculated on the 12-month expected loss basis which reflects the low credit risks of the counterparties and short maturities of the exposures.

Management assessed that contract assets and other receivables have low credit risks and the ECL on these financial assets are insignificant.

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

| | Group | |
|---|---|---|
| | 31 December 2017<br>RMB'000<br>(Restated) | 1 January 2017<br>RMB'000<br>(Restated) |
| Not past due and not impaired | 237,850 | 194,150 |
| Past due but not impaired | | |
| – Past due 0 to 3 months | 43,357 | 30,073 |
| – Past due over 3 months | 560 | 3,903 |
| | 43,917 | 33,976 |
| Impaired trade receivables | 3,002 | 6,622 |
| Less: Allowance for impairment loss (Note 17) | (2,834) | (3,255) |
| | 168 | 3,367 |
| Net trade receivables | 281,935 | 231,493 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (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)

#### (D) Contract assets and other receivables (Continued)

The movement in allowance for impairment loss is as follows:

| | Group |
|---|---|
| | 2017<br>RMB'000<br>(Restated) |
| Balance at beginning of the financial year | 3,255 |
| Addition during the financial year | 204 |
| Allowance utilised during the year | (23) |
| Written-back during the financial year | (755) |
| Currency translation differences | 153 |
| Balance at end of the financial year (Note 17) | 2,834 |

Contract assets and 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. Contract assets and trade receivables that are neither past due nor impaired are credit worthy debtors with good payment records with the Group.

Included in the contract assets and trade receivable balances for the year ended 31 December 2017 are debtors with total carrying amount of approximately RMB43,917,000 (1 January 2017: 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 totaling RMB20,868,000. 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 2017.

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

# NOTES TO **THE FINANCIAL STATEMENTS**



## 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)

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 2018:

| | Group | | | |
|---|---|---|---|---|
| | **Level 1 RMB'000** | **Level 2 RMB'000** | **Level 3 RMB'000** | **Total RMB'000** |
| **As at 31 December 2018** | | | | |
| **Financial asset** | | | | |
| *Recurring fair value measurements* | | | | |
| Financial assets, at FVOCI | | | | |
| – USD denominated bonds (Note 21) | **–** | **16,480** | **–** | **16,480** |
| **Financial liabilities** | | | | |
| *Recurring fair value measurements* | | | | |
| Contingent consideration (non-current) | – | – | – | – |
| **As at 31 December 2017** | | | | |
| **Financial asset** | | | | |
| *Recurring fair value measurements* | | | | |
| Available-for-sale financial assets | – | 16,748 | – | 16,748 |
| **Financial liabilities** | | | | |
| *Recurring fair value measurements* | | | | |
| Derivative financial instruments | – | (608) | – | (608) |
| Contingent consideration (non-current) | – | – | – | – |
| | – | (608) | – | (608) |

There have been no transfers between Level 1 and Level 2 during the financial years ended 31 December 2017 and 2018.

Determination of fair value

*Financial assets, at FVOCI (31 December 2017: 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.

# NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (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:

Contingent consideration = number of shares sold x (Euro5,000,000 ÷ 28,536,000 – net proceeds per share in Singapore dollar ÷ 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 2018 and 2017 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 from/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.

### (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 | | | |
|---|---|---|---|---|---|
| | | 31 December 2018 | | 31 December 2017 | |
| | Note | Carrying value RMB'000 | Fair value RMB'000 | Carrying value RMB'000 | Fair value RMB'000 |
| Loans – fixed rate | 25 (i) | **48,311** | **49,244** | 49,603 | 50,688 |

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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Amounts in thousands of Chinese Renminbi (“RMB’000”), unless otherwise stated)

## 42. SUBSEQUENT EVENTS

Subsequent to the financial year end,

(a) on 25 January 2019, the Board of Directors (the “BOD”) of the Company announced that the Company established a new wholly-owned subsidiary in Hong Kong, namely, Metric International Limited (the “new subsidiary”), with a registered capital of USD250,000 (approximately RMB1,700,000). The principal activities of the new subsidiary are those of research and development, service for parking, smart terminals and electronics.

(b) on 19 February 2019, the BOD of the Company announced that the Company dissolved its wholly owned subsidiary, Jiangsu Tri Star Trading Co., Ltd (the “dissolved subsidiary”), given that the dissolved subsidiary has been dormant and has no business operation for several years since its establishment.

# SHAREHOLDERS' INFORMATION

AS AT 15 MARCH 2019

| | | |
|---|---|---|
| Class of equity securities | : | Ordinary Shares |
| Number of issued shares | : | 356,536,000 |
| Number of issued shares excluding treasury shares and subsidiary holdings | : | 356,536,000 |
| Voting rights | : | One vote per share |

**Treasury shares and subsidiary holdings**

| | | |
|---|---|---|
| Number of treasury shares | : | Nil |
| Number of subsidiary holdings | : | Nil |

## DISTRIBUTION OF SHAREHOLDINGS

| Size of Shareholding | Number of Shareholders | % | Number of Shares | % |
|---|---|---|---|---|
| 1 – 99 | 1 | 0.13 | 1 | 0.00 |
| 100 – 1,000 | 91 | 11.79 | 77,115 | 0.02 |
| 1,001 – 10,000 | 299 | 38.73 | 1,648,494 | 0.46 |
| 10,001 – 1,000,000 | 361 | 46.76 | 29,475,890 | 8.27 |
| 1,000,001 and above | 20 | 2.59 | 325,334,500 | 91.25 |
| **Total:** | **772** | **100.00** | **356,536,000** | **100.00** |

## SUBSTANTIAL SHAREHOLDERS

(as recorded in the Register of Substantial Shareholders)

| | Direct Interest | | Deemed Interest | |
|---|---|---|---|---|
| | Number of Shares | % | Number of Shares | % |
| Spectacular Bright Corp. | 152,438,956 | 42.76 | – | – |
| Dr. Johnny Liu[(1)] | – | – | 152,438,956 | 42.76 |
| Liu Bin[(2)] | – | – | 56,282,864 | 15.79 |
| Droege Capital GmbH | 28,536,000 | 8.00 | – | – |
| Droege Group AG[(3)] | – | – | 28,536,000 | 8.00 |
| Droege Holding GmbH & Co. KG[(4)] | – | – | 28,536,000 | 8.00 |
| Walter P.J. Droege[(5)] | – | – | 28,536,000 | 8.00 |
| Stone Robert Alexander | 23,254,000 | 6.52 | – | – |

**Notes:**

(1) Dr. Johnny Liu is deemed to be interested in the shares of the Company held by Spectacular Bright Corp ("**Spectacular**"), by virtue of his shareholding in Spectacular. Spectacular is an investing holding company and 60% of its profit will be distributed to the Tri Star Inc. management team, who don't have share voting right.

(2) Mr. Liu Bin is the beneficial owner of the shares of the Company held through OCBC Securities Private Ltd.

(3) Droege Group AG ("**Droege Group**"), being the sole shareholder of Droege Capital GmbH ("**Droege Capital**"), is deemed to be interested in the shares of the Company held by Droege Capital.

(4) Droege Holding GmbH & Co. KG ("**Droege Holding**"), being the sole shareholder of Droege Group, is deemed to be interested in the shares of the Company held by Droege Capital.

(5) Mr. Walter P.J. Droege is deemed to be interested in the shares of the Company held by Droege Capital, by virtue of his shareholding in Droege Holding.

# SHAREHOLDERS' INFORMATION

AS AT 15 MARCH 2019

## TWENTY LARGEST SHAREHOLDERS

| No. | Name of Shareholders | Number of Shares | % |
|---|---|---|---|
| 1. | Spectacular Bright Corp. | 152,438,956 | 42.76 |
| 2. | OCBC Securities Private Ltd | 64,873,564 | 18.20 |
| 3. | Droege Capital GmbH | 28,536,000 | 8.00 |
| 4. | Stone Robert Alexander | 23,254,000 | 6.52 |
| 5. | Shi Yi | 9,229,000 | 2.59 |
| 6. | Daniel Tan Poon Kuan | 8,768,702 | 2.46 |
| 7. | Lim Yok Lan | 7,355,000 | 2.06 |
| 8. | UOB Kay Hian Pte Ltd | 4,591,900 | 1.29 |
| 9. | Kim Seng Holdings Pte Ltd | 3,988,577 | 1.12 |
| 10. | Chen Wenkun | 3,264,000 | 0.91 |
| 11. | DBS Nominees Pte Ltd | 3,205,900 | 0.90 |
| 12. | Liu Wenying | 3,150,000 | 0.88 |
| 13. | Citibank Nominees Singapore Pte Ltd | 2,493,600 | 0.70 |
| 14. | Phillip Securities Pte Ltd | 2,123,500 | 0.60 |
| 15. | Raffles Nominees (Pte) Limited | 1,824,300 | 0.51 |
| 16. | Chua Yue Peng | 1,662,000 | 0.47 |
| 17. | Lim Tiong Kheng Steven | 1,370,000 | 0.38 |
| 18. | Teo Yong Ping (Zhang Rongbin) | 1,100,000 | 0.31 |
| 19. | Loong Chay Wan | 1,094,100 | 0.31 |
| 20. | Teo Chuan Teck | 1,011,401 | 0.28 |
| | **Total:** | **325,334,500** | **91.25** |

## PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

Based on the information made available to the Company as at 15 March 2019, approximately 23.42% of the Company's issued shares (excluding treasury shares and subsidiary holdings) were held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

# NOTICE OF **ANNUAL GENERAL MEETING**

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Dutech Holdings Limited (the "**Company**") will be held at Room 308, Suntec Singapore, Convention & Exhibition Centre, 1 Raffles Boulevard, Suntec City, Singapore 039593 on Thursday, 25 April 2019 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 financial year ended 31 December 2018 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:

   Mr. Graham Macdonald Bell (retiring pursuant to Article 107) **(Resolution 2)**
   Mr. Chen Zhaohui, George (retiring pursuant to Article 107) **(Resolution 3)**

   *Mr. Graham Macdonald Bell will, upon re-election as a Director of the Company, remain as the Chairman of the Nominating Committee and a member of the Audit Committee and Remuneration Committee, and will be considered independent.*

   *Mr. Chen Zhaohui, George will, upon re-election as a Director of the Company, remain as the Chairman of the Remuneration Committee and a member of the Audit Committee and Nominating Committee, and will be considered independent.*

3. To note that Mr. Tang See Chim will be retiring as a Director of the Company pursuant to Article 107 of the Constitution of the Company. He will not be seeking re-election and will cease to be a Director of the Company at the conclusion of this AGM.

4. To approve the payment of Directors' fees of S$396,000 for the financial year ending 31 December 2019 to be paid quarterly in arrears. **(Resolution 4)**

5. To re-appoint Messrs Crowe Horwath First Trust LLP as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 5)**

6. 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:

7. **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 Company ("**shares**") 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,

# NOTICE OF **ANNUAL GENERAL MEETING**

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);

(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 (i)] **(Resolution 6)**

8. **The Proposed Adoption of the Share Buy-Back Mandate**

That:

(a) for the purposes of Section 76C and 76E of the Companies Act, Cap. 50 of Singapore (the "**Companies Act**"), the exercise by the Directors of the Company (the "**Directors**") of all the powers of the Company to purchase or otherwise acquire issued ordinary shares in the share capital of the Company ("**Shares**") (excluding treasury shares and subsidiary holdings) not exceeding in aggregate the Prescribed Limit (as defined herein), at such price(s) as may be determined by the Directors from time to time up to the Maximum Price (as defined herein), whether by way of:

   (i) on-market purchases transacted on the Singapore Exchange Securities Trading Limited ("**SGX-ST**") or on any other stock exchange on which the Company's equity securities are listed ("**Market Purchases**"); or

   (ii) off-market purchases in accordance with an equal access scheme as defined in Section 76C of the Companies Act ("**Off-Market Purchases**"),

   and otherwise in accordance with all other laws and regulations, including but not limited to, the provisions of the Companies Act and the SGX-ST Listing Manual, be and is hereby authorised and approved generally and unconditionally ("**Share Buy-back Mandate**");

(b) any Shares purchased or otherwise acquired by the Company pursuant to the Share Buy-back Mandate shall, at the discretion of the Directors, either be cancelled or held as treasury shares and dealt with in accordance with the Companies Act;

# NOTICE OF **ANNUAL GENERAL MEETING**

(c) unless varied or revoked by the Company in general meeting, the authority conferred on the Directors to purchase Shares pursuant to the Share Buy-back Mandate may be exercised by the Directors any time and from time to time, on and from the date of the passing of this resolution, up to the earliest of:

(i) the date on which the next annual general meeting is held or is required by law to be held;

(ii) the date on which the purchases or acquisitions of Shares by the Company pursuant to the Share Buy-back Mandate are carried out to the full extent mandated; or

(iii) the date on which the authority conferred by the Share Buy-back Mandate is revoked or varied by Shareholders in a general meeting;

(d) in this Resolution:

"**Average Closing Price**" means the average of the closing market prices of the Shares over the last five (5) Market Days, on which transactions in the Shares were recorded, before the date of Market Purchase by the Company or, as the case may be, the date of the making of the offer pursuant to the Off-Market Purchase, and deemed to be adjusted for any corporate action that occurs after the relevant five (5)-day period;

"**date of the making of the offer**" means the date on which the Company announces its intention to make an offer for the purchase or acquisition of the Shares from holders of Shares, stating the purchase price (which shall not be more than the Maximum Price calculated on the foregoing basis) for each Share and the relevant terms of the equal access scheme for effecting the Off-Market Purchase;

"**Maximum Price**" in relation to a Share to be purchased or acquired, means the purchase price (excluding brokerage, commission, applicable goods and services tax, and other related expenses) to be paid for the Shares as determined by the Directors. The purchase price to be paid for the Shares as determined by the Directors must not exceed:

(i) in the case of a Market Purchase, 105% of the Average Closing Price of the Shares; and

(ii) in the case of an Off-Market Purchase, 120% of the Average Closing Price of the Shares;

"**Prescribed Limit"** means that number of issued Shares representing 10% of the total number of issued Shares as at the date of the passing of this Resolution (excluding any Shares which are held as treasury shares as at that date); and

(e) the Directors be and are hereby authorised to complete and do all such acts and things (including executing such documents as may be required) as they may consider expedient or necessary to give effect to the transactions contemplated by this Resolution.

[See Explanatory Note (ii)] **(Resolution 7)**

By Order of the Board

Victor Lai Kuan Loong
Company Secretary
Singapore, 10 April 2019

# NOTICE OF **ANNUAL GENERAL MEETING**

**Explanatory Notes:**

(i) The Ordinary Resolution 6 in item 7 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.

(ii) The Ordinary Resolution 7 in item 8 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 purchase or otherwise acquire issued ordinary shares of the Company by way of Market purchases or Off-Market Purchases of up to ten per centum (10%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) of the Company at the Maximum Price in accordance with the terms and conditions set out in the Appendix to the Notice of the Annual General Meeting (the "**Appendix**"). Please refer to the Appendix for greater details.

**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**"). Where such member appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the proxy form.

   (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. Where such member appoints more than one proxy, the number and class of shares in relation to which each proxy has been appointed shall be specified in the proxy form.

   "**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. 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.

# ADDITIONAL INFORMATION ON **DIRECTORS PROPOSED FOR RE-ELECTION**

Mr Graham Macdonald Bell and Mr Chen Zhaohui, George (collectively, the "**Retiring Directors**"), who are retiring pursuant to Article 107 of the Constitution of the Company, will be seeking re-election at the forthcoming annual general meeting ("**AGM**") of the Company scheduled to be held on Thursday, 25 April 2019 under Ordinary Resolutions 2 and 3 as set out in the Notice of AGM dated 10 April 2019.

Pursuant to Rule 720(6) of the Listing Manual of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), the information relating to the Retiring Directors set out in Appendix 7.4.1 as required under the Listing Manual of the SGX-ST is disclosed below:

| **Name of Director** | **Graham Macdonald Bell** | **Chen Zhaohui, George** |
|---|---|---|
| Date of Appointment | 4 June 2007 | 4 June 2007 |
| Date of last re-appointment (if applicable) | 27 April 2016 | 27 April 2016 |
| Age | 64 | 53 |
| Country of principal residence | Singapore | China |
| The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process) | Not applicable | Not applicable |
| Whether appointment is executive, and if so, the area of responsibility | Non-executive | Non-executive |
| Job Title (e.g. Lead ID, AC Chairman, AC Member etc.) | • Independent Director<br>• Nominating Committee Chairman<br>• Audit Committee member<br>• Remuneration Committee member | • Independent Director<br>• Remuneration Committee Chairman<br>• Audit Committee member<br>• Nominating Committee member |
| Professional qualifications | Cambridge General Certificate of Education Advanced Level | • Bachelor degree in Mechanical Engineering from Shanghai University<br>• Master of Science degree in Manufacturing Systems Engineering from Auburn University<br>• Master of Business Administration (MBA) degree from Auburn University |
| Working experience and occupation(s) during the past 10 years | • 2000 to present Chairman, Graham Bell & Associates Pte Ltd<br>• 2004 to present Chairman & Director, Marine Claims Office of Asia Pte Ltd<br>• 2006 to 2011 Chairman & Director, Amanda Capital Services Pte Ltd<br>• 2017 to present Director, ERC Equipoise Pte Ltd | • 2010 to present China Country Manager, Trimble Inc.<br>• 1998 to 2009 China Country Manager, Genie Industries, Inc. (a Terex Company) |
| Shareholding interest in the listed issuer and its subsidiaries | Deemed interest in 17,000 shares of the Company held through Graham Bell and Associates | Nil |

# ADDITIONAL INFORMATION ON **DIRECTORS PROPOSED FOR RE-ELECTION**

| Name of Director | Graham Macdonald Bell | Chen Zhaohui, George |
|---|---|---|
| Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries | Nil | Nil |
| Conflict of interest (including any competing business) | Nil | Nil |
| Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to the listed issuer | Yes | Yes |
| **Other Principal Commitments including Directorships** | | |
| Past (for the last 5 years) | Nil | • Yamei Electronics Technology Co., Ltd.<br>• Actronic Trading (Shanghai) Co., Ltd. |
| Present | • Asian Alchemy Ltd.<br>• Churchmead Group Ltd.<br>• Display Enterprises Ltd.<br>• Graham Bell & Associates Ltd.<br>• Graham Bell & Associates Pte Ltd.<br>• The Glengarry Group Ltd.<br>• The Lemuria Group Ltd.<br>• Marine Claims Office of Asia Pte Ltd.<br>• Premium Gain International Pte Ltd.<br>• ERC Equipoise Pte Ltd. | • Trimble Inc.<br>• Trimble Electronic Products (Shanghai) Co., Ltd.<br>• Zhongtie Trimble Digital Engineering and Construction Limited Company<br>• Trimble Leading Electronic Technology (Shanghai) Co., Ltd.<br>• GT (Beijing) Co., Ltd. |
| **Information required pursuant to Listing Rule 704(7)** | | |
| (a) Whether at any time during the last 10 years, an application or a petition under any bankruptcy law of any jurisdiction was filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within 2 years from the date he ceased to be a partner? | No | No |

# ADDITIONAL INFORMATION ON **DIRECTORS PROPOSED FOR RE-ELECTION**

| Name of Director | Graham Macdonald Bell | Chen Zhaohui, George |
|---|---|---|
| (b) Whether at any time during the last 10 years, an application or a petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within 2 years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency? | No | No |
| (c) Whether there is any unsatisfied judgment against him? | No | No |
| (d) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose? | No | No |
| (e) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach? | No | No |
| (f) Whether at any time during the last 10 years, judgment has been entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or he has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part? | No | No |
| (g) Whether he has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust? | No | No |

# ADDITIONAL INFORMATION ON DIRECTORS PROPOSED FOR RE-ELECTION

| Name of Director | Graham Macdonald Bell | Chen Zhaohui, George |
|---|---|---|
| (h) Whether he has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust? | No | No |
| (i) Whether he has ever been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity? | No | No |
| (j) Whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of:– | | |
| (i) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or | No | No |
| (ii) any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or | No | No |
| (iii) any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or | No | No |
| (iv) any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust? | No | No |
| (k) Whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere? | No | No |

# ADDITIONAL INFORMATION ON **DIRECTORS PROPOSED FOR RE-ELECTION**

| **Name of Director** | **Graham Macdonald Bell** | **Chen Zhaohui, George** |
|---|---|---|
| **Disclosure applicable to the appointment of Director only** | | |
| Any prior experience as a director of an issuer listed on the Exchange? If yes, please provide details of prior experience. If no, please state if the director has attended or will be attending training on the roles and responsibilities of a director of a listed issuer or prescribed by the Exchange. Please provide details of relevant experience and the nominating committee's reasons for not requiring the director to undergo training as prescribed by the Exchange (if applicable). | Not applicable | Not applicable |

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**DUTECH HOLDINGS LIMITED**
(Company Registration No.: 200616359C)
(Incorporated in the Republic of Singapore)

**PROXY FORM**
*(Please see notes overleaf before completing this Form)*

**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 CPF/SRS investors who have used their CPF/SRS monies to buy the Company's shares, this form of proxy is not valid for use and shall be ineffective for all intents and purpose if used or purported to be used by them. CPF/SRS investors should contact their respective Agent Banks/SRS Operators if they have any queries regarding their appointment as proxies.

I/We, ______________________________________________

of ______________________________________________
being a member/members of **Dutech Holdings Limited** (the "**Company**"), hereby appoint:

| **Name** | **NRIC/Passport No.** | **Proportion of Shareholding** | |
|---|---|---|---|
| | | **No. of Shares** | **%** |
| **Address** | | | |

and/or (delete as appropriate)

| **Name** | **NRIC/Passport No.** | **Proportion of Shareholding** | |
|---|---|---|---|
| | | **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 Room 308, Suntec Singapore, Convention & Exhibition Centre, 1 Raffles Boulevard, Suntec City, Singapore 039593 on Thursday, 25 April 2019 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 financial year ended 31 December 2018 | | |
| 2 | Re-election of Mr Graham Macdonald Bell as a Director | | |
| 3 | Re-election of Mr Chen Zhaohui, George as a Director | | |
| 4 | Approval of Directors' fees amounting to S$396,000 for the financial year ending 31 December 2019 to be paid quarterly in arrears | | |
| 5 | Re-appointment of Messrs Crowe Horwath First Trust LLP as Auditors | | |
| 6 | Authority to issue shares | | |
| 7 | The proposed adoption of the share buy-back mandate | | |

* *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 April 2019

| **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*

**Notes:**

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act (Cap. 289)), 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 the 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 entitled to attend and vote at the Meeting 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/her 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 (Cap. 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 Annual General Meeting dated 10 April 2019.

**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/her name in the Depository Register as at seventy-two (72) hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.

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# CORPORATE **INFORMATION**

## 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**
(Non-Executive Director)

**Christoph Hartmann**
(Non-Executive 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

Lai Kuan Loong Victor

## 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