Dutech Holdings Limited

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Dutech Holdings Limited

ANNUAL REPORT 2019

Dutech Holdings Limited

FORWARD LOOKING

ANNUAL REPORT
2019

TABLE OF CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS
Executive:
Dr. Johnny Liu
(Executive Chairman and CEO)

Liu Bin
(Executive Vice Chairman)

Non-Executive:
Dr. Hedda Juliana im Brahm-Droege
(Non-Executive Director)

Christoph Hartmann
(Non-Executive Director)

Tan Yee Peng
(Lead Independent Director)

Graham Macdonald Bell
(Independent Director)

Chen Zhaohui, George
(Independent Director)

AUDIT & RISK COMMITTEE
Tan Yee Peng
(Chairman)

Graham Macdonald Bell

Chen Zhaohui, George

Christoph Hartmann

NOMINATING COMMITTEE
Graham Macdonald Bell
(Chairman)
Tan Yee Peng
Chen Zhaohui, George

REMUNERATION COMMITTEE
Chen Zhaohui, George
(Chairman)

Tan Yee Peng

Graham Macdonald Bell

Dr. Hedda Juliana im Brahm-Droege

COMPANY SECRETARY
Marilyn Tan Lay Hong
(appointed on 22 July 2019)

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

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, Ireland, 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, the "Best supplier" by Diebold Nixdorf in 2018, and the "Best Suppliers" by Glory Ltd in 2019.

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.

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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 2019 ("FY2019").

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 2019 ("FY2019").

Global economic conditions remained uncertain, stemming from the on-going trade tensions and geopolitical pressures. In spite of these external challenges, Dutech, with our sustained efforts in strengthening our operational efficiency and building new competencies, delivered a commendable performance.

FINANCIAL REVIEW

FY2019 Group revenue was RMB1,882.2 million, an increase of 3.2%, from RMB1,822.9 million in the financial year ended 31 December 2018 ("FY2018"). The revenue growth was due to higher sales from the Business Solutions Segment, which improved 12.3% to RMB961.2 million on the back of increased new products sales. This was offset by lower sales for the High Security Segment which declined 4.8% to RMB921.0 million, attributed to the decrease in sales for ATM safes.

Group gross profit in FY2019 was higher at 15.1% to RMB527.2 million from RMB458.1 million in FY2018, due primarily to the increase in revenue and lower cost of sales. Gross margin for the Group also improved to 28.0% from 25.1% because of the change in product mix. Segmentally, margin for the High Security Segment increased by 4.5 percentage point to 29.8%, while margin for the Business Solutions Segment was 1.9 percentage point higher to 26.5%. On account of lower operating expenses, profit from operations grew 78.4% to RMB140.2 million. The Group ended the year with net profit after tax of RMB79.1 million, an increase of 48.9%, and earnings per share of RMB22.19 cents from RMB14.90 cents.

Balance sheet wise, the Group registered a positive net current assets of RMB682.5 million, and our net asset value per share was RMB278.10 cents, as at 31 December 2019. Long-term borrowings increased to RMB65.1 million from RMB27.1 million, owing to the recognition of lease liabilities following the adoption of SFRS(I) 16. The Group's net cash from operating activities was RMB235.4 million, and our cash positioned stayed healthy with RMB448.4 million at the end of the financial period.

BUSINESS REVIEW

Dutech is a global provider of high security and intelligent terminals solutions. As a leading Original Design Manufacturer ("OEM") and the largest producer in Asia in terms of sales and production capacity in high security solutions, we supply a wide range of products such as commercial, banking and ATM safes, as well as cash handling systems. We have also expanded our capabilities to include the development and manufacture of intelligent terminals including ticket vending machine ("TVM"), gaming, lottery and parking machines. Headquartered in Shanghai, China, we have operations in China, the Philippines, Vietnam, UK, USA, Germany and Ireland. We have established presence in all major markets, including USA, Europe, and the Asia Pacific region, to serve our global clients.

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CHAIRMAN'S **MESSAGE**

Continued investment in research and development ("R&D"), strengthening quality standards

In FY2019, our R&D expenses held relatively steady at RMB75.6 million compared to FY2018, and we were granted 35 patents. Our R&D efforts were focused on the development of systems and software related to smart city solutions for TVMs, parking machines and cashless terminals. To this end, we established Metric Tristarinc Limited, in Ireland, to further enhance and achieve greater synergies for our R&D function across different markets.

In terms of quality standards, we were awarded additional certifications including five from UL (Underwriters Laboratories), seven from CEN (European Committee for Standardisation), as well as five from CE (European Conformity).

Ramping up innovation and new products development

In the year, the Group augmented our capabilities and expertise in the development of innovative, high-technology solutions. We were encouraged that our subsidiary, Jiangsu Tri Star Technology Co., Ltd, was accorded High and New Technology Enterprise ("HNTE") status in China. In total, we have two subsidiaries qualified as HNTE companies, and were entitled to a preferential corporate tax rate of 15% as compared to the 25% statutory tax rate.

We also ramped up our development of new products including DuSafe, under our High Security Segment. DuSafe is our own branded range of security safes with fingerprint and facial recognition technology, and other state-of-the-art high security features and functions. Under our Business Solutions Segment, our new products comprised a new generation of parking solution that integrates ANPR (Automatic Number Plate Recognition) technology.

Increasing competitiveness by optimising processes and resource utilisation

To increase our competitiveness, an important priority for the Group is to optimise our production processes and resource utilisation. Accordingly, we have invested in technology upgrade, infrastructure improvements and new equipment, to boost our productivity and reduce costs. These include the introduction of welding robotics which increased our production capacity and quality, as well as the enhancement to our waste treatment process with the installation of a water recycling system, resulting in cost savings of RMB0.2 million for the year.

OUTLOOK AND FUTURE PLANS

2020 will be a difficult year on the back of the current economic headwinds, exacerbated by the COVID-19 outbreak, further threatening a weakened economy.

The outlook for Dutech remains challenging as we grapple with on-going rising costs of business, including manpower and raw materials, as well as disruptions to the ATM market with the shift towards cashless transactions. Externally, the trade tariffs from the US-China trade war will affect the Group's performance, though this is partially mitigated by our manufacturing sites located in Philippines and Vietnam. Already, these two manufacturing sites have increased their revenue contribution in 2019. The outbreak of COVID-19 has also adversely affected the supply chain and logistics activities. The full impact from this outbreak is as yet unknown, and will depend on how long the pandemic lasts and how quickly the economy is able to recover.

Nevertheless, we are confident that Dutech would be able to withstand these near-term pressures with our prudent financial management.

Adding value through expanding capabilities

For the year ahead, we will continue to increase our capabilities with a focus on higher value-added products and solutions, in order to augment our leadership position in high security products and to grow our market share in smart city solutions.

SAR19015997 • Dutech Holdings Limited • 11/05/2020 12:07 • 02_Dutech Holdings_RS_Chairman Message.indd

CHAIRMAN'S **MESSAGE**

To this end, we have strengthened our R&D team significantly, as we expand our business activities from an Original Equipment Manufacturer ("OEM") to an Original Design Manufacturer ("ODM"). We will also intensify our efforts in the design, development and manufacture of new product lines, particularly for intelligent terminals, to keep pace with the changes in market trends and customer demand.

Growing our markets, reaping synergies

E-commerce has been an increasing important sales channel for the Group. Since the launch of our e-commerce site for our Format range of high security products four years ago, it has become the main sales driver, achieving double-digit growth in sales in 2018. We intend to further increase our internet sales and had incorporated a wholly owned subsidiary, an online sales company, Eisenbach Tresore GmbH (https://www.eisenbach-tresore.de/), in 2019 to integrate our e-business processes which will boost sales in Germany.

Aside from growing our internet sales, we will also penetrate new markets by replicating the success we have achieved expanding into the European market for our smart city solutions. We will leverage our strengths in the provision of one-stop solutions effectively across our operations. Our design and development capabilities are supported by our production facilities in lower-cost locations. In addition, we can achieve economies of scale by reaping synergies including global sourcing, production, R&D and marketing.

WELCOME & APPRECIATION

On behalf of the Board, I would like to extend a warm welcome to Ms Tan Yee Peng who was appointed as an Independent Director and the chairman of Audit & Risk committee on 25 April 2019. Ms Tan has broad experience in accounting and auditing, and currently serves on various boards of both listed and private companies. Ms Tan will be a valuable addition to the Board, bringing new insights and perspectives.

In ending, I like to express my appreciation to my fellow Board members for their counsel and commitment, and to our staff for their efforts and contribution. I would also like to take this opportunity to thank our customers and business associates for their support, and last but not least, to our shareholders, for your trust and confidence in us.

DR JOHNNY LIU
Chairman & CEO

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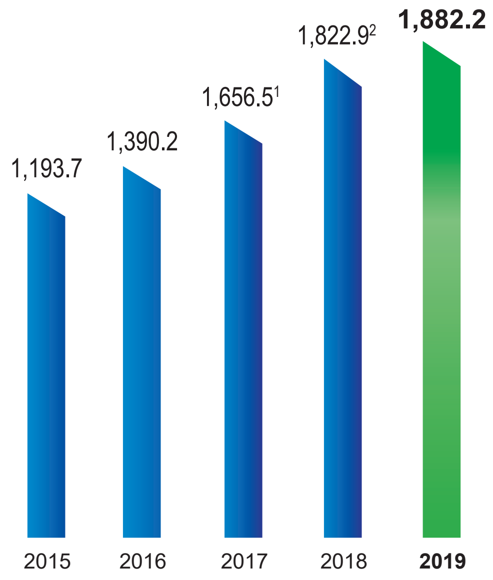
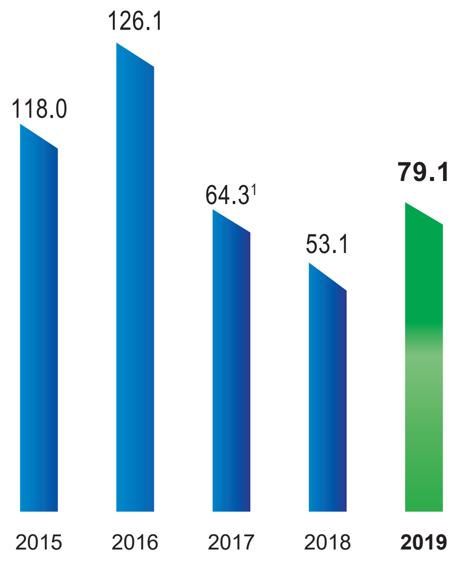
FINANCIAL **HIGHLIGHTS**

REVENUE (RMB Million)



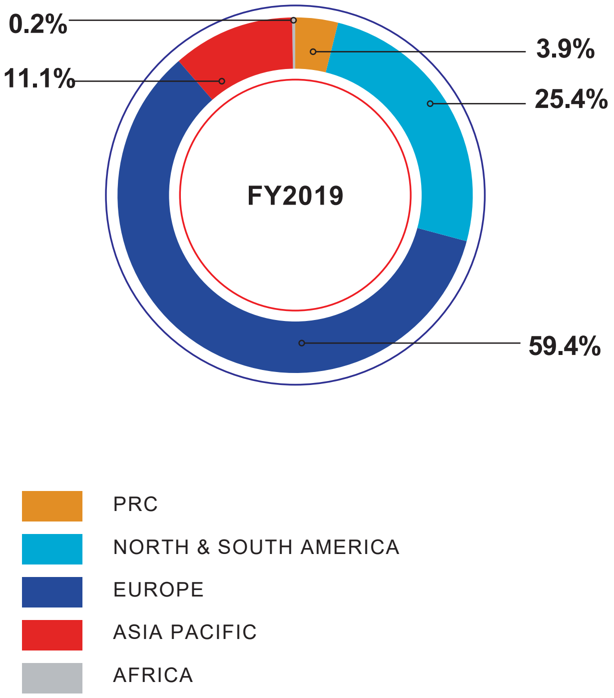
PROFIT ATTRIBUTABLE TO SHAREHOLDERS (RMB Million)



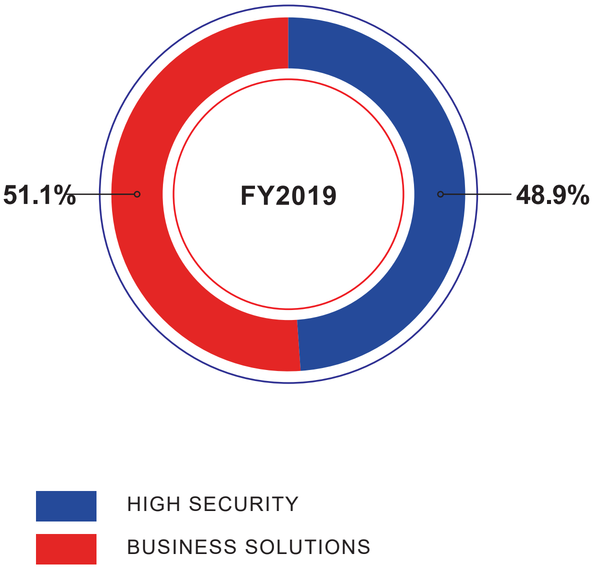
1 Restated due to the adoption of SFRS(I) 15

2 Restated due to reclassification the net gain on "sales of raw materials" and "amortisation of land use rights" previously presented under "Other income" and "Other expenses" to "Revenue" and "Cost of sales" respectively.

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 honoured 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. He 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 main 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 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.

MS. TAN YEE PENG was appointed as a Director on 25 April 2019. She is the Lead Independent Director, the Chairman of the Audit & Risk Committee and a member of the Nominating Committee and Remuneration Committee of the Company.

Ms. Tan graduated with First Class Honours degree in Accountancy from Nanyang Technology University. She previously served as an audit and advisory partner of KPMG in Singapore from 2003 to 2010 and has more than twenty years of accounting and auditing experience. She was also appointed as an Adjunct Associate Professor at the Nanyang Business School, Nanyang Technological University from 2009 to 2018.

Ms. Tan is also a director of City Developments Limited, a Council Member of the Agency of Care Effectiveness and the honorary treasurer to Viriya Community Services, a charitable organisation established to serve the lower income families.

Ms. Tan does not have any relationships with the Directors, the CEO or its 5% shareholders as defined in the Code of Corporate Governance 2018.

MR. GRAHAM MACDONALD BELL was appointed as a Director with effect from 4 June 2007 and was last re-elected on 25 April 2019. Mr. Bell is the Chairman of the Nominating Committee and a member of the Audit & Risk Committee and Remuneration Committee of the Company.

He is the 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 the Executive Committee of the hospitality division of one of the largest property developers in Singapore.

Mr. Bell does not have any relationships with the Directors, the CEO or its 5% shareholders as defined in the Code of Corporate Governance 2018.

DIRECTORS' PROFILE

MR. CHEN ZHAOHUI, GEORGE was appointed as a Director with effect from 4 June 2007 and was last re-elected on 25 April 2019. He is the Chairman of the Remuneration Committee and a member of the Audit & Risk 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 with the Directors, the CEO or its 5% shareholders as defined in the Code of Corporate Governance 2018.

DR. HEDDA JULIANA IM BRAHM-DROEGE was appointed as a Director since 1 October 2014. She was previously considered as an Independent Director but is re-designated as a Non-Executive Director due to the revised definition of "substantial shareholder" which came into effect on 1 January 2019. She was last 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 a member of the Board of Trustees of Kunstsammlung North Rhine-Westphalia and a member of the Erich Gutenberg Association. In addition to that, she holds various board positions in art-related as well as charitable organisations.

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. He was last re-elected as a Director on 26 April 2017. He is a member of the Audit & Risk 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.

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 in the 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 including China facilities, Vietnam and Philippines plant. He is responsible for production, supply chain management, production organization, quality assurance, timely delivery and all daily operations. 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.

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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 has complied with Listing Rule 710 by describing in this report its corporate governance practices with specific reference to the principles and provisions as set out in the Code of Corporate Governance issued by the Monetary Authority of Singapore dated 6 August 2018 ("**2018 Code**"). Where the Company's practices differ from the provisions under the 2018 Code, the Company's position and reasons in respect of the same are explained in this report.

I. BOARD MATTERS

The Board's Conduct of its Affairs

Principle 1: The Company is headed by an effective Board which is collectively responsible and works with Management for the long-term success of the company.

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.

All directors, being fiduciaries, are required to act objectively in the best interests of the Company. The Board puts in place a code of conduct and ethics, sets appropriate tone-from-the-top and desired organizational culture, and ensures proper accountability within the Company. Directors, who are in any way, directly or indirectly, interested in a transaction or proposed transaction, declare the nature of their interests and in the case of any conflicts of interests, abstain from participating in the deliberation and decision making on such transactions. Such abstentions are duly recorded in the minutes and/or resolutions of the Board and/or the Committees. (Provision 1.1 of 2018 Code)

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:

- provides entrepreneurial leadership and guidance and puts in place an effective management team;
- approves broad policies, sets strategies and objectives of the Group;
- reviews and approves 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;
- reviews at least annually the adequacy and effectiveness of the Group's risk management and internal control system; and
- approves business plans and annual budgets, major funding including capital management proposals, major investment and disposal proposals.

The approval of the Board is required for the following matters:

(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.

CORPORATE **GOVERNANCE REPORT**

Management has been given clear directions on the above matters that require Board's approval, and these are communicated to Management in writing. (Provision 1.3 of 2018 Code)

To assist the Board to effectively discharge its oversight duties and functions, the Board has delegated certain duties to various Board committees. (*Provision 1.4 of 2018 Code*) These Board Committees, namely the Audit & Risk Committee ("**ARC**"), 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. The compositions of these Committees, the names of the committee members, the terms of reference and a summary of each Committee's activities are disclosed in pages 14 to 22 of this Annual Report.

Board and Board Committees meetings

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 FY2019 is set out below (Provisions 1.5 and 11.3 of 2018 Code):

Type of Meetings	Board	Audit & Risk Committee	Nominating Committee	Remuneration Committee	AGM
Total No. Held	4	4	1	1	1
Attendance					
Dr. Johnny Liu, Executive Chairman & CEO	4 of 4	N.A.	N.A.	N.A.	1 of 1
Mr. Liu Bin, Executive Vice-Chairman	4 of 4	N.A.	N.A.	N.A.	1 of 1
Mr. Christoph Hartmann, Non-Executive Director	4 of 4	4 of 4	N.A.	N.A.	0 of 1
Dr. Hedda Juliana im Brahm-Droege, Non-Executive Director	4 of 4	N.A.	N.A.	1 of 1	0 of 1
Ms. Tan Yee Peng, Lead Independent Director(1)	3 of 3	3 of 3	N.A.	N.A.	N.A.
Mr. Graham Macdonald Bell, Independent Director	4 of 4	4 of 4	1 of 1	1 of 1	1 of 1
Mr. Chen Zhaohui, George, Independent Director	4 of 4	4 of 4	1 of 1	1 of 1	1 of 1
Mr. Tang See Chim, Lead Independent Director(2)	1 of 1	1 of 1	1 of 1	1 of 1	1 of 1

N.A.: Not Applicable

(1) Ms Tan Yee Peng was appointed as director, the Lead ID, Chairman of ARC and member of NC and RC on 25 April 2019.

(2) Mr. Tang See Chim resigned as a director of the Company with effect from 25 April 2019.

The Board is pleased to report that there is full attendance at all Board and Board Committees meetings during FY2019. The NC is satisfied that directors with multiple board representations have given sufficient time and attention to the affairs of the Company. (*Provision 1.5 of 2018 Code*)

CORPORATE **GOVERNANCE REPORT**

Board Orientation and Training

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. (*Provision 1.2 of 2018 Code*)

For a first time Director who has no prior experience as a director of a listed company, in addition to the induction as described above, he or she will be required to also attend specific modules of the Listed Entity Director ("LED") Programme conducted by the Singapore Institute of Directors ("SID") in order to acquire relevant knowledge of what is expected of a listed company director, this being a mandatory requirement under the SGX-ST Listing Rules. (*Provision 1.2 of 2018 Code*)

Ms Tan Yee Peng was appointed as a Director of the Company on 25 April 2019. As Ms Tan is also a director of another listed company in Singapore, the NC was of the view that there was no necessity for her to attend the abovementioned LED Programme for first time directors. The NC is satisfied that Ms Tan has sufficient knowledge of the regulatory and corporate governance compliance expected of the Company including having an understanding of the roles and responsibilities as a director of the Company.

All Directors are also 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. (*Provision 1.2 of 2018 Code*)

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 FY2019, 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 were 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. Other training attended by directors include topics such as Board Risk Management and cyber security organized by the Singapore Institute of Directors.

In addition to the training courses/programmes and briefings, Directors are also at liberty to approach Management for any further information or clarification concerning the Company's operations. (*Provision 1.2 of 2018 Code*)

Complete, adequate and timely information

Prior to each meeting, members of the Board and Board Committees are provided with the meeting agenda and the relevant papers submitted by Management. Management targets to provide the relevant papers at least a week in advance to afford the Directors sufficient time to review the papers prior to the meeting. (*Provision 1.6 of 2018 Code*)

For prospective deals and potential developments, management targets to brief and engage with the Directors in the early stages. (*Provision 1.6 of 2018 Code*)

If a Director is unable to attend a Board or Board Committee meeting, the Director may provide his/her comments to the Chairman or relevant Committee Chairman before the meetings.

Access to Management, Company Secretary and External Advisers

The Directors have direct and independent access to the Management, the company secretary and external advisers. The Directors, whether as a group or individually, are entitled to take independent advice at the expense of the Company, in the discharge of their duties and where circumstances warrant it. (*Provision 1.7 of 2018 Code*)

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CORPORATE **GOVERNANCE REPORT**

The appointment and removal of the Company Secretary is subject to the Board's approval. The Company Secretary or its delegate, attend all Board and Board Committee meetings to provide guidance for Board procedures to be followed.

Board Composition and Guidance

Principle 2: The Board has an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the company.

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 Non-Executive Directors (*Provision 2.3 of 2018 Code*):

Executive Directors:	
Dr. Johnny Liu	(Executive Chairman and Chief Executive Officer)
Mr. Liu Bin	(Executive Vice Chairman)
Non-Executive Directors:	
Dr. Hedda Juliana im Brahm-Droege*	(Non-Executive Director)
Mr. Christoph Hartmann*	(Non-Executive Director)
Ms. Tan Yee Peng	(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 definition of "substantial shareholder".

Board independence

The independence of each Director is reviewed annually by the NC and the Board. Each Independent Director is required to complete a checklist annually to confirm his independence based on the guidelines as set out in the Code. The NC adopts the Code's definition of what constitutes an "independent" director, which is one who is independent in conduct, character and judgement, and has no relationship with the Company, its related corporations, its substantial shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgement in the best interests of the Company, in its review. (*Provision 2.1 of 2018 Code*)

The three IDs are Ms Tan Yee Peng, Mr Graham Macdonald Bell and Mr Chen Zhaohui, George. In accordance with SGX Listing Rule 210(5)(d), none of the IDs are currently employed or have been employed at any time during the past three financial years by the Company or any of its related corporations. None of the 3 IDs have immediate family members who are currently employed or have been employed at any time during the past three financial years by the Company or any of its related corporations, and whose remuneration is determined by the RC. For purposes of determining independence, the 3 IDs also provided confirmation that they are not related to the Directors and 5% shareholders of the Company. The NC is satisfied that there is no other relationship which could affect their independence. The Board concurred with the NC's determination of the independence of the 3 IDs.

Mr Graham Macdonald Bell and Mr Chen Zhaohui, George, have served on the Board for more than nine years since their appointment to the Board. The NC and the Board concurred that both Mr Bell and Mr Chen had maintained their independence throughout their tenure, having observed their contribution and objectivity during meetings. They continue to express their views, debate issues and challenge management. The Company has benefited from their years of experience. (*Provision 2.4 of 2018 Code*)

Provision 2.2 of 2018 Code requires independent directors to make up a majority of the Board where the Chairman is not independent. The Company does not comply with Provision 2.2 as independent directors

CORPORATE **GOVERNANCE REPORT**

do not make up a majority of the Board and our Chairman is not independent, However, non-executive directors do make up a majority of the Board. The Board currently has 5 non-executive directors (of which 3 are independent) and 2 executive directors, including the Chairman. (*Provision 2.3 of 2018 Code*) Given the size and composition of the Board and the active participation of board members at Board meetings, the Board is of the view that there is an appropriate level of independence in its composition to enable it to make decisions in the best interests of the Company. The Board will continue to review its Board composition as it embarks on its board renewal. The NC would continue with the search for additional independent directors with the appropriate skills, knowledge and experience to join the Board. The Board concurred with the NC's assessment and recommendation.

The non-executive directors, including the independent directors, meet regularly without the presence of Management. During FY2019, the NEDs met once without the presence of Management. The Lead ID who chaired the meeting of the NEDs collates the feedback from the NEDs and communicates the same to the Board Chairman. (*Provision 2.5 of 2018 Code*)

Board Size and Board Diversity

The NC reviews the size and composition of the Board and the Board Committees annually.

Collectively, the Directors bring with them a broad range of industry knowledge, expertise and experience in areas such as legal, accounting, finance, business management and risk management. The diversity of the Directors' experience allows for the useful exchange of ideas and views as well as provide for effective decision-making. (*Provision 2.4 of 2018 Code*)

The Company is pleased to report that the Company has met the recommendation of the Council for Board Diversity for listed companies to have 25% female representation on their boards by 2025. The Board has 2 female directors and 5 male directors presently. *(Provision 2.4 of 2018 Code)*

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 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. (*Provision 2.4 of 2018 Code*)

Chairman and Chief Executive Officer

Principle 3: There is a clear division of responsibilities between the leadership of the Board and Management, and no one individual has unfettered powers of decision-making.

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. (*Provision 3.2 of 2018 Code*) 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. All three (3) Board Committees, all comprising Non-Executive Directors, are chaired by Independent Directors. (*Provision 3.1 of 2018 Code*)

In accordance with the recommendations of the Code, Ms. Tan Yee Peng has been appointed as the Lead Independent Director. The Lead Independent Director is available to shareholders where they have concerns

CORPORATE **GOVERNANCE REPORT**

and for which contact through the normal channels of communication with the Executive Chairman or Management are inappropriate or inadequate. (*Provision 3.3 of 2018 Code*)

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. (*Provision 3.1 of 2018 Code*)

Board Membership

Principle 4: The Board has a formal and transparent process for the appointment and re-appointment of directors, taking into account the need for progressive renewal of the Board.

The NC presently comprises three (3) members, all of whom are independent. The Lead ID is one of the members of the NC. The NC members are (*Provisions 1.4 and 4.2 of 2018 Code*):

Mr. Graham Macdonald Bell	(Chairman and Independent Director)
Ms. Tan Yee Peng	(Member and Lead Independent Director)
Mr. Chen Zhaohui, George	(Member and Independent Director)

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 (*Provisions 1.4 and 4.1 of 2018 Code*):

- To make recommendations to the Board on all appointment and re-appointment of directors (including alternate directors, if any);
- To regularly review the Board structure, size and all Board and Board Committees composition and membership having regard to the scope and nature of the operations and the core competencies of the directors as a group;
- To review succession plans for directors, in particular the appointment and/or replacement of the Chairman and Chief Executive Officer and key management personnel;
- To determine annually the independence of Directors, bearing in mind the circumstances set forth in Provision 2.1 of the Code and other salient factors;
- To review the training and professional development programmes for the Board and its directors;
- 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 NC will seek to refresh the Board membership progressively and in an orderly manner, to avoid losing institutional memory. The NC interviews shortlisted candidates before formally considering and recommending them for appointment to the Board and Board Committees. Searches for potential candidates typically take into account recommendations from the directors. Search firms may also be engaged to find appropriate candidates. In reviewing and recommending to the Board any new Director appointments, the NC considers the candidate's track record, experience and expertise and other factors such as age and gender that would contribute to the Board's collective skills and expertise. (*Provisions 2.4 and 4.3 of 2018 Code*) The NC also considers the ability of the candidate to dedicate sufficient time and attention to the Company and the candidate's independence in the case of an appointment of an ID.

CORPORATE **GOVERNANCE REPORT**

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 and Article 117 of the Company's Constitution, the following Directors are due for retirement by rotation at the forthcoming AGM:

(i) Mr. Christoph Hartmann, retiring pursuant to Article 107;

(ii) Dr. Hedda Juliana im Brahm-Droege, retiring pursuant to Article 107; and

(iii) Ms. Tan Yee Peng, retiring pursuant to Article 117.

The NC has reviewed and recommended for the re-election of Mr. Christoph Hartmann, Dr. Hedda Juliana im Brahm-Droege and Ms. Tan Yee Peng as Directors of the Company at the forthcoming AGM. (*Provisions 4.1(d) and 4.4 of 2018 Code*)

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
Ms. Tan Yee Peng	Independent Director	25 April 2019	–
Mr. Graham Macdonald Bell	Independent Director	4 June 2007	25 April 2019
Mr. Chen Zhaohui, George	Independent Director	4 June 2007	25 April 2019
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

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. (*Provisions 1.5 and 4.5 of 2018 Code*)

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. (*Provision 4.5 of 2018 Code*)

The Board does not have any alternate directors.

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.

CORPORATE **GOVERNANCE REPORT**

Board Performance

Principle 5: The Board undertakes a formal annual assessment of its effectiveness as a whole, and that of each of its board committees and individual directors.

The NC assesses the effectiveness of the Board as a whole, and of each Board Committee separately, as well as the contribution by each Director to the effectiveness of the Board on an annual basis. (*Provision 5.1 of 2018 Code*)

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. *(Provision 5.2 of 2018 Code)*

The NC has conducted an evaluation of the Board performance as a whole in respect of FY2019, 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. For FY2019, the Board did not engage any external facilitator in the assessment of its Board performance. (*Provision 5.2 of 2018 Code*)

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. (*Provisions 4.5 and 5.2 of 2018 Code*)

The Board is satisfied that all Directors have discharged their duties adequately for FY2019 and expects that the Directors will continue to discharge their duties adequately for the financial year ending 31 December 2020. (*Provision 5.2 of 2018 Code*)

II. REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 6: The Board has a formal and transparent procedure for developing policies on director and executive remuneration, and for fixing the remuneration packages of individual directors and key management personnel. No director is involved in deciding his or her own remuneration.

Level and Mix of Remuneration

Principle 7: The level and structure of remuneration of the Board and key management personnel are appropriate and proportionate to the sustained performance and value creation of the Company, taking into account the strategic objectives of the Company.

The RC presently comprises of four (4) Non-Executive Directors, the majority of whom, including the RC Chairman, are independent (*Provisions 1.4, 6.1 and 6.2 of 2018 Code*):

Mr. Chen Zhaohui, George	(Chairman and Independent Director)
Ms. Tan Yee Peng	(Member and Lead Independent Director)
Mr. Graham Macdonald Bell	(Member and Independent Director)
Dr. Hedda Juliana im Brahm-Droege	(Member and Non-Executive Director)

The principal duties of the RC include the following (*Provision 6.3 of 2018 Code*):

- To review and recommend to the Board a framework of remuneration and the specific remuneration packages and 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 reporting directly to the Chairman and CEO and employees who are related to the executive directors and controlling shareholders of the Group;

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CORPORATE **GOVERNANCE REPORT**

- 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 7 and Provisions 7.1 to 7.3 of the Code.

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. No remuneration consultants were engaged by the Company in FY2019 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. (*Provision 6.4 of 2018 Code*)

The two (2) Executive Directors have each entered into separate service agreements with the Company. The service agreements cover their terms of employment, salaries and other benefits. A Significant and appropriate proportion of executive directors' and key management personnel's remuneration is link to performance. (*Provision 7.1 of 2018 Code*)

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 do not contain unfair and unreasonable termination clauses. (*Provision 6.3 of 2018 Code*)

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. (*Provision 7.2 of 2018 Code*) 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 Board is of the view that the current remuneration structure for the Executive Directors, CEO and key management personnel are appropriate to attract, retain and motivate Directors to provide good stewardship of the Company and key management personnel to successfully manage the Company for the long term. (*Provision 7.3 of 2018 Code*)

CORPORATE **GOVERNANCE REPORT**

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 8: The company is transparent on its remuneration policies, level and mix of remuneration, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation.

Information on the remuneration of Directors of the Company for FY2019 is as follows (*Provisions 8.1(a) and 8.3 of 2018 Code*):

Name of Directors	Remuneration S$	Salary %	Bonus %	Fees %	Other Benefits %	Total %
Johnny Liu Jiayan	547,192	26	64	0	10	100
Liu Bin	106,600	58	42	0	0	100
Tan Yee Peng(1)	53,960	0	0	100	0	100
Graham Macdonald Bell	79,200	0	0	100	0	100
Chen Zhaohui, George	79,200	0	0	100	0	100
Christoph Hartmann	79,200	0	0	100	0	100
Dr. Hedda Juliana im Brahm-Droege	79,200	0	0	100	0	100
Tang See Chim(2)	25,240	0	0	100	0	100

Notes:

(1) Ms Tan Yee Peng was appointed as a director with effect from 25 April 2019.

(2) Mr. Tang See Chim resigned as a director of the Company with effect from 25 April 2019.

Information on the remuneration band of the key management personnel of the Company for FY2019 is as follows (*Provisions 8.1(b) and 8.3 of 2018 Code*):–

Remuneration Band & Name of Key Management Personnel	Salary %	Bonus %	Fees %	Other Benefits %	Total %
Below S$250,000					
Winson Chen Wenkun	74	21	–	5	100
Sunny Yu Tianzhao	78	16	–	6	100
Donia Dong Junxia	70	23	–	7	100
Jessica Shi Yi	76	19	–	5	100
Ge Chaofeng	69	25	–	6	100
Dr. Popof Wu Bo	80	15	–	5	100

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

CORPORATE **GOVERNANCE REPORT**

The Board does not believe it is in the interest of the Company to disclose the remuneration of key management personnel for FY2019 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 an annual bonus computed based on the performance of the Group as a whole which is linked to financial targets set and other aspects of performance which include new markets and new products development, as well as individual performance.

For FY2019, 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.

Save as disclosed above, there are no remuneration and other payments and benefits paid by the Company's subsidiaries to Directors and key management personnel of the Company. (*Provision 8.2 of 2018 Code*)

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, or a substantial shareholder of the Company, whose remuneration exceeds S$100,000 during the financial year. (*Provision 8.2 of 2018 Code*)

III. ACCOUNTABILITY AND AUDIT

Risk Management and Internal Controls

Principle 9: The Board is responsible for the governance of risk and ensures that Management maintains a sound system of risk management and internal controls, to safeguard the interests of the Company and its shareholders.

The Directors recognise that they have the overall responsibility to ensure proper financial reporting for the Group and the adequacy and effectiveness of the Group's system of internal controls, including financial, operational, compliance and information technology controls, and risk management policies and systems.

The ARC assists the Board in providing oversight of risk management in the Company.

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. (*Provision 9.1 of 2018 Code*)

The Board has received written assurance from the CEO and Chief Financial Officer that the Group's financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances; and written assurance from the CEO and the key management personnel that the Group's risk management and internal control systems are adequate and effective to address the key risks (including financial, operational, compliance and information technology risks) within the current scope of the Group's business operations. (*Provision 9.2(a) of 2018 Code*)

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 ARC) 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 2019. (*Provision 9.2(b) of 2018 Code*)

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. In this regard, the Board also notes that no system can provide absolute assurance against the occurrence of material errors, poor judgement in decision-making, human error, losses, fraud and/or other irregularities.

CORPORATE **GOVERNANCE REPORT**

Audit & Risk Committee

Principle 10: The Board has an Audit and Risk Committee 18 which discharges its duties objectively.

As announced by the Company in an announcement dated 27 February 2020, the '*Audit Committee*' was renamed as the '*Audit & Risk Committee*'.

The ARC presently comprises of four (4) Non-Executive Directors, the majority of whom, including the ARC Chairman are independent (*Provisions 1.4 and 10.2 of 2018 Code*):

Ms. Tan Yee Peng	(Chairman and Lead Independent Director)
Mr. Graham Macdonald Bell	(Member and Independent Director)
Mr. Chen Zhaohui, George	(Member and Independent Director)
Mr. Christoph Hartmann	(Member and Non-Executive Director)

The ARC Chairman, Ms Tan Yee Peng, and Mr Christoph Hartmann possess recent and relevant accounting and financial management and risk management expertise and experience, whilst the other 2 members, Mr Graham Macdonald Bell and Mr Chen Zhaohui, George have financial and risk management background. Based on the current composition, the ARC believes it has the relevant accounting and related financial management expertise and experience to discharge its functions. (*Provision 10.2 of 2018 Code*) None of the ARC members were former partners or directors of the Company's existing auditing firm. (*Provision 10.3 of 2018 Code*)

The duties of the ARC include the following (*Provision 10.1 of 2018 Code*):

- 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 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 assumption;
  (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 final audits, in consultation with the external auditors and the internal auditors where necessary;
- 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 adequacy, effectiveness, independence, scope, results of the external audit, 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 ARC would 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 is not compromised;
- To review the internal audit plan 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, at least annually, the adequacy and effectiveness of the Company's risk management and internal control systems (including financial, operational, compliance and information technology controls);
- 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;

CORPORATE **GOVERNANCE REPORT**

- 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 ARC;
- To review interested person transactions falling 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 the remuneration and terms of engagement of the external auditors;
- To review the policy and arrangements for concerns about possible improprieties in financial reporting or other matters to be safely raised, independently investigated and appropriately followed up on;
- To review the audit representation letters before consideration by the Board, giving particular consideration to matters that related to non-standard issues;
- To review the assurance from the CEO and the Chief Financial Officer on the financial records and financial statements;
- 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 ARC is to provide support and assistance to the Board in ensuring that a high standard of corporate governance is maintained at all times. The ARC 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. The ARC is also accorded reasonable resources to enable it to discharge its functions properly, including but not limited to engaging professional advisers to assist in the review or investigation on such matters within its terms of reference as it deems appropriate.

The ARC 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 ARC meets with the external and internal auditors, without the presence of management, at least once a year. (*Provision 10.5 of 2018 Code*)

In the review of the financial statements for the year ended 31 December 2019, the ARC has discussed the key audit matters with Management and the external auditor. The ARC concurred 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 pages 29 to 31 of this Annual Report.

The ARC 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. 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. Employees who are aware of any possible improprieties may raise any concern directly with the ARC Chairman. (*Provision 10.1(f) of 2018 Code*)

SAR19015997 • Dutech Holdings Limited • 08/05/2020 01:14 • 50_Dutech Holdings_FS_Corporate Governance.indd

CORPORATE **GOVERNANCE REPORT**

The ARC 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 FY2019 and a breakdown of the fees paid in total for audit and non-audit services respectively, can be found on page 94.

The external auditors, Crowe Horwath First Trust has confirmed that they are registered with ACRA. The Company is therefore in compliance with the requirements of Rules 712 and 715 of the Listing Manual of the SGX-ST in relation to the appointment of its auditors.

Having considered the adequacy of resources, experience and competencies of Crowe Horwath First Trust, and their independence and objectivity, the ARC has recommended to the Board the nomination of Crowe Horwath First Trust for re-appointment as external auditors at the 2020 AGM.

During the financial year, the ARC 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 ARC. The ARC also reviewed the adequacy and effectiveness of the Company's internal controls and risk management systems.

The ARC 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 ARC.

During FY2019, the ARC outsourced the Group's internal audit function on its China operations to BDO LLP ("**BDO**"). (*Provision 10.4 of 2018 Code*) BDO undertook a review on the principal subsidiaries of the Group in China, namely Tri Star Inc., and Tri Star Technology Co. Ltd.

The Group's internal audit function for its Germany and UK operations were outsourced to Ebner Stolz Mönning Bachem GmbH & Co. KG for FY2019. (*Provision 10.4 of 2018 Code*) Ebner Stolz Mönning Bachem GmbH & Co. KG undertook internal audit reviews on Krauth Technology GmbH, Almex GmbH, Format Tresorbau GmbH & Co. KG and Deutsche Mechatronics GmbH.

The Internal auditors carried out its function in accordance with the standards set by nationally or internationally recognised 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 ARC 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 ARC.

The ARC annually reviews the adequacy and effectiveness of the internal audit function to ensure that the internal audits are performed effectively. The ARC is satisfied that the internal auditors are staffed by qualified and experienced personnel. (*Provision 10.1(e) of 2018 Code*)

IV. SHAREHOLDER RIGHTS AND ENGAGEMENT

Shareholders' rights and Conduct of General Meetings

Principle 11: The Company treats all shareholders fairly and equitably in order to enable them to exercise shareholders' rights and have the opportunity to communicate their views on matters affecting the Company. The Company gives shareholders a balanced and understandable assessment of its performance, position and prospects.

Engagement with Shareholders

Principle 12: The Company communicates regularly with its shareholders and facilitates the participation of shareholders during general meetings and other dialogues to allow shareholders to communicate their views on various matters affecting the Company.

CORPORATE **GOVERNANCE REPORT**

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. (*Provision 12.1 of 2018 Code*)

Shareholders are encouraged to attend the AGM of the Company to ensure a greater level of shareholder participation and for them to be updated on the strategies and objectives of the Group. At the AGM of the Company, shareholders are given opportunity to air their views and ask questions on matters regarding the Group's business and its operations. (*Provisions 11.1 and 12.1 of 2018 Code*)

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 shareholder identity information and other related security issues remains a concern. For the time being, the Board is of the view that the options (such as, attendance in persons or through proxy(ies)) available to shareholders are adequate to enable shareholders to participate in General Meetings of the Company. (*Provision 11.4 of 2018 Code*)

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. 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 is not large, the Company believes it is not cost effective to have voting by electronic polling. (*Provision 11.2 of 2018 Code*)

The Directors, including the Chairperson of the ARC, 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. (*Provision 11.3 of 2018 Code*) The Board avail themselves after general meetings to solicit and understand the view of the shareholders. (*Provision 12.1 of 2018 Code*)

The Company Secretary prepares minutes of general meetings, which record substantial comments or queries from shareholders and responses from the Board and Management. These minutes are available to shareholders upon their request. (*Provision 11.5 of 2018 Code*)

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

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 FY2019 on 29 August 2019. The Board, having reviewed the cashflow position and contingent liability of the Group, did not recommend any payment of final dividend for FY2019. (*Provision 11.6 of 2018 Code*)

V. MANAGING STAKEHOLDERS RELATIONSHIPS

Engagement with Stakeholders

Principle 13: The Board adopts an inclusive approach by considering and balancing the needs and interests of material stakeholders, as part of its overall responsibility to ensure that the best interests of the Company are served.

The Company has identified stakeholders as those who are impacted by the Group's business and operations as well as those who have a material impact on the Group's business and operations. Such stakeholders include employees, customers and suppliers, government and regulators, community, and shareholders and investors. The Company engages its stakeholders through various channels to ensure that the business interests of the Group are balanced against the needs and interests of its stakeholders. (*Provision 13.1 of 2018 Code*)

CORPORATE **GOVERNANCE REPORT**

Having identified the stakeholders and the material issues, the Company has mapped out the key areas of focus in relation to the management of the respective stakeholder relationships. (*Provision 13.2 of 2018 Code*)

Please refer to the Sustainability Report 2018 on pages 12 to 13 for details.

All material information on the performance and development of the Group and of the Company is disclosed in a timely, accurate and comprehensive manner through SGXNET and press releases. On the comprehensive company website (www.dutechholdings.com), stakeholders can find explanations about our products, and various information on the Group, which serves as an important resource for investors and all stakeholders. (Provision 13.3 of 2018 Code)

INTERESTED PERSON TRANSACTIONS

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

The Company does not have a general mandate from shareholders for interested 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: RMB4.17 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 half-year 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.

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FURTHER **INFORMATION ON BOARD OF DIRECTORS**

Further Information on Board of Directors

Name of Director	Appointment	Current Directorships/Principal Commitments
Dr Johnny Liu	Executive Chairman and CEO	– Duowei Electromechanical (Tongzhou) Co., Ltd. – Nantong Mayway Products Corp. – Spectacular Bright Corp. – Tri Star International Co., Ltd. – Tri Star Shanghai Electronics – TSI Metals Corp. – European Security Systems Association (ESSA)
Mr Liu Bin	Executive Vice-Chairman	– Willalpha International Limited – Wellwield Investment Holdings Pte Limited – Nantong Mayway Products Corp. – Nantong Wiedson Hi-Wits Precision Co., Ltd. – Kewell Products Corporation
Dr. Hedda Juliana im Brahm-Droege	Non-Executive Director Board Committee(s) served on: – Remuneration Committee	– Droege Group AG* (*Holding Company with numerous group companies) – Sammlung Rheingold GbR – KID-Stiftung – Erich-Gutenberg Arbeitsgemeinschaft e.V. – Grafikstiftung Neo Rauch – Gesellschaft der Freunde der Kunstsammlung Nordrhein-Westfalen e.V. – Helis S.A. – Droege Real Estate Spain S.L. – Dr. im Brahm Immobilien Management GmbH – Stiftung Kunst und Musik Dresden – Board of Trustees Kunstsammlung Nordrhein-Westfalen
Mr Christoph Hartmann	Non-Executive Director Board Committee(s) served on: – Audit & Risk Committee	– Droege Group AG* (*Holding Company with numerous group companies) – Droege Real Estate Holding GmbH* (*Holding Company with numerous group companies) – Special Energy Holding GmbH – Special Multi-Channel Holding GmbH – Special Technology Holding GmbH – Special Ventures Holding GmbH (formerly Special Purpose Drei Holding GmbH) – Helis S.A. – Special Care Holding GmbH – Special Purpose Fünf Holding GmbH – Trenkwalder Personaldienste GmbH, Vienna (Austria)

FURTHER **INFORMATION ON BOARD OF DIRECTORS**

Name of Director	Appointment	Current Directorships/Principal Commitments
Ms Tan Yee Peng	Lead Independent Director Board Committee(s) served on: – Audit & Risk Committee (Chairman) – Nominating Committee – Remuneration Committee	– City Developments Limited – Hercules Pte Ltd – Vanguard Health Fund Limited – L'Risco Advisory Pte. Ltd. – Viriya Community Services – Pureland Learning Society – Council for Agency for Care Effectiveness, Ministry of Health – Vanguard Healthcare Medifund Committee – 1FSS Pte. Ltd.
Mr Graham Macdonald Bell	Independent Director Board Committee(s) served on: – Nominating Committee (Chairman) – Audit & Risk Committee – Remuneration Committee	– Asian Alchemy Ltd. – Churchmead Group Ltd. – Display Enterprises Ltd. – Graham Bell & Associates Ltd. – Graham Bell & Associates Pte Ltd. – The Glengarry Group Ltd. – The Lemuria Group Ltd. – Marine Claims Office of Asia Pte Ltd. – Premium Gain International Pte Ltd. – ERC Equipoise Pte Ltd.
Mr Chen Zhaohui, George	Independent Director Board Committee(s) served on: – Remuneration Committee (Chairman) – Audit & Risk Committee – Nominating Committee	– Trimble Navigation Limited – Trimble Electronic Products (Shanghai) Co., Ltd. – Trimble Leading Electronic Technology (Shanghai) Co., Ltd.

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DIRECTORS' **STATEMENT**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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 2019 and the statement of financial position of the Company as at 31 December 2019.

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 34 to 117 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 2019 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
Tan Yee Peng (Appointed on 25 April 2019)
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 2019	At 31 December 2019	At 21 January 2020	At 1 January 2019	At 31 December 2019	At 21 January 2020
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**
Dr. Hedda im Brahm-Droege	–	–	**–**	28,536,000	28,536,000	**28,536,000**
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.

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DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Audit and Risk Committee

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

Tan Yee Peng	(Chairman)
Graham Macdonald Bell	(Independent Director)
Chen Zhaohui, George	(Independent Director)
Christoph Hartmann	(Non-Executive, Non-Independent Director)

The Audit & Risk 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 & Risk Committee reviewed:

– the scope and the results of internal audit procedures with the internal auditors;

– the audit plan of the Company's external auditors and any recommendations on internal accounting controls arising from the statutory audit;

– the assistance given by the Company's management to the internal and external 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 2019 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).

The Audit & Risk Committee has reviewed the independence of the auditors, Crowe Horwath First Trust LLP, as required under Section 206(1A) of the Singapore Companies Act, Cap. 50, and determined that the auditors were independent in carrying out their audit of the financial statements. Accordingly, they have recommended to the Board of Directors that the auditors, Crowe Horwath First Trust LLP, be nominated for re-appointment as auditors at the forthcoming Annual General Meeting of the Company.

In appointing the external auditors for the Company and its subsidiaries, the directors have complied with Rules 712 and 715 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

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

Independent auditors

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

On behalf of the Board of Directors

DR. JOHNNY LIU
Director

LIU BIN
Director

30 April 2020

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 34 to 117, which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2019, 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) ("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 2019 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 matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. 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 non-financial assets
Refer to following notes to the financial statements:
Note 10 "Property, plant and equipment", Note 11 "Right-of-use assets", Note 15 "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, a sub-group consisting 3 entities of the Group's subsidiaries continues to report losses and was in a net liability position as at 31 December 2019, triggering the indication of impairment of its assets held, including property, plant and equipment, right-of-use assets and intangible assets. As at 31 December 2019, the property, plant and equipment, right-of-use assets and intangible assets of the sub-group are RMB1.2 million, RMB7.2 million and RMB11.0 million respectively, after impairment loss of RMB43.6 million recognised in the Group's profit or loss for the current year. Management assessed the impairment of the property, plant and equipment, right-of-use assets and intangible assets using the value-in-use method based on discounted cash flow projections for the assets held by the subsidiaries. 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. The impairment test is significant to our audit as the assessment process is complex and judgemental by nature due to estimation uncertainty relating to future market and economic conditions. The assumptions used in discounted cash flows include discount rates, growth rates and gross profit margins.	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. In particular, we focused on the following, as these are key to the outcome of the impairment test: • challenged 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; • reviewed the reasonableness of sales growth rates and gross profit margin by performing the following: ➢ compared against the entity's historical growth rate and gross profit margin; and ➢ performed sensitivity analysis to assess the impact on the recoverable amount of the CGU resulting from reasonably possible changes to the sales growth rates and gross profit margin. • compared actual performance in financial year 2019 to previous assumptions applied to understand the quality of the estimates and address the risk of bias. 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)

Effect of acquisition of business during the financial year *Refer to following notes to the financial statements:* *Note 13 "Subsidiaries", Note 15 "Intangible* assets" and Note 2 "*Critical accounting estimates, assumptions and judgements"*	
Key audit matter	***How the matter was addressed in our audit***
The Group acquired a business relating to an e-commerce online platform with its domain during the year for a consideration of RMB21.6 million. The purchase price relating to the business combination is allocated to the underlying assets acquired and liabilities assumed based on their estimated fair values at the time of acquisition. The determination of fair values requires the Group to make significant assumptions, estimates and judgements regarding future events, particularly in relation to the identification and valuation of intangible assets. The allocation process is inherently subjective and impacts the amounts assigned to individual identifiable assets and liabilities. The management also need to determine useful lives of the intangible assets recognised for subsequent measurement. The management has engaged an external valuation specialist to assist in the purchase price allocation, thereby recognising a fair value adjustment amounting to RMB0.4 million and a goodwill of RMB2.3 million. The total carrying amount of intangible assets arising from this acquisition amounted to RMB21.3 million as at 31 December 2019.	We focused on the purchase price allocation, particularly on the management's identification and valuation of intangible assets acquired. Our procedures included, amongst others: • challenged the key judgements made by management to account for the acquisition as an acquisition of a business, including the timing at which controls were deemed to have obtained; • reviewed the key judgements made in determining the identifiable intangible assets acquired; • reviewed and considered the appropriateness of the fair values ascribed to assets of the acquired business; • challenged the key assumptions used and appropriateness of valuation methodology adopted by management, with inputs from our internal valuation specialist, in determining the fair values of intangible assets acquired; • considered the appropriateness of the useful lives of the intangible assets acquired in the business combination, which includes trademark, domain and online content and non-compete agreement; and • considered the adequacy of the related disclosures in the financial statements. Based on the results of our audit procedures, we found that the judgements applied by the Group were balanced; that the key assumptions and estimates used in determining the fair value of identifiable net assets acquired were reasonable; and that the disclosures made on the business combination to be appropriate.

INDEPENDENT AUDITOR'S **REPORT**

TO THE MEMBERS OF DUTECH HOLDINGS LIMITED

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.

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.

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INDEPENDENT AUDITOR'S **REPORT**

TO THE MEMBERS OF DUTECH HOLDINGS LIMITED

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

- 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 matters or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

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

Crowe Horwath First Trust LLP
Public Accountants and
Chartered Accountants
Singapore

30 April 2020

STATEMENTS OF **FINANCIAL POSITION**

AS AT 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"))

	Note	Group 2019 RMB'000	Group 2018 RMB'000	Company 2019 RMB'000	Company 2018 RMB'000
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	3	**154,623**	154,623	**154,623**	154,623
Capital reserve	4	**172,946**	33,056	**–**	–
Statutory reserve	5	**76,711**	62,393	**–**	–
Merger deficit	6	**(13,029)**	(13,029)	**–**	–
Revenue reserve	7	**568,172**	658,601	**123,682**	117,069
Translation reserve	8	**31,602**	29,595	**16,524**	11,588
Fair value reserve/(deficit)	9	**504**	(684)	**–**	–
		991,529	924,555	**294,829**	283,280
ASSETS					
Non-current assets					
Property, plant and equipment	10	**305,790**	327,191	**–**	–
Right-of-use assets	11	**117,698**	–	**–**	–
Land use rights	12	**–**	58,150	**–**	–
Subsidiaries	13	**–**	–	**273,532**	269,403
Associates	14	**8,607**	8,275	**–**	–
Intangible assets	15	**55,863**	66,238	**–**	–
Deferred tax assets	16	**1,486**	24,947	**–**	–
		489,444	484,801	**273,532**	269,403
Current assets					
Inventories	17	**367,768**	412,257	**1,860**	–
Contract assets	28	**25,337**	39,169	**–**	–
Trade receivables	18	**263,296**	220,097	**35,766**	6,118
Other receivables, deposits and prepayments	19	**12,376**	14,843	**–**	–
Advances to suppliers		**23,703**	21,103	**–**	–
Due from a related party (trade)	20	**–**	680	**–**	–
Due from subsidiaries (non-trade)	20	**–**	–	**28,370**	41,336
Other investments at fair value	21	**20,060**	16,480	**–**	–
Cash and bank balances	22	**448,421**	335,281	**48,263**	66,542
Derivative financial instruments	23	**2,606**	–	**–**	–
		1,163,567	1,059,910	**114,259**	113,996
TOTAL ASSETS		**1,653,011**	1,544,711	**387,791**	383,399
LIABILITIES					
Current liabilities					
Contract liabilities	28	**95,953**	74,425	**30**	–
Trade payables	24	**124,256**	127,294	**2,095**	161
Other payables and accruals	24	**115,391**	107,153	**6,723**	15,131
Borrowings	25	**129,626**	153,500	**–**	–
Due to related parties (trade & non-trade)	20	**7,790**	9,313	**6,842**	9,069
Due to subsidiaries (trade)	20	**–**	–	**76,419**	74,213
Income tax payable		**8,070**	4,069	**853**	1,545
		481,086	475,754	**92,962**	100,119
Non-current liabilities					
Deferred tax liabilities	16	**24,057**	24,432	**–**	–
Borrowings	25	**65,130**	27,123	**–**	–
Deferred income	26	**11,212**	11,898	**–**	–
Pension liability	27	**79,997**	80,949	**–**	–
		180,396	144,402	**–**	–
TOTAL LIABILITIES		**661,482**	620,156	**92,962**	100,119
NET ASSETS		**991,529**	924,555	**294,829**	283,280

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 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"))

	Note	2019 RMB'000	2018 RMB'000 (Reclassified) (Note 43)
Revenue	28	**1,882,159**	1,822,941
Cost of sales		**(1,354,986)**	(1,364,829)
Gross profit		**527,173**	458,112
Other income	29	**25,313**	28,305
Selling and distribution expenses		**(99,394)**	(95,009)
Administrative expenses		**(273,911)**	(282,642)
Finance income		**4,701**	3,471
Finance costs		**(11,841)**	(11,058)
Finance costs, net	31	**(7,140)**	(7,587)
Other expenses	32	**(45,134)**	(26,449)
Reversal of/(Impairment loss) of financial assets	40(iii)	**4,269**	(8,297)
Share of profits of associates	14	**332**	765
Profit before tax	33	**131,508**	67,198
Income tax	34	**(52,399)**	(14,072)
Profit for the year		**79,109**	53,126
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Currency translation differences arising from consolidation		**2,007**	13,441
Financial assets, at FVOCI			
– Changes in fair value	21	**488**	(994)
– Reclassification upon realisation of investment		**700**	–
		3,195	12,447
Items that will not be reclassified subsequently to profit or loss			
Re-measurement gains on defined benefit pension scheme	27	**5,173**	3,236
Movement of deferred tax relating to pension deficit	16	**(1,863)**	(278)
		3,310	2,958
Other comprehensive income, net of tax		**6,505**	15,405
Total comprehensive income for the year		**85,614**	68,531
Profit attributable to:			
Equity holders of the Company		**79,109**	53,126
Total comprehensive income attributable to:			
Equity holders of the Company		**85,614**	68,531
Earnings per share (cents)			
Basic and diluted	35	**22.19**	14.90

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

CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"))

2019
Group

	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 (deficit)/ reserve RMB'000	Total equity RMB'000
Balance at 1 January 2019	**154,623**	**33,056**	**62,393**	**(13,029)**	**658,601**	**29,595**	**(684)**	**924,555**
Profit for the financial year	**–**	**–**	**–**	**–**	**79,109**	**–**	**–**	**79,109**
Other comprehensive income, net of tax	**–**	**–**	**–**	**–**	**3,310**	**2,007**	**1,188**	**6,505**
Total comprehensive income for the financial year	**–**	**–**	**–**	**–**	**82,419**	**2,007**	**1,188**	**85,614**
Transfer to statutory reserve	**–**	**–**	**14,318**	**–**	**(14,318)**	**–**	**–**	**–**
Transfer to capital reserve	**–**	**139,890**	**–**	**–**	**(139,890)**	**–**	**–**	**–**
Dividends on ordinary shares (Note 36)	**–**	**–**	**–**	**–**	**(18,640)**	**–**	**–**	**(18,640)**
Total distributions to owners	**–**	**139,890**	**14,318**	**–**	**(172,848)**	**–**	**–**	**(18,640)**
Balance at 31 December 2019	**154,623**	**172,946**	**76,711**	**(13,029)**	**568,172**	**31,602**	**504**	**991,529**

2018
Group

	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/ (deficit) RMB'000	Total equity RMB'000
Balance at 31 December 2017	154,623	33,056	60,965	(13,029)	623,625	16,152	310	875,702
Adoption of SFRS(I) 9	–	–	–	–	(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

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

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CONSOLIDATED STATEMENT OF **CASH FLOWS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"))

	Note	2019 RMB'000	2018 RMB'000 (Reclassified) (Note 43)
Cash flows from operating activities			
Profit before tax		**131,508**	67,198
Adjustments:			
Depreciation of property, plant and equipment	10	**33,466**	35,066
Depreciation of right-of-use assets	11	**18,832**	–
Amortisation of land use rights	12	**–**	1,350
Amortisation of intangible assets	15	**18,130**	17,042
Amortisation of deferred government grants	26	**(686)**	(552)
Impairment of property, plant and equipment	10	**1,581**	–
Impairment of right-of-use assets	11	**9,496**	–
Impairment of intangible assets	15	**32,486**	13,676
Loss on disposal of financial assets, at FVOCI	32	**399**	–
Loss/(Gain) on disposal of property, plant and equipment	29/32	**89**	(19)
Fair value gain on forward contracts	29	**(2,606)**	–
(Gain)/Loss on settlement of forward contracts, net	29/32	**(484)**	5,407
Interest expenses	31	**11,841**	11,058
Interest income	31	**(4,701)**	(3,471)
Gain on foreign exchange, net		**(931)**	(4,019)
Share of profits of associates	14	**(332)**	(765)
Write back of other liabilities	29	**(713)**	(2,025)
Gain on reduction of redemption liability	29	**–**	(2,975)
Operating profit before working capital changes		**247,375**	136,971
Inventories		**44,967**	1,092
Contract assets		**13,534**	(19,706)
Trade receivables		**(58,409)**	67,772
Other receivables, deposits and prepayments		**(8,398)**	(4,212)
Advances to suppliers		**(2,660)**	14,334
Contract liabilities		**20,824**	10,118
Trade payables		**(2,831)**	(29,657)
Other payables and accruals		**8,819**	(18,056)
Pension liability		**(3,181)**	3,969
Derivative assets – forward contracts		**484**	(6,015)
Due from a related party (trade)		**680**	(680)
Cash generated from operations		**261,204**	155,930
Income tax paid		**(25,828)**	(23,483)
Net cash from operating activities		**235,376**	132,447

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

CONSOLIDATED STATEMENT OF **CASH FLOWS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"))

	Note	2019 RMB'000	2018 RMB'000 (Reclassified) (Note 43)
Cash flows from investing activities			
Interest received		**4,701**	3,471
Proceeds from disposal of property, plant and equipment		**6,707**	516
Purchase of property, plant and equipment	10, A	**(26,935)**	(32,299)
Addition in intangible assets	15	**(16,827)**	(20,459)
Proceeds from disposal of other investments, at fair value	21	**6,549**	3,330
Purchase of other investments, at fair value	21	**(6,620)**	(3,279)
Acquisition of business	13	**(2,325)**	–
Net cash used in investing activities		**(34,750)**	(48,720)
Cash flows from financing activities			
Dividends paid	B	**(20,163)**	(8,704)
Interest paid		**(9,620)**	(9,179)
Withdrawal of pledged deposits	22	**5,706**	1,482
Proceeds from borrowings		**142,952**	28,843
Repayment of borrowings		**(203,441)**	(67,572)
Financing cash flows related to liabilities	25(iii)	**(60,489)**	(38,729)
Net cash used in financing activities		**(84,566)**	(55,130)
Net increase in cash and cash equivalents		**116,060**	28,597
Effect of exchange rate changes in cash and cash equivalents		**2,786**	9,947
Cash and cash equivalents at beginning of financial year		**287,695**	249,151
Cash and cash equivalents at end of financial year	22	**406,541**	287,695

Note A

	Note	2019 RMB'000	2018 RMB'000
Total additions to property, plant and equipment	9	**–**	34,387
Less: Amount financed through finance lease	25(iii)	**–**	(2,088)
Cash payments on purchase of property, plant and equipment		**–**	32,299

Note B

	Note	2019	2018
Dividend declared during the year	36	**18,640**	17,773
Add: Repayment of prior year declared dividend		**9,069**	–
Less: Amount of current year dividend payable to a shareholder cum director	20(iii)	**(6,842)**	(9,069)
Currency translation difference		**(704)**	–
Dividend paid		**20,163**	8,704

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

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (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, the 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 13 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 2019 were authorised for issue in accordance with a resolution of the Board of Directors on 30 April 2020.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared in accordance with the historical cost convention, except as disclosed in the accounting policies below and are drawn up in accordance with the Singapore Companies Act, Cap. 50 and Singapore Financial Reporting Standards (International) ("SFRS(I)s"). 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 and revised standards

On 1 January 2019, the Group adopted the new or amended SFRS(I)s and Interpretations of SFRS(I) ("SFRS(I) INT") that are mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective SFRS(I) and SFRS(I) INT. The adoption of these new or amended SFRS(I)s and SFRS(I) INT did not result in substantial changes to the Group's and Company's accounting policies and had no material effect on the amounts reported for the current or prior financial years, except as disclosed below:

Adoption of SFRS(I) 16: *Leases*

This new standard on leases supersedes the previous standard (SFRS(I) 1-17) 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 lessees, SFRS(I) 16 reforms lessee 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, and the Group adopted SFRS(I) 16 using the modified retrospective approach with any cumulative effect of initially applying the standard as an adjustment to the opening retained earnings at the date of initial application, 1 January 2019. Under this approach, comparatives are not restated.

SAR19015997 • Dutech Holdings Limited • 11/05/2020 12:49 • 58_Dutech Holdings_FS_Notes.indd

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

NOTES TO **THE FINANCIAL STATEMENTS**

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(A) Adoption of new and revised standards (Continued)

Adoption of SFRS(I) 16: *Leases* (Continued)

The Group, as lessee, has leases previously classified under operating leases. Lease liabilities at 1 January 2019 are measured at present value of remaining lease payments discounted using incremental borrowing rate on that date. For all such leases, the Group elects to measure the Right-of-Use ("ROU") assets at amounts equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

For leases previously classified as finance leases, the carrying amount of the finance lease obligation as at 1 January 2019 are determined as the carrying amount of the lease liabilities. On the same date, the Group has reclassified such leased assets from Property, plant and equipment to Right-of-use assets.

<u>Practical expedients applied</u>

As allowed by SFRS(I) 16, the Group applies definition of leases under SFRS(I) 16 only to contracts entered on or after 1 January 2019 to determine whether or not the contracts contain a lease. For contracts determined to be a lease as at 31 December 2018 using SFRS(I) 1-17 and SFRS(I) INT 4, the Group applied transition requirements in SFRS(I) 16 as described above.

In addition, the Group also elects to apply the following practical expedients to leases previously classified as operating leases, and hence, the Group:

– did not recognise lease liabilities and ROU assets to leases with a lease terms ended during the current financial year;

– determined lease term on 1 January 2019 using hindsight of the actual extension or termination options exercised; and

– excluded initial direct costs from the measurement of ROU assets at 1 January 2019.

The Group has performed impairment review for the ROU assets on 1 January 2019 and has concluded that there is no indication that the ROU assets are impaired except for a subsidiary in UK. Based on impairment assessment performed as at 31 December 2018, the recoverable amount of the cash generating unit was in excess of its carrying amount with the inclusion of ROU assets.

The following table explains the differences between the operating lease commitments previously disclosed in the financial statements as at 31 December 2018 and the lease liabilities recognised in the statements of financial position as at 1 January 2019:

	Group RMB'000
Total operating lease commitments as at 31 December 2018 (Restated) (Note 38(i))	63,539
Less: Short-term lease recognised as expense	(6,726)
Less: Commitment as at 31 December 2018 subsequently not executed	(4,684)
Less: Effect of discounting at weighted average incremental borrowing rate at 1 January 2019, 4.46%	(10,534)
Impact on initial adoption	41,595
Add: Finance lease obligations recognised as at 31 December 2018 (Note 25)	12,647
Lease liabilities as at 1 January 2019 (Note 25(iii))	54,242

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (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 beginning on or after**
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
Amendments to SFRS(I) 9, SFRS(I) 1-39 and SFRS(I) 7: *Interest Rate Benchmark Reform*	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.

(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.

SAR19015997 • Dutech Holdings Limited • 11/05/2020 12:49 • 58_Dutech Holdings_FS_Notes.indd

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Description of significant accounting policy (Continued)

(i) Subsidiaries (Continued)

(b) Acquisition of businesses (Continued)

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 in profit or loss. 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Description of significant accounting policy (Continued)

(ii) Associates (Continued)

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").

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Description of significant accounting policy (Continued)

Currency translation (Continued)

(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 are 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.

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)".

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Description of significant accounting policy (Continued)

Land use rights (Before 1 January 2019)

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

(i) Goodwill

Goodwill on acquisitions of business, represents the excess of (i) the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over (ii) the fair value of the identifiable net assets acquired.

Gains and losses on the disposal of subsidiaries include the carrying amount of goodwill relating to the entity sold.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquirer are assigned to those units.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group if cash generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

Goodwill and fair value adjustments arising on the acquisition of foreign operation are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated in accordance with the accounting policy set out in this Note.

(ii) Other 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.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Description of significant accounting policy (Continued)

Intangible assets (Continued)

(ii) Other intangible assets (Continued)

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.

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.

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, patent and trademark

Technical know-how, patent and trademark were acquired separately or through business combination and is initially recognised at cost and are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. The cost is amortised to profit or loss using the straight-line method over the expected sales (5 to 10 years), which is the shorter of their estimated useful lives and periods of contractual rights.

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Description of significant accounting policy (Continued)

Intangible assets (Continued)

(ii) Other intangible assets (Continued)

(d) Domain and online content

This pertains to an e-commerce online platform with its domain and online content. It is acquired through a business combination. Domain and online content are initially recognised at cost and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. The cost is amortised to profit or loss using the straight-line method over the estimated useful lives of 10 years.

(e) Non-compete agreement

Non-compete agreement is a covenant to a business combination that restricts the seller of a business from competing with that business in the future. Non-compete agreement is initially recognised at fair value based on price allocation from a business combination and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. The cost is amortised to profit or loss using the straight-line method over 3 years, which is the specified period of time according to the sale and purchase agreement.

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 independent 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.

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NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Description of significant accounting policy (Continued)

Impairment of non-financial assets (Continued)

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

(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.

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 instruments

(iii) 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Description of significant accounting policy (Continued)

Financial assets and liabilities (Continued)

(ii) Classification and subsequent measurement (Continued)

Financial assets (Continued)

Debt instruments 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.

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.

SAR19015997 • Dutech Holdings Limited • 11/05/2020 12:49 • 58_Dutech Holdings_FS_Notes.indd

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Description of significant accounting policy (Continued)

Financial assets and liabilities (Continued)

(ii) Classification and subsequent measurement (Continued)

Financial liabilities (Continued)

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 purchase 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 purchase 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

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires. The Group also derecognises a financial liability 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.

SAR19015997 • Dutech Holdings Limited • 11/05/2020 12:49 • 58_Dutech Holdings_FS_Notes.indd

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Description of significant accounting policy (Continued)

Impairment of financial assets

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 instruments 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 instruments at FVOCI are recognised in OCI, and does not reduce the carrying amount of the financial assets.

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 instruments, 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

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Description of significant accounting policy (Continued)

Impairment of financial assets (Continued)

General approach (Continued)

Significant increase in credit risk (Stage 2) (Continued)

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 ECL.

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.

The Company considers a financial guarantee contract to be in default when the subsidiary is unlikely to repay the loan when due.

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 writes 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Description of significant accounting policy (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Description of significant accounting policy (Continued)

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 assess whether a contract is or contains a lease, at inception of the contract. A contract contains a lease if the contract convey the right to control the use of an identified asset for a period of time in exchange for consideration. Reassessment is only required when the terms and conditions of the contract are changed.

(i) As lessor

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. The accounting policy for rental income is set out in this Note.

(ii) As lessee (SFRS(I) 16, applicable on or after 1 January 2019)

At the lease commencement date, the Group recognises a Right-of-Use (ROU) asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases and low-value leases as described below.

ROU asset

ROU assets are initially measured at cost, which comprise initial amount of lease liability, any lease payment made at or before commencement date, plus initial direct costs incurred, less lease incentives received. Initial direct costs are costs that would not have been incurred if the lease had not been obtained.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Description of significant accounting policy (Continued)

Leases (Continued)

(ii) As lessee (SFRS(I) 16, applicable on or after 1 January 2019) (Continued)

ROU asset (Continued)

Whenever the Group incurs obligations for costs to dismantle and remove a leased asset, restore the site or the underlying asset to the condition required by the terms and conditions of the lease contract, a provision is recognised and measured under SFRS(I) 1-37; and included in the carrying amount of the ROU assets to the extent that the costs relate to a ROU asset unless those costs are incurred to produce inventories.

ROU assets are subsequently measured at cost less accumulated depreciation and impairment losses. ROU assets are depreciated from commencement date to the earlier of end of lease terms and useful life of the ROU assets. When the lease transfers ownership of underlying assets to the Group by the end of lease term or cost of ROU assets reflects that the Group will exercise a purchase option, the ROU asset is depreciated over the useful life of the underlying assets. In addition, the ROU assets are also adjusted for certain remeasurement of lease liability.

The useful lives of ROU assets (over the terms of the lease) are as follows:

	Useful lives (Years)
Leasehold properties	3 to 47
Machinery and equipment	2 to 7
Motor vehicles	1 to 5
Leasehold land	50

ROU assets are presented as a separate line item on the statement of financial position.

For contract that contains lease and non-lease component, the Group applies the practical expedient allowed in SFRS(I) 16 not to separate non-lease components, and account for the lease and non-lease components as a single lease component.

Lease liability

Lease liability is initially measured at the present value of lease payments discounted using interest rate implicit in the lease, or if that rate cannot be readily determined, the lessee's incremental borrowing rate. Generally the Group uses the incremental borrowing rate as the discount rate, which is estimated by reference to interests rates from various external financing sources for similar terms such as lease terms, type of assets leases and economic environment.

The following lease payments are included in the measurement of lease liability:

– Fixed payment (including in-substance fixed payments), less any lease incentives receivables;

– Variable lease payment that are based on an index or rate, initially measured using the index or rate as at the commencement date;

– Amount expected to be payable under residual value guarantees;

– The exercise price of a purchase option if is reasonably certain to exercise the option; and

– Payment of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Description of significant accounting policy (Continued)

Leases (Continued)

(ii) As lessee (SFRS(I) 16, applicable on or after 1 January 2019) (Continued)

Lease liability (Continued)

Lease liability is measured at amortised cost using effective interest method. Remeasurement of lease liability (and corresponding adjustment to ROU asset, or to profit or loss when the ROU asset has been reduced to zero) is required when there is:

– a change in future lease payments arising from changes in an index or rate, in which case the initial discount rate is used;

– a change in the Group's assessment of whether it will exercise an extension or termination option, in which case a revised discount rate is used; or

– modification in the scope or the consideration of the lease that was not part of the original term and not accounted for as separate lease, in which case a revised discount rate at effective date of modification is used.

The Group presents the lease liabilities within 'Borrowings' in the statement of financial position.

Exemption/exclusion

The Group has elected not to recognise ROU assets and lease liabilities for certain short term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For such leases, the Group recognises the lease payments in profit or loss as an operating expense on a straight-line basis over the lease term.

(iii) As lessee (SFRS(I) 1-17, applicable prior to 1 January 2019)

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement. For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of SFRS(I) INT 4.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Description of significant accounting policy (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.

As the guarantee is issued for the benefits of the subsidiaries without recharge, it is 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.

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.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Description of significant accounting policy (Continued)

Revenue from contracts with customers (Continued)

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, except for online sales of products, whereby payments are made at the point of order placement. The Group provides standard warranty of 1 to 3 years which represents assurance-type and is provided for in accordance with SFRS(I) 1-37. The Group also provides service and maintenance service in business solution segment with the income being recognised over time as the customer simultaneously consumes and benefits from the service performed in accordance with the contractual period.

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>Singapore</u>

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Description of significant accounting policy (Continued)

Employees' benefits (Continued)

(i) Retirement benefits (Continued)

(a) Defined contribution plans (Continued)

Foreign subsidiaries

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

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

(b) Defined benefit plan

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

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

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

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

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

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

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Description of significant accounting policy (Continued)

Employees' benefits (Continued)

(ii) Employee leave entitlement

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

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".

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Description of significant accounting policy (Continued)

Income tax (Continued)

(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.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Description of significant accounting policy (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.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Description of significant accounting policy (Continued)

Contingencies (Continued)

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.

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 non-financial assets

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

The carrying amounts, further details of the key assumptions and the sensitivity analysis for the impairment assessment of non-financial assets are disclosed in Note 10, 11 and 15 to the financial statements. Based on the key assumptions, the Group has made an impairment loss of RMB1,581,000, RMB9,496,000, and RMB32,486,000 in respect of property, plant and equipment, right-of-use assets, and intangible assets (2018: impairment loss of RMB13,676,000 in respect of intangible assets) during the current financial year.

As indicated in Note 42, the impact of Covid-19 pandemic occurred subsequent to the reporting date had not been factored into the impairment tests, which were performed based on conditions as at 31 December 2019. Should the revenue growth, profit margins and economic conditions be affected significantly, the impairment loss provision will increase.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi (“RMB’000”), unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Description of significant accounting policy (Continued)

Critical accounting estimates, assumptions and judgements (Continued)

(i) Critical accounting estimates and assumptions (Continued)

(b) Impairment of financial assets

Impairment allowance for financial assets measured at amortised costs and debt instruments at 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 and assess the net realisable value by taking into consideration the status of the sales contracts and the historical trend of replacement items sales. This process is subject to estimation uncertainty as it involves estimation of future events. Possible changes in these estimates could result in revisions to the valuation of inventory. The carrying amount of Group’s inventories at the reporting date is disclosed in Note 17 to the financial statements.

(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.

NOTES TO **THE FINANCIAL STATEMENTS**

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Description of significant accounting policy (Continued)

Critical accounting estimates, assumptions and judgements (Continued)

(i) Critical accounting estimates and assumptions (Continued)

(e) Useful lives of intangible assets

Intangible assets are amortised on a straight-line basis over the estimated economic useful lives of 5 to 10 years. These are common life expectancies applied in high security products and business solution products where new technology will replace the existing development. Domain and online content arising from business combination has the estimated useful lives of 10 years based on management expectation and industry benchmark. The carrying amount of the Group's intangible assets at the reporting date is disclosed in Note 15 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 RMB13,502,000 (2018: RMB20,969,000) as at 31 December 2019 (Note 16) was recognised on tax losses with no expiry for subsidiaries in Germany (2018: 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.

As disclosed in Note 16, the Group has unrecognised tax losses of approximately RMB34,602,000 (2018: RMB2,288,000) that are available to carry forward. These losses relate to the subsidiaries in UK (2018: a subsidiary in PRC) that have history of losses. In addition, the Group has unrecognised deductible temporary difference arising from pension liabilities and impairment of assets of approximately RMB74,686,000 and RMB20,682,000 (2018: Nil) respectively from the same subsidiaries in UK (2018: Nil). The carry forward of the tax losses has no expiry date (2018: expire in 2022), 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 RMB24,694,000 (2018: RMB572,000).

As at 31 December 2019, the Group recorded deferred tax liabilities amounting to RMB19,066,000 (2018: RMB16,835,000) relating to the withholding taxes payable on the entire undistributed profits of the PRC and Germany subsidiaries (Note 16). The provision was made on the management's view that this represents amounts probable to be distributed within the foreseeable future, in view of the historical dividend trend and the expectations of the Group's performance for the foreseeable future.

(g) Determination of lease terms

For lease contracts with extension or termination options, management need to estimate the lease term which requires consideration of all facts and circumstances that creates an economic incentive to exercise an extension option or not to exercise termination options, including any expected changes in facts and circumstances from commencement date until the exercise date of the options. As disclosed in Note 25, lease liabilities of a subsidiary include lease payments for periods under termination options as the Group is reasonably certain not to exercise the termination options. If a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee, the above assessment will be reviewed. The carrying amount of relevant right-of-use assets and lease liabilities is disclosed in Note 25.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Description of significant accounting policy (Continued)

Critical accounting estimates, assumptions and judgements (Continued)

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

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

(a) Acquisition of business

In November 2019, the Group has incorporated a wholly-owned subsidiary known as Eisenbach Tresore GmbH (the "Subsidiary"). On the same day, the Subsidiary entered into a sale and purchase agreement to acquire certain assets, including employees, from an existing distributor of the Group for a purchase consideration of EUR2,800,000 (approximately RMB21,617,000). The assets acquired (mainly trademark, domain and online content and non-compete agreement for the sale of products) constitute a Business under SFRS(I) 3 Business Combination. The purchase price relating to business combination is allocated to the underlying assets acquired and liabilities assumed based on their estimated fair values at the time of acquisition. The acquisition is completed on 30 November 2019 and goodwill of EUR298,000 (approximately RMB2,300,000) was recognised (Note 15).

(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 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

3. SHARE CAPITAL

	Group and Company			
	31 December 2019		31 December 2018	
	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, 2012 and 2019, 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 2018: 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 2018: 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	
	2019 RMB'000	2018 RMB'000
At 1 January	**117,069**	114,798
Profit for the financial year (Note A)	**25,253**	20,044
Dividend paid (Note 36)	**(18,640)**	(17,773)
At 31 December	**123,682**	117,069

Note A

Consists of dividend income from a subsidiary amounting to RMB11,522,000 (2018: RMB15,500,000).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

8. TRANSLATION RESERVE

	Company	
	2019 RMB'000	2018 RMB'000
At 1 January	11,588	(2,467)
Currency translation difference for the financial year	4,936	14,055
At 31 December	16,524	11,588

9. FAIR VALUE RESERVE/(DEFICIT)

The fair value reserve/(deficit) arises from the changes in fair value of financial assets at FVOCI as disclosed in Note 21 to the financial statements.

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 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
At 1 January 2019	50,298	273,677	188,038	55,286	11,620	8,344	587,263
Additions	–	1,111	13,150	6,593	718	5,363	26,935
Acquisition of business (Note 13)	–	–	–	67	–	–	67
Reclassified from/(to)	–	362	7,491	–	–	(7,853)	–
Transfer to ROU assets (Note 11)	–	–	(13,894)	–	–	–	(13,894)
Disposals	–	(5,543)	(2,001)	(3,663)	(372)	(524)	(12,103)
Currency translation differences	(54)	(704)	281	207	33	(31)	(268)
At 31 December 2019	50,244	268,903	193,065	58,490	11,999	5,299	588,000
Accumulated depreciation and impairment							
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
At 1 January 2019	–	100,180	113,826	37,409	8,657	–	260,072
Charge for the financial year	–	12,243	13,225	7,232	766	–	33,466
Impairment loss for the financial year	–	–	935	646	–	–	1,581
Transfer to ROU assets (Note 11)	–	–	(7,591)	–	–	–	(7,591)
Disposals	–	(1,496)	(915)	(2,561)	(335)	–	(5,307)
Currency translation differences	–	(147)	4	138	(6)	–	(11)
At 31 December 2019	–	110,780	119,484	42,864	9,082	–	282,210
Net carrying amount							
At 31 December 2019	50,244	158,123	73,581	15,626	2,917	5,299	305,790
At 31 December 2018	50,298	173,497	74,212	17,877	2,963	8,344	327,191

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Assets pledged as security

The Group's freehold land and buildings with carrying amount of RMB26,765,000 (2018: RMB26,742,000) and RMB58,787,000 (2018: RMB7,993,000) respectively are mortgaged to secure the Group's bank loans (Note 25). As at 31 December 2018, carrying amount of plant and machinery and office equipment held under finance lease were RMB8,943,000 and RMB2,242,000 respectively which has been reclassified to right-of-use assets on 1 January 2019.

Impairment assessment

During the year, a sub-group consisting of 3 entities, Metric Group Holdings Limited, Metric Group Limited and Metric Group Inc. (together, "Metric Group") continue to report losses and was in a net liability position as at 31 December 2019, triggering the indication of impairment on the subsidiaries' assets. The property, plant and equipment amounting to RMB2,785,000 was subjected to the impairment testing and an impairment loss of RMB1,581,000 (2018: Nil) was recognised. The key assumptions of the impairment testing are disclosed in Note 15.

11. RIGHT-OF-USE ASSETS

	Leasehold properties RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Leasehold land RMB'000	Total RMB'000
Cost					
At 1 January 2019	–	–	–	–	–
Transfer from property, plant and equipment (Note 10)	–	13,894	–	–	13,894
Transfer from land use right (Note 12)	–	–	–	67,490	67,490
Recognition of ROU assets on adoption of SFRS(I) 16	31,662	1,477	4,981	3,475	41,453
Additions	28,998	7,024	3,155	–	39,177
Currency translation differences	745	252	268	100	1,507
At 31 December 2019	61,405	22,647	8,404	71,065	163,521
Accumulated depreciation and impairment					
At 1 January 2019	–	–	–	–	–
Transfer from property, plant and equipment (Note 10)	–	7,591	–	–	7,591
Transfer from land use right (Note 12)	–	–	–	9,340	9,340
Charge for the financial year	10,723	3,919	2,765	1,425	18,832
Impairment loss for the financial year	6,977	598	1,921	–	9,496
Currency translation differences	338	130	94	2	564
At 31 December 2019	18,038	12,238	4,780	10,767	45,823
Net carrying amount					
At 31 December 2019	43,367	10,409	3,624	60,298	117,698

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

11. RIGHT-OF-USE ASSETS (CONTINUED)

Right-of-Use (ROU) assets under leasing arrangements in accordance with SFRS(I) 16

The range of the lease terms is disclosed in Note 2 to the financial statements. The additions during the year represent the entering of new lease upon expiry of the original lease without extension option.

The Group is restricted from sub-leasing, operating the premises for other purposes. There are no other restrictions or covenants imposed by the lease contracts.

The corresponding lease liabilities is disclosed in Note 25.

Impairment assessment

During the year, a sub-group consisting of 3 entities, Metric Group Holdings Limited, Metric Group Limited and Metric Group Inc. (together, "Metric Group") continue to report losses and was in a net liability position as at 31 December 2019, triggering the indication of impairment on the subsidiaries' assets. The right-of-use assets amounting to RMB16,726,000 was subjected to the impairment testing and an impairment loss of RMB9,496,000 was recognised. The key assumptions of the impairment testing are disclosed in Note 15.

Leasehold land

As at 31 December 2019, the Group has leases over four plots of state-owned land in the PRC with the remaining amortisation periods as follows:

Group 2019	**Carrying amount RMB'000**	**Remaining amortisation periods Years**
Land 1	**8,127**	**41**
Land 2	**29,543**	**42**
Land 3	**11,808**	**45**
Land 4	**7,322**	**45-46**

12. LAND USE RIGHTS

	Group	
	2019 RMB'000	**2018 RMB'000**
Cost		
At 1 January	**67,490**	67,490
Transfer to right-of-use assets (Note 11)	**(67,490)**	–
At 31 December	**–**	67,490
Accumulated amortisation		
At 1 January	**9,340**	7,990
Transfer to right-of-use assets (Note 11)	**(9,340)**	–
Amortisation for the financial year	**–**	1,350
At 31 December	**–**	9,340
Net carrying amount	**–**	58,150
Amount of amortisation to be charged:		
– Not later than 1 year	**–**	1,350
– Later than 1 year but not later than 5 years	**–**	5,399
– Later than 5 years	**–**	51,401

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

12. LAND USE RIGHTS (CONTINUED)

As at 31 December 2018, the Group has land use rights over four plots of state-owned land in the PRC with the remaining amortisation periods as follows:

Group 2018	Carrying amount RMB'000	Remaining amortisation periods Years
Land 1	8,331	42
Land 2	30,264	43
Land 3	12,073	46
Land 4	7,482	46-47

13. SUBSIDIARIES

	Company	
	2019 RMB'000	2018 RMB'000
Unquoted equity shares, carried at cost		
At 1 January	**269,403**	92,517
Deemed capital contribution		
– Waiver of amount owed[(i)]	**–**	150,985
– Financial guarantee contracts[(ii)] (Note 24C)	**144**	13,641
Currency translation differences	**3,985**	12,260
At 31 December	**273,532**	269,403

(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 financial year 2018, the Company capitalised such amount due from a subsidiary amounting to RMB150,985,000.

(ii) The Company 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.

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	
			2019 %	2018 %	2019 RMB'000	2018 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	**196,002**	193,002
Tri Star Semicon Pte. Ltd.[(1)]	Investment holding	Singapore	**100**	100	**8,199**	8,080
Format Tresorbau Beteiligungs-GmbH[(2)] ("Format")	Investment holding	Germany	**100**	100	**51,087**	50,343
Matrix Mechatronix Technology (Philippines) Corp[(2)]	Develop, manufacture, assemble, sell and undertake after-sales service for high security products	Philippines	**100**	100	**1,656**	1,632
Krauth Technology GmbH[(2)]	Design and manufacture of intelligent terminals and providing electro-mechanical solution to customers	Germany	**100**	100	**16,588**	16,346
					273,532	269,403

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

13. SUBSIDIARIES (CONTINUED)

Name of companies	Principal activities	Country of incorporation and place of business	Effective equity held by the Group 2019 %	Effective equity held by the Group 2018 %
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
Jiangsu Tri Star Trading Co., Ltd.[(5)]	Sale and providing after-sales service of safe, auto testing instruments, mechanical and electrical products (inactive)	PRC	**–**	100
Jiangsu Tri Star Equipment Co., Ltd.[(3)]	Manufacturing of security products, ATM, terminals and mechanical parts	PRC	**100**	100
Matrix Technologies Company Limited[(2)]	Develop, manufacture, assemble, sell and undertake after-sales service for high security products	Vietnam	**100**	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
Eisenbach Tresore GmbH[(4)(6)]	Online sales platform	Germany	**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**	100
Mechatronics Technology HK Limited[(4)]	Investment holding	Hong Kong	**100**	100
Metric International Ltd[(4)]	Research and development, service for parking, smart terminals and electronics. (Inactive)	Hong Kong	**100**	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

13. SUBSIDIARIES (CONTINUED)

Name of companies	Principal activities	Country of incorporation and place of business	Effective equity held by the Group	
			2019 %	**2018 %**
Almex GmbH ("Almex")(2)	Design and manufacture of intelligent terminals and providing electro-mechanical solution to customers	Germany	**100**	100
ABW Tech GmbH(4)(6)	Inactive	Germany	**100**	–
Metric Group Holdings Limited(2)(7)	Investment holding	United Kingdom	**100**	100
Metric Group Limited ("Metric UK")(2)(7)	Design and manufacture of intelligent terminals and providing electro-mechanical solution to customers	United Kingdom	**100**	100
Metric Group Inc.(4)(7)	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
Metric Tristarinc Limited(4)(6)	Inactive	Ireland	**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 audited/reviewed by Crowe Horwath First Trust LLP for the purpose of expressing an opinion on the consolidated financial statements.

(4) These subsidiaries are not subjected to local statutory audit for the financial year ended 31 December 2019. 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 subsidiary has been dissolved during the year.

(6) During the financial year, the Group has incorporated new subsidiaries, namely Eisenbach Tresore GmbH, ABW Tech GmbH and Metric Tristarinc Limited with a paid up capital of EUR200,000 (equivalent to RMB1,564,000), EUR25,000 (equivalent to RMB196,000) and nil respectively. Eisenbach Tresore GmbH is wholly owned by Format Tresorbau GmbH & Co. KG, while ABW Tech GmbH and Metric Tristarinc Limited are wholly owned by Tri Star Security Pte. Ltd..

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

Acquisition of business

On 30 November 2019 (the "acquisition date"), the Group's newly incorporated subsidiary, Eisenbach Tresore GmbH ("Eisenbach"), purchased certain assets in Germany from an existing distributor of the Group. The assets acquired (mainly trademark, domain and online content and non-compete agreement) constitute a business under SFRS(I) 3 Business Combination. The purchase consideration of the acquisition amounting to EUR2,800,000 (approximately RMB21,617,000).

The acquisition enhances the Group's capability in e-commerce business, securing the sales of the Group's product in High Security segment via the online sales channels for Europe markets and achieves synergies in respect of existing distribution channels in Europe. Eisenbach is included in High Security segment.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

13. SUBSIDIARIES (CONTINUED)

Acquisition of business (Continued)

Fair value of the identifiable net assets acquired

	Note	RMB'000
Property, plant and equipment	10	67
Intangible assets		
– Trademark	15	4,686
– Domain and online content	15	11,599
– Non-compete agreement	15	2,965
Fair value of total identifiable net assets acquired		19,317

There were no liabilities assumed arising from the acquisition.

Goodwill arising from the acquisition

	Note	RMB'000
Total consideration transferred		21,617
Less: Total identifiable net assets acquired		(19,317)
Goodwill	15	2,300

Consideration transferred for the acquisition

Total consideration transferred	21,617
Consideration set off against trade receivable with seller	(19,292)
Consideration settled in cash, representing net cash outflow on acquisition	2,325

Transaction costs of the acquisition

Transaction costs related to the acquisition of Eisenbach of RMB935,000 have been recognised in the "Administrative expenses" in the Group's profit or loss for the year ended 31 December 2019.

Fair value of assets acquired

The management has engaged external valuation specialist to assist in the allocation process. The fair value of intangible assets – trademark, domain and online content and non-compete agreement is calculated by using Relief-from-Royalty Method, Multi-Period Excess Earnings Method and With and Without Method respectively. Total fair value adjustments amounted to EUR57,000 (approximately RMB437,000). The deferred tax adjustment is negligible and hence not adjusted.

The fair value of plant and equipment is not adjusted due to the value is insignificant.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

13. SUBSIDIARIES (CONTINUED)

Acquisition of business (Continued)

Impact of the acquisition on consolidated profit or loss

	RMB'000
Acquisition date	30 November 2019
From acquisition date to 31 December 2019	
Contribution to the Group's revenue for the year	**9,761**
Losses included in the Group's profit for the year	**(275)**
Assuming the acquisition had been effected on 1 January 2019	
Total revenue for the year of the Group	**2,022,272**
Total profit for the year of the Group	**75,629**

14. ASSOCIATES

	Group	
	2019 RMB'000	2018 RMB'000
Unquoted equity shares		
At 1 January	**8,275**	7,510
Share of post-acquisition profit	**332**	765
At 31 December	**8,607**	8,275

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	
			2019 %	2018 %	2019 RMB'000	2018 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	**5,675**	5,343
					8,607	8,275

(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 the consolidated financial statements.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

14. ASSOCIATES (CONTINUED)

The following table summarises the financial information of associates.

	2019 RMB'000	2018 RMB'000
Assets and liabilities		
Current assets	**12,452**	13,656
Non-current assets	**7,783**	8,525
Total assets	**20,235**	22,181
Total liabilities – current	**(3,022)**	(5,631)
Net assets	**17,213**	16,550
Carrying amounts of investments in associates at 50% shareholding	**8,607**	8,275
Results		
Revenue	**18,374**	21,933
Profit for the financial year, representing total comprehensive income for the financial year	**663**	1,530

15. INTANGIBLE ASSETS

Group	Technical know-how, patent and trademark RMB'000	Development costs RMB'000	Customer relationship RMB'000	Domain and online content RMB'000	Non-compete agreement RMB'000	Goodwill RMB'000	Total RMB'000
Cost							
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
At 1 January 2019	**22,485**	**96,175**	**33,674**	**–**	**–**	**–**	**152,334**
Additions	**2,654**	**14,173**	**–**	**–**	**–**	**–**	**16,827**
Acquisition of business (Note 13)	**4,686**	**–**	**–**	**11,599**	**2,965**	**2,300**	**21,550**
Currency translation differences	**191**	**3,889**	**(109)**	**147**	**37**	**29**	**4,184**
At 31 December 2019	**30,016**	**114,237**	**33,565**	**11,746**	**3,002**	**2,329**	**194,895**
Accumulated amortisation and impairment loss							
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
At 1 January 2019	**7,580**	**50,001**	**28,515**	**–**	**–**	**–**	**86,096**
Amortisation for the financial year	**4,041**	**13,117**	**491**	**481**	**–**	**–**	**18,130**
Impairment loss	**992**	**26,907**	**4,587**	**–**	**–**	**–**	**32,486**
Currency translation differences	**162**	**2,180**	**(28)**	**6**	**–**	**–**	**2,320**
At 31 December 2019	**12,775**	**92,205**	**33,565**	**487**	**–**	**–**	**139,032**
Net carrying amount							
At 31 December 2019	**17,241**	**22,032**	**–**	**11,259**	**3,002**	**2,329**	**55,863**
At 31 December 2018	14,905	46,174	5,159	–	–	–	66,238

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

15. INTANGIBLE ASSETS (CONTINUED)

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

	2019 RMB'000	2018 RMB'000
Cost of sales	**16,458**	14,886
Administrative expenses	**1,672**	2,156

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

	Carrying amount		Remaining amortisation periods	
	2019 RMB'000	2018 RMB'000	2019 Years	2018 Years
Eisenbach				
– Trademark	**4,724**	–	**9.9**	–
– Domain and online content	**11,259**	–	**9.9**	–
– Non-compete agreement	**3,002**	–	**2.9**	–
– Goodwill	**2,329**	–	**Not applicable**	–
	21,314	–		
Development costs				
– Intelligent terminals	**10,243**	28,529	**0.7 – 2.0**	1.7 – 3.0
Customer relationship	**–***	5,159	**–***	7.8
Technical know-how, patent and trademark				
– Intelligent terminals	**4,996**	5,768	**6.8**	7.8

* Fully impaired during the year.

Impairment assessment

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 is in a net liability position, triggering the indication of impairment of the assets held under Metric Group. At the reporting date, management performed an impairment test. The intangible assets that subject to impairment test are "technical know-how, patent and trademark", "development costs" and "customer relationship". These are classified as one cash-generating unit ("CGU").

The recoverable amount of the relevant CGU is determined using the value-in-use calculation which is cash flow projections based on 5-year financial budgets approved by management which coincide with the remaining useful lives of the assets within the CGU. The impairment on assets within the CGU was recognised in the profit or loss within "Other expenses" (Note 32), as detailed below:

	Carrying amount subject to impairment RMB'000	Impairment during the year RMB'000	Carrying amount after impairment RMB'000
2019			
Intangible assets			
– Technical know-how, patent and trademark	**992**	**(992)**	**–**
– Development costs	**37,895**	**(26,907)**	**10,988**
– Customer relationship	**4,587**	**(4,587)**	**–**
Property, plant and equipment	**2,780**	**(1,581)**	**1,199**
ROU assets	**16,726**	**(9,496)**	**7,230**
2018			
Intangible assets			
– Technical know-how, patent and trademark	1,765	–	1,765
– Development costs	35,880	–	35,880
– Customer relationship	18,835	(13,676)	5,159
Property, plant and equipment	5,452	–	5,452

SAR19015997 • Dutech Holdings Limited • 11/05/2020 12:49 • 58_Dutech Holdings_FS_Notes.indd

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

15. INTANGIBLE ASSETS (CONTINUED)

Impairment assessment (Continued)

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

	2019	2018
Pre-tax discount rate	**11.7%**	11.8%
Sales growth		
– Year 1	**– 6.0%**	1.6%
– Year 2	**– 4.0%**	1.6%
– Year 3	**– 2.0%**	1.6%
– Year 4	**0%**	1.6%
– Year 5	**1.0%**	1.6%
Gross profit margin		
– Year 1 to 5	**53.1%**	51.5%

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

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

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

Sensitivity analysis:

An increase in pre-tax discount rate by 1% will increase the impairment in property, plant and equipment (Note 10), right-of-use assets (Note 11) and intangible assets by RMB80,000, RMB481,000 and RMB768,000 respectively. A decrease in the sales growth by 1% throughout the forecast period, will increase the impairment in property, plant and equipment, right-of-use assets and intangible assets by RMB102,000, RMB611,000 and RMB977,000 respectively. A decrease in the gross profit margin by 1% throughout the forecast period, will increase the impairment in property, plant and equipment, right-of-use assets and intangible assets by RMB314,000, RMB1,884,000 and RMB3,010,000 respectively.

16. DEFERRED TAX ASSETS/(LIABILITIES)

	Group	
	2019 RMB'000	**2018 RMB'000**
At 1 January	**515**	(5,773)
Recognised in the profit or loss (Note 34)	**(22,537)**	6,896
Recognised in the other comprehensive income	**(1,863)**	(278)
Currency translation differences	**1,314**	(330)
At 31 December	**(22,571)**	515
Presented after appropriate offsetting as follows:		
Deferred tax assets, net	**1,486**	24,947
Deferred tax liabilities, net	**(24,057)**	(24,432)
	(22,571)	515

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

16. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

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

Deferred tax assets/ (liabilities)	At beginning of the year RMB'000	Recognised in profit or loss RMB'000	Recognised in other comprehensive income RMB'000	Currency translation differences RMB'000	At end of the year RMB'000
2019					
Net difference between net carrying amount of property, plant and equipment, intangible assets and inventories, and their tax base	**(17,159)**	**869**	**–**	**(114)**	**(16,404)**
Provision for withholding tax	**(16,835)**	**(2,231)**	**–**	**–**	**(19,066)**
Derivative financial instruments	**91**	**(482)**	**–**	**–**	**(391)**
Unutilised tax losses	**20,969**	**(7,615)**	**–**	**148**	**13,502**
Deferred government grants	**1,502**	**1,301**	**–**	**–**	**2,803**
Allowances for doubtful debts and inventories obsolescence	**685**	**(176)**	**–**	**–**	**509**
Deferred tax on pension scheme liability	**14,186**	**(13,595)**	**(1,863)**	**1,272**	**–**
Contract assets and liabilities	**(2,562)**	**529**	**–**	**15**	**(2,018)**
Others*	**(362)**	**(1,137)**	**–**	**(7)**	**(1,506)**
	515	**(22,537)**	**(1,863)**	**1,314**	**(22,571)**

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
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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

16. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

As at 31 December 2019, the Group recorded deferred tax liabilities amounting to RMB19,066,000 (2018: RMB16,835,000) relating to the withholding taxes payable on the entire undistributed profits of the PRC and Germany subsidiaries (2018: PRC subsidiaries) as the management view it to be probable for distribution 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.

During the year, deferred tax asset amounting to RMB19,175,000 relating to the Metric UK (Note 13), comprising unutilised tax losses and deferred tax on pension scheme liability of RMB5,574,000 and RMB13,601,000 respectively, was written off due to the continuous loss making and net liability position where no foreseeable future taxable profit will be available to utilise the deductible temporary differences.

As at 31 December 2019, the Group has unrecognised unused tax losses of approximately RMB34,602,000 (2018: RMB2,288,000) that are available to carry forward. These tax losses relate to the Metric UK (2018: a subsidiary in PRC) have no expiry date (2018: expire in 2022). In addition, the Group has unrecognised deductible temporary difference arising from pension liabilities and impairment of assets of approximately RMB74,686,000 and RMB20,682,000 (2018: Nil) respectively from Metric UK (2018: Nil). 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.

17. INVENTORIES

	Group		Company	
	2019 RMB'000	**2018 RMB'000**	**2019 RMB'000**	**2018 RMB'000**
Raw materials	**151,877**	186,089	**–**	–
Raw materials-in-transit	**2,614**	622	**1,097**	–
Work-in-progress	**144,309**	142,408	**–**	–
Finished goods	**66,536**	82,944	**–**	–
Finished goods-in-transit	**2,432**	194	**763**	–
	367,768	412,257	**1,860**	–

The cost of inventories recognised as expenses in "Cost of sales" amounted to RMB829,359,000 (2018: RMB892,254,000), which includes the amount recognised during the year for net write back amounting to RMB509,000 (2018: RMB1,681,000) respectively.

18. TRADE RECEIVABLES

	Group		Company	
	2019 RMB'000	**2018 RMB'000**	**2019 RMB'000**	**2018 RMB'000**
Trade receivables	**260,721**	217,785	**35,766**	6,118
Less: Allowance for impairment loss (Note 40(iii))	**(3,468)**	(7,566)	**–**	–
	257,253	210,219	**35,766**	6,118
Value-added tax receivables	**6,043**	9,878	**–**	–
	263,296	220,097	**35,766**	6,118

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

19. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group	
	2019 RMB'000	2018 RMB'000
Other receivables[(i)]	8,441	8,616
Deposits	1,094	1,972
Prepayments	2,501	3,924
Tax refundable	340	331
	12,376	14,843

(i) Amount includes capitalised incremental cost to obtain contract amounting to RMB1,167,000 (2018: RMB1,781,000).

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

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Due from a related party (trade)[(i)(iv)]	–	680	–	–
Due from subsidiaries (non-trade)[(iv)]	–	–	28,370	41,336
	–	680	28,370	41,336

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Due to related parties				
– trade[(ii)]	948	244	–	–
– non-trade[(iii), (iv)]	6,842	9,069	6,842	9,069
Due to subsidiaries (trade)[(iv)]	–	–	76,419	74,213
	7,790	9,313	83,261	83,282

(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) The balance arose from the purchases of raw materials from a company in which a director of the Company has controlling financial interest, with credit term ranged from 30 to 60 days.

(iii) Balance pertains to undrawn dividend amount payable to a shareholder cum director.

(iv) The balances are unsecured and repayable on demand.

21. OTHER INVESTMENTS AT FAIR VALUE

	Group	
	2019 RMB'000	2018 RMB'000
Unquoted equity instruments at FVOCI[(i)]	2,404	–
Bonds, at FVOCI[(ii)]	–	16,480
Investment fund, mandatorily at FVPL[(iii)]	17,656	–
	20,060	16,480

(i) In May 2019, due to the restructuring of one of the Group's customers, the Group was awarded by court with ordinary shares in the customer with a fair value of RMB2,404,000 in exchange for the amount due to the Group. The entity is a US registered private company limited by shares, and the shares awarded represent a non-controlling interest in that customer. The Group made an irrevocable election to measure these investments not held for trading at FVOCI.

(ii) The investment in bonds is denominated in USD. During the financial year, interest amounting to RMB292,000 (2018: RMB374,000) is included in finance income (Note 31).

(iii) Investment fund is denominated in USD.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

22. CASH AND BANK BALANCES

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Cash in hand	850	641	–	–
Cash at banks	388,189	257,547	15,769	34,521
Fixed deposits (Note A)	59,382	77,093	32,494	32,021
Cash and bank balances	448,421	335,281	48,263	66,542
Less: Pledged bank balances and fixed deposits (Note B)	(41,880)	(47,586)		
Cash and cash equivalents as stated in consolidated statement of cash flows	406,541	287,695		

As at 31 December 2019, the Group has cash and bank balances deposited with banks in the PRC, denominated in Chinese Renminbi ("RMB") amounting to approximately RMB198,412,000 (2018: RMB61,540,000). The RMB is not freely convertible into foreign currencies. In accordance with the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

Note A

The fixed deposits of the Group have remaining maturity periods of 1 to 3 months (2018: 1 to 3 months). The fixed deposits bear interest of 0.31% to 1.61% (2018: 0.05% to 2.34%) per annum.

Note B

As at 31 December 2019, the Group provided bank balances and fixed deposits of RMB41,880,000 (2018: RMB47,586,000) that are pledged in connection with bank borrowings obtained by subsidiaries and bank guarantees provided to customers (Note 25).

As at 31 December 2019, the Company provided bank balances and fixed deposits of RMB32,494,000 (2018: RMB32,021,000) that are pledged in connection with bank borrowings obtained by subsidiaries (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	
	2019 RMB'000	2018 RMB'000
Notional principal		
Forward currency contracts	194,867	–
Derivative assets		
Forward currency contracts	2,606	–

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 Euro and United States dollar against Renminbi. A settlement gain of RMB484,000 (Note 29) (2018: settlement loss of RMB5,407,000 (Note 32)) have been recognised in the profit or loss for the financial year on the closed contracts in the financial year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

24. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Trade				
Trade payables	**119,992**	124,579	**2,095**	161
Value-added tax payables	**4,264**	2,715	**–**	–
	124,256	127,294	**2,095**	161
Non-trade				
Current				
Accrued expenses (Note A)	**51,474**	43,171	**2,685**	1,490
Other payables	**60,210**	59,750	**–**	–
Contingent consideration (Note 41(i))	**–**	–	**–**	–
Redemption liability (Note B)	**–**	877	**–**	–
Financial guarantee liability (Note C)	**–**	–	**4,038**	13,641
Other taxes payable	**3,707**	3,355	**–**	–
	115,391	107,153	**6,723**	15,131
Non-current				
Other payables				
– Contingent consideration (Note 41(i))	**–**	–	**–**	–
	–	–	**–**	–

Note A

Included in accrued expenses is accrued payroll expenses amounting to RMB48,486,000 and RMB1,972,000 (2018: RMB42,671,000 and RMB946,000) of the Group and Company respectively.

Note B

As part of the acquisition of an 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 ("Purchase Consideration") (equivalent to RMB3,852,000), payable on 1 January 2019. Management assessed that as both parties are unable to terminate the Agreement, the risk and rewards of the remaining 10% interest in DTMT are deemed to be transferred to the Group in October 2014, notwithstanding that the amount has not been paid, 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 a supplemental agreement with the non-controlling shareholder to reduce the Purchase Consideration to EUR112,000 (equivalent to RMB877,000), due to additional value-added taxes incurred by DTMT arising from tax disputes prior to the acquisition.

The amount has been fully paid in January 2019. The gain on the reduction of the Purchase Consideration of RMB2,975,000 is recognised in the profit or loss within "Other income" (Note 29), after the unwinding of discount of RMB349,000 recognised in profit or loss as "Finance costs" (Note 31) in prior year.

Note C

The Company issued financial guarantees to banks for borrowings and banking facilities of its subsidiaries. As at 31 December 2019, borrowings and banking facilities amounting to RMB48,999,000 (2018: RMB67,970,000) granted to the subsidiaries were utilised. These guarantees are provided based on the impairment assessment methodology in accordance with SFRS(I) 9 (Note 40(iii)(c)). The Company has assessed the expected credit losses arising from these financial guarantees, and capitalised RMB13,785,000 (2018: RMB13,641,000) as cost of investment (Note 13(ii)), with an additional financial guarantee liability of RMB144,000 (2018: RMB13,641,000) for the current financial year. In addition, amount of RMB9,747,000 has been reversed to profit or loss as a result of loan repayment and reduction in expected credit losses for financial guarantee liability bought forward from financial year 2018.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

25. BORROWINGS

Group	Due within 1 year RMB'000	Due after 1 year but less than 5 years RMB'000	Due after 5 years RMB'000	Total RMB'000
2019				
Loans[(i)]	109,457	12,021	2,444	123,922
Lease liabilities[(ii)]	20,169	40,896	9,769	70,834
	129,626	52,917	12,213	194,756
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

(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
2019				
Loan 5 (Unsecured) – Fixed rate	**3,944**	**–**	**–**	**3,944**
Loan 6 (Unsecured) – Fixed rate	**17,593**	**–**	**–**	**17,593**
Loan 7 (Unsecured) – Fixed rate	**1,954**	**9,778**	**2,444**	**14,176**
Loan 8 (Secured) – Fixed rate	**1,312**	**–**	**–**	**1,312**
Loan 9 (Secured) – Fixed rate	**1,588**	**2,243**	**–**	**3,831**
Loan 10 (Secured) – Floating rate	**21,668**	**–**	**–**	**21,668**
Loan 11 (Unsecured) – Floating rate	**5,000**	**–**	**–**	**5,000**
Loan 12 (Unsecured) – Floating rate	**20,000**	**–**	**–**	**20,000**
Loan 13 (Unsecured) – Floating rate	**28,500**	**–**	**–**	**28,500**
Loan 14 (Secured) – Floating rate	**7,898**	**–**	**–**	**7,898**
	109,457	**12,021**	**2,444**	**123,922**
2018				
Loan 1 (Secured) – Floating rate	25,504	–	–	25,504
Loan 2 (Unsecured) – Floating rate	25,000	–	–	25,000
Loan 3 (Unsecured) – Floating rate	20,000	–	–	20,000
Loan 4 (Unsecured) – Floating rate	28,500	–	–	28,500
Loan 5 (Unsecured) – Fixed rate	3,956	–	–	3,956
Loan 6 (Secured) – Fixed rate	21,314	–	–	21,314
Loan 7 (Unsecured) – Fixed rate	1,471	7,847	6,376	15,694
Loan 8 (Secured) – Fixed rate	2,155	–	–	2,155
Loan 9 (Secured) – Fixed rate	1,348	3,844	–	5,192
Loan 10 (Secured) – Floating rate	20,661	–	–	20,661
	149,909	11,691	6,376	167,976

NOTES TO THE FINANCIAL STATEMENTS

25. BORROWINGS (CONTINUED)

(i) Loans (Continued)

Loan 1 (Secured)

This EUR-denominated loan was obtained by a German subsidiary from a German bank to finance the working capital. The Company and a subsidiary, Tri Star Inc., provided corporate guarantees for the loan. The loan was secured by a pledge over a PRC subsidiary, Tri Star Inc.'s fixed deposits (Note 22B). The loan bore interest at EURIBOR plus a margin of 150 basis points per annum. The loan has been fully repaid in 2019.

Loan 2, Loan 3, Loan 4 (Unsecured)

These RMB-denominated loans were obtained by a PRC subsidiary in 2018, from a PRC branch of a multinational bank, to finance the working capital. These loans, bore interest at PRC loan prime rate plus 0.05% per annum, were subject to monthly review by the banks. The loans have been fully repaid in 2019.

Loan 5 (Unsecured)

This EUR-denominated loan was obtained by a German subsidiary from a German bank to finance the working capital. The Company provides corporate guarantee for the loan. The loan bears interest at 2.55% per annum and its maturity date has been extended during the year and is now repayable till 30 August 2020.

Loan 6 (Secured)

This EUR-denominated loan was secured by a pledge over the freehold land of the subsidiary (Note 10). 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 has been classified as a current liability as at 31 December 2019 and 2018.

Loan 7 (Unsecured)

This EUR-denominated loan was obtained by a German subsidiary 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 8 (Secured)

This USD-denominated loan was 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 was repayable in 84 instalments by 15 June 2021. The loan is secured by a pledge over the freehold land and building (Note 10). As at 31 December 2019, the entire loan balance, including instalments payable after 12 months amounting to RMB437,000 (2018: RMB1,292,000) 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 9 (Secured)

This EUR-denominated loan was 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% (2018: 1.57%) per annum and was repayable by 72 instalments by 8 August 2022. The loan was secured by a pledge over the freehold land and building of the subsidiary (Note 10).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

25. BORROWINGS (CONTINUED)

(i) Loans (Continued)

Loan 10 (Secured)

This GBP-denominated loan was obtained by a UK subsidiary 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 extended during the year to be repaid by 25 April 2020.

Loan 11, Loan 12, Loan 13 (Unsecured)

These RMB-denominated loans are obtained by a PRC subsidiary during the year from a PRC branch of a multinational bank for purchases of raw materials. Loan 11 and 12 bear interest at PRC loan prime rate plus 0.04% per annum while loan 13, bears interest at PRC loan prime rate plus 0.05% per annum. The loans are subjected to monthly review by the bank, and are repayable till 28 February 2020, 21 May 2020 and 12 November 2020 respectively.

Loan 14 (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 provided corporate guarantees for the loan. The loan is secured by the freehold building of the German subsidiary (Note 10). The loan bears interest at EURIBOR plus a margin of 250 basis points per annum and is repayable by 13 August 2020.

(ii) Lease liabilities (2018: Finance lease obligations)

The total cash outflows for the year for all lease contracts amounted to RMB21,434,000, which include short-term lease expenses amounting to RMB6,726,000 that are not included in lease liabilities (Note 33).

Lease payments under extension option included in lease term is not significant. As disclosed in Note 38(i), a subsidiary in Philippines entered into 50-year lease of land with the local government commencing July 2015, with termination option. Period covered under termination option is included in lease term as the Group has determined, at 1 January 2019, that it is reasonably certain not to exercise that option. The related lease liabilities and ROU assets as at 31 December 2019 amounted to RMB3,659,000 and RMB3,552,000 respectively. All the other lease payments are fixed. No leases committed as at 31 December 2019 have a commencement date after the reporting date.

Balance as at 31 December 2018 represents finance lease obligations under SFRS(I) 1-17, which has been reclassified to lease liabilities on 1 January 2019 upon adoption of SFRS(I) 16:

Group	Minimum lease payments RMB'000	Interest RMB'000	Present value of payments RMB'000
2018			
Non-current portion:			
– Later than 1 year and not later than 5 years	9,231	(175)	9,056
Current portion:			
– Not later than 1 year	3,794	(203)	3,591
	13,025	(378)	12,647

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

25. BORROWINGS (CONTINUED)

(iii) Reconciliation of liabilities arising from financing activities

	At 31 December 2018 RMB'000	Initial adoption of SFRS(I) 16 RMB'000	At 1 January 2019 RMB'000	Financing cash flows, net RMB'000	Non-cash changes New lease RMB'000	Non-cash changes Foreign Exchange movement RMB'000	Non-cash changes Others RMB'000	At end of the year RMB'000
2019								
Loans								
– current	149,909	–	149,909	(45,781)	–	1,541	3,788	109,457
– non-current	18,067	–	18,067	–	–	186	(3,788)	14,465
Lease liabilities								
– current	3,591	–	3,591	(14,708)	–	37	31,249	20,169
– non-current	9,056	41,595	50,651	–	31,170	93	(31,249)	50,665
	180,623	41,595	222,218	(60,489)	31,170	1,857	–	194,756

	At beginning of the year RMB'000	Financing cash flows, net 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

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

26. DEFERRED INCOME

	Group 2019 RMB'000	Group 2018 RMB'000
Government grant I	**5,278**	5,642
Government grant II	**5,934**	6,256
	11,212	11,898

The movement in the government grants is as follows:

	Group 2019 RMB'000	Group 2018 RMB'000
At 1 January	**11,898**	12,450
Amortisation for the financial year (Note 29)	**(686)**	(552)
At 31 December	**11,212**	11,898

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

26. DEFERRED INCOME (CONTINUED)

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	
	2019 RMB'000	**2018 RMB'000**
The amount recognised is determined as follows:		
Fair value of plan assets	**63,160**	55,042
Present value of plan liabilities	**(143,157)**	(135,991)
Net liability recognised	**(79,997)**	(80,949)

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

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

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

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

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

(i) asset value volatility – 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 – an increase in the life expectancy of scheme members will increase the value of the scheme's liabilities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

27. PENSION LIABILITY (CONTINUED)

A comprehensive actuarial valuation using the projected unit basis was carried out at 31 December 2019 by the independent consulting actuaries, Hughes Price Walker Limited.

	2019 RMB'000	2018 RMB'000
Movement of net liabilities recognised		
At the beginning of the year	**(80,949)**	(79,364)
Interest expenses	**(2,227)**	(1,879)
Past service cost (Note A)	**–**	(6,616)
Re-measurement gains	**5,173**	3,236
Contribution by scheme participants	**3,049**	2,646
Currency translation differences	**(5,043)**	1,028
At the end of the year	**(79,997)**	(80,949)
Reconciliation of present value of plan liabilities		
At the beginning of the year	**(135,991)**	(140,783)
Interest expenses	**(3,721)**	(3,317)
Past service cost	**–**	(6,616)
Re-measurement gains		
– Actuarial (losses)/gains arising from changes in financial assumptions	**(10,143)**	5,830
– Actuarial gains arising from changes in demographic assumptions	**7,376**	807
– Actuarial gains/(losses) arising from changes in experience adjustment	**1,420**	(165)
Benefits paid	**6,319**	6,545
Currency translation differences	**(8,417)**	1,708
At the end of the year	**(143,157)**	(135,991)
Reconciliation of present value of plan assets		
At the beginning of the year	**55,042**	61,419
Interest income	**1,494**	1,438
Administrative expenses	**–**	–
Re-measurement gains/(losses)		
– Return on plan assets	**6,519**	(3,236)
Contributions by scheme participants	**3,049**	2,646
Benefits paid	**(6,319)**	(6,545)
Currency translation differences	**3,375**	(680)
At the end of the year	**63,160**	55,042
Composition of plan assets		
Equities and equity linked gift fund	**10,844**	8,242
Gilts	**12,180**	10,975
Bonds	**7,201**	6,490
Absolute return investments	**18,791**	16,537
Cash annuities	**5,772**	5,206
Individual member funds at 1992-1997 DC section	**8,372**	7,592
Total plan assets	**63,160**	55,042

The net interest expense on obligation amounting to RMB2,227,000 (2018: RMB1,879,000) was recognised in profit or loss as finance cost (Note 31). Past service cost for the financial year 2018 amounting to RMB6,616,000 was recognised in profit or loss as "Other expenses" (Note 32). The re-measurement gains amounting to RMB5,173,000 (2018: RMB3,236,000) was recognised in "Other comprehensive income".

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (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:

	2019	2018
Financial assumptions (%)		
Discount rate	**1.95**	2.75
Future pension increase	**3.00**	3.00
Inflation – RPI[(i)]	**3.05**	3.35
Inflation – CPI[(ii)]	**2.15**	2.35
Demographic assumptions (years)		
Mortality rates (expected future lifetime from age 65)		
– Male currently aged 65	**20.6**	21.80
– Male currently aged 45	**22.5**	23.70
– Female currently aged 65	**21.7**	22.90
– Female currently aged 45	**23.8**	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 areas 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	
		2019 RMB'000	2018 RMB'000
Discount rate	0.1% (2018: 0.1%) p.a. lower	**1,798**	1,744
Rate of mortality	improved by 0.5% (2018: 0.5%)	**2,296**	2,013

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.

SAR19015997 • Dutech Holdings Limited • 11/05/2020 12:49 • 58_Dutech Holdings_FS_Notes.indd

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

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.

	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			
2019			
High Security			
– Sale of products	**920,887**	**–**	**920,887**
– Freight service income	**102**	**–**	**102**
Business Solution			
– Sale of products	**164,352**	**–**	**164,352**
– Service and maintenance income	**–**	**43,324**	**43,324**
– Projects revenue	**728,902**	**24,592**	**753,494**
	1,814,243	**67,916**	**1,882,159**

	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	967,292	–	967,292
– Freight service income	102	–	102
Business Solution			
– Sale of products	163,915	–	163,915
– Service and maintenance income	–	42,534	42,534
– Projects revenue	605,029	44,069	649,098
	1,736,338	86,603	1,822,941

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.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

28. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

(b) Contract balances

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

	Group		Company	
	2019 RMB'000	**2018 RMB'000**	**2019 RMB'000**	**2018 RMB'000**
Trade receivables (Note 18)	**257,253**	210,219	**–**	–
Contract assets	**25,337**	39,169	**–**	–
Contract liabilities	**(95,953)**	(74,425)	**(30)**	–

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 such rights become unconditional upon invoicing. Invoices are normally raised upon delivery of customised assembled electro mechanical parts and components. Contract assets decrease as at 31 December 2019 as compared to 31 December 2018 due to timing of projects.

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

	Contract Liabilities	
	2019 RMB'000	**2018 RMB'000**
Amount included in opening balance recognised as revenue	**74,425**	64,307

Contract liabilities mainly relate to advance consideration received from customers for design and engineering of ticketing and vending machines. Contract liabilities increase as at 31 December 2019 as compared to 31 December 2018, due to timing of receipts and projects.

(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 of one year or less.

(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 RMB1,167,000 (2018: 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 19).

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

29. OTHER INCOME

	Group	
	2019 RMB'000	2018 RMB'000 (Reclassified)
Amortisation of deferred government grants (Note 26)	**686**	552
Gain on disposal of property, plant and equipment	**–**	19
Government grants (Note A)	**7,740**	2,162
Foreign exchange gain, net	**320**	6,643
Fair value gain on forward currency contracts (Note 23)	**2,606**	–
Gain on settlement of forward currency contracts (Note 23)	**484**	–
Repair and maintenance income	**1,492**	905
Sales of steel scrap	**1,978**	3,078
Tooling and mould income	**4,731**	6,562
Rental income	**1,253**	–
Gain on reduction of redemption liability (Note 24)	**–**	2,975
Write back of other liabilities	**713**	2,025
Others	**3,310**	3,384
	25,313	28,305

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	
	2019 RMB'000	2018 RMB'000
Research and development subsidy	**1,799**	118
Technology grant	**68**	10
Company growth incentives	**5,318**	1,734
Others	**555**	300
	7,740	2,162

30. PERSONNEL EXPENSES

	Group	
	2019 RMB'000	2018 RMB'000
Wages, salaries and bonuses(i)	**453,852**	470,499
Other short-term employees' benefits(ii)	**13,908**	10,433
Total short-term employees' benefits	**467,760**	480,932
Post-employment benefits		
– Defined contribution plans(i)	**41,748**	24,710
– Defined benefit pension scheme	**1,423**	2,646
Termination benefit expenses	**189**	–
	511,120	508,288

(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 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

31. FINANCE COSTS, NET

	Group	
	2019 RMB'000	**2018 RMB'000**
Finance income		
Interest income under effective interest rate method		
– Financial assets, at FVOCI (Note 21)	**292**	374
– Bank interest	**4,409**	3,097
	4,701	3,471
Finance costs		
Interest expenses on bank loans and lease liabilities	**(9,614)**	(8,830)
Unwinding discount on redemption liability	**–**	(349)
Net interest on net defined benefit liability (Note 27)	**(2,227)**	(1,879)
	(11,841)	(11,058)
Finance costs, net	**(7,140)**	(7,587)

32. OTHER EXPENSES

	Group	
	2019 RMB'000	**2018 RMB'000 (Reclassified)**
Loss on disposal of property, plant and equipment	**89**	–
Loss on disposal of financial assets, at FVOCI (Note 21)	**399**	–
Loss on settlement of forward currency contracts (Note 23)	**–**	5,407
Impairment loss on property, plant and equipment (Note 10)	**1,581**	–
Impairment loss on right-of-use assets (Note 11)	**9,496**	–
Impairment loss on intangible assets (Note 15)	**32,486**	13,676
GMP equalisation past service cost (Note 27A)	**–**	6,616
Others	**1,083**	750
	45,134	26,449

33. PROFIT BEFORE TAX

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

	Note	Group	
		2019 RMB'000	**2018 RMB'000**
Amortisation of intangible assets	15	**18,130**	17,042
Amortisation of land use rights	12	**–**	1,350
Allowance for stock obsolescence written back	17	**(509)**	1,681
Auditors' remuneration			
– auditors of the Company		**1,306**	1,287
– other auditors		**1,411**	1,627
Non-audit fees paid to			
– auditors of the Company		**25**	16
– other auditors		**990**	–
Depreciation of property, plant and equipment	10	**33,466**	35,066
Depreciation of right-of-use assets	11	**18,832**	–
Directors' fees			
– directors of the Company	37	**1,993**	1,937
Directors' remuneration			
– directors of the Company	37	**3,305**	2,152
Operating lease expenses		**–**	19,332
Short-term lease expenses not included in lease liabilities	25(ii)	**6,726**	–
Personnel expenses*	30	**511,120**	508,288
Research and development costs		**75,574**	78,705

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

34. INCOME TAX

	Group	
	2019 RMB'000	2018 RMB'000
Income tax		
– Current financial year	**33,894**	22,706
– Over provision in the previous financial years	**(4,608)**	(2,513)
Deferred tax (Note 16)		
– Current financial year	**22,537**	(6,896)
Withholding tax	**576**	775
	52,399	14,072

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

	Group	
	2019 RMB'000	2018 RMB'000
Profit before tax	**131,508**	67,198
Tax expenses based on PRC statutory tax rate of 25% (2018: 25%)	**32,877**	16,800
Tax concession in PRC	**(14,798)**	(5,930)
Differences in tax rates in different jurisdictions	**(476)**	3,388
Income not subject to tax	**(942)**	(2,106)
Tax incentive	**(530)**	(350)
Expenses not deductible	**11,129**	7,985
Current financial year tax losses carried forward and deductible temporary difference not recognised as deferred tax assets	**8,508**	–
Utilisation of tax losses brought forward previously not recognised as deferred tax assets	**(572)**	(512)
Reversal of deferred tax assets recognised in prior years	**19,175**	–
Withholding tax paid and payable	**2,807**	(2,192)
Overprovision in the previous financial years	**(4,608)**	(2,513)
Others	**(171)**	(498)
Income tax expense	**52,399**	14,072

<u>The Company and Singapore subsidiaries</u>

The Company and these subsidiaries are subjected to applicable tax rate of 17% (2018: 17%).

<u>Tri Star Inc. (PRC)</u>

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%.

<u>Tri Star Technology Co., Ltd. (PRC)</u>
<u>Jiangsu Tri Star Technology Co., Ltd. (PRC)</u>
<u>Jiangsu Tri Star Terminal Equipment Technology Co., Ltd. (PRC)</u>
<u>Jiangsu Tri Star Equipment Co., Ltd. (PRC)</u>

The above subsidiaries are subjected to applicable tax rate of 25% (2018: 25%).

<u>Shanghai Tri Star Engineering Technology Co., Ltd. (PRC)</u>

The subsidiary is subjected to applicable tax rate of 25% (2018: 25%). The subsidiary is dormant and has no taxable income for the period from the date of incorporation to 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

34. INCOME TAX (CONTINUED)

German subsidiaries

The subsidiaries are subjected to applicable tax rates ranged from 13.65% to 33.26% (2018: 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% (2018: 8.84%) and federal tax rate of 35% (2018: 35%).

Matrix Mechatronix IX Technology (Philippines) Corp.

This subsidiary is subjected to applicable tax rate of 30% (2018: 30%).

Matrix Technologies Co., Ltd.

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

Mechatronics Technology HK Limited

This subsidiary is subjected to applicable tax rate of 16.5% (2018: 16.5%). It has no taxable income for the period from the date of incorporation to 31 December 2019.

The United Kingdom subsidiaries

The subsidiaries are subjected to applicable tax rate of 19% (2018: 19%).

Metric Tristarinc Limited

This newly incorporated subsidiary in Ireland is subjected to applicable tax rate of 20%. The subsidiary is dormant and has no taxable income for the period from the date of incorporation to 31 December 2019.

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.

	2019	**2018**
Profit attributable to the equity holders of the Company (RMB'000)	**79,109**	53,126
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)	**22.19**	14.90

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.

SAR19015997 • Dutech Holdings Limited • 11/05/2020 12:49 • 58_Dutech Holdings_FS_Notes.indd

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

36. DIVIDENDS

	Group	
	2019 RMB'000	**2018 RMB'000**
Declared during the financial year		
Dividends on ordinary shares:		
– Interim exempt (one-tier) dividend of SGD0.01 (2018: SGD0.01) per share	**18,640**	17,773

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	
	2019 RMB'000	**2018 RMB'000**
(a) Transactions		
Purchase of raw materials from a related party(i)	**894**	1
Sales of finished goods to a related party(i)	**137**	2,440
Lease income received from a related party(i)	**53**	–
Lease payment paid to a related party(i)	**4,166**	3,969
(b) Compensation of key management personnel		
Short-term employees benefits(ii)	**9,345**	8,028
Defined contribution pension scheme	**480**	231
Comprise amounts paid/payable to:		
Directors of the Company	**5,298**	4,089
Other key management personnel	**4,527**	4,170

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

(ii) Includes directors' fees of RMB2,005,000 (2018: RMB1,937,000).

SAR19015997 • Dutech Holdings Limited • 11/05/2020 12:49 • 58_Dutech Holdings_FS_Notes.indd

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

38. COMMITMENTS

(i) Non-cancellable operating lease commitments as at 31 December 2018 (SFRS(I) 1-17) – as lessee

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 as at 31 December 2018 but not recognised as liabilities are as follows:

Group	**2018 RMB'000 (Restated)**
Future minimum lease payments	
– Not later than 1 year	14,696
– Later than 1 year and not later than 5 years	36,857
– Later than 5 years	289
	51,842

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 approximately RMB187,000), which is subject to an annual increase of 5% per annum, at least up to year 2024. The lease is cancellable by the subsidiary in the event that the subsidiary suffers losses to the extent that its continued operation is no longer viable as shown by its latest audited financial statements. The lease payments payable for the next 50 years are analysed as follows:

Group	**2018 RMB'000**
Future minimum lease payments	
– Not later than 1 year	187
– Later than 1 year and not later than 5 years	845
– Later than 5 years	10,665
	11,697

(ii) Operating lease commitments – as lessor

As at the end of the reporting period, there were operating lease commitments for rental of premises and equipment receivables in subsequent accounting period as follows:

	Group	
	2019 RMB'000	**2018 RMB'000**
Future minimum lease receipts		
– Not later than 1 year	**1,091**	–
– Later than 1 year and not later than 5 years	**695**	–
	1,786	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

38. COMMITMENTS (CONTINUED)

(iii) Future capital expenditure

	Group	
	2019 RMB'000	**2018 RMB'000**
Capital expenditure contracted but not provided in the financial statements:		
– In respect of plant and machinery	**–**	4,932
– In respect building construction in progress	**4,218**	1,307
	4,218	6,239
Capital expenditure approved but not contracted for and provided in the financial statements:		
– Commitments in respect of a new research and development centre	**104,376**	108,978

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 bond funds, 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.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

39. SEGMENT INFORMATION (CONTINUED)

2019	**High Security RMB'000**	**Business Solutions RMB'000**	**Total RMB'000**
Revenue			
External sales	**920,989**	**961,170**	**1,882,159**
Segment results			
Profit from operations	**120,956**	**19,293**	**140,249**
Finance costs, net			**(7,140)**
Unallocated expenses			**(1,601)**
Profit before tax			**131,508**
Income tax			**(52,399)**
Profit for the financial year			**79,109**
Segment assets			
Reportable segment assets	**719,777**	**876,641**	**1,596,418**
Unallocated assets			
– Cash and bank balances			**37,732**
– Investment fund, mandatorily at FVPL			**17,656**
– Others			**1,205**
			1,653,011

2019	**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	11,032	15,903	26,935
Additions to right-of-use assets	17,560	21,617	39,177
Additions to intangible assets	–	16,827	16,827
Investment in associates	–	8,607	8,607
Amounts included in the measure of segment results:			
Depreciation of property, plant and equipment	18,761	14,705	33,466
Depreciation of right-of-use assets	12,091	6,741	18,832
Amortisation of intangible assets	682	17,448	18,130
Amortisation of deferred government grants	322	364	686
Fair value gain on forward contract	(2,606)	–	(2,606)
Gain on settlement of forward contract	(484)	–	(484)
Share of profits of associates	–	(332)	(332)
Allowance for stock obsolescence	–	733	733
Allowance for stock obsolescence written back	(1,242)	–	(1,242)
Reversal for impairment loss of financial assets	(3,550)	(719)	(4,269)
Impairment of property, plant and equipment	–	1,581	1,581
Impairment of right-of-use assets	–	9,496	9,496
Impairment of intangible assets	–	32,486	32,486
Research and development costs	44,709	30,865	75,574

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (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
Revenue			
External sales	967,394	855,547	1,822,941
Segment results			
Profit from operations	76,783	1,825	78,608
Finance costs, 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
– Bonds, at FVOCI			16,480
– Others			4,697
			1,544,711

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
Loss on settlement of forward currency 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)
Impairment losses of financial assets	3,474	4,823	8,297
Impairment of intangible assets	–	13,676	13,676
Research and development costs	40,121	38,584	78,705

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

39. SEGMENT INFORMATION (CONTINUED)

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 investment in associates and 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
2019						
Revenue	**72,822**	**478,933**	**1,117,462**(i)	**208,642**	**4,300**	**1,882,159**
Non-current assets	**201,893**	**9,807**	**234,747**(ii)	**32,904**	**–**	**479,351**
2018						
Revenue	79,350	475,791	1,075,421(i)	190,454	1,925	1,822,941
Non-current assets	197,673	9,890	237,974(ii)	6,042	–	451,579

(i) Include revenue totaling RMB992,646,000 and RMB119,992,000 (2018: RMB688,967,000 and RMB132,781,000) derived from Germany and UK respectively.

(ii) Include assets of RMB212,611,000 and RMB19,982,000 (2018: RMB195,327,000 and RMB42,166,000) located in Germany and UK respectively.

Major customers

High Security Segment

Revenue of approximately RMB247,931,000 (2018: RMB253,079,000) and RMB105,479,000 (2018: RMB135,133,000) is derived from two single external customers, both are listed companies in the USA with operation worldwide.

Revenue of approximately RMB107,198,000 (2018: RMB114,814,000) is derived from a German company.

Business Solutions Segment

Revenue of approximately RMB148,715,000 (2018: Nil) is derived from a state owned company in the Germany.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (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	
	2019 RMB'000	**2018 RMB'000**	**2019 RMB'000**	**2018 RMB'000**
Financial assets at amortised cost	**740,546**	595,937	**112,399**	113,996
Financial assets, at FVOCI	**2,404**	16,480	**–**	–
Financial assets, at FVPL	**20,262**	–	**–**	–
Financial assets	**763,212**	612,417	**112,399**	113,996
Financial liabilities at amortised cost	**434,222**	418,313	**92,079**	98,574

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 & Risk Committee provides independent oversight to the effectiveness of the risk management process.

(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 and EUR. The Group does not utilise forward contracts or other arrangements for speculative purposes.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

40. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

Group As at 31 December 2019	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	–	–	–	25,337	–	–	25,337
Trade receivables	–	156,119	8,592	74,850	17,692	–	257,253
Other receivables and deposits	12	34	502	5,306	2,552	1,129	9,535
Cash and bank balances	684	138,634	198,557	92,911	15,933	1,702	448,421
Derivative Instrument	–	–	2,606	–	–	–	2,606
Intragroup receivables	34,989	322,060	115,486	196,616	99,259	635	769,045
	35,685	616,847	325,743	395,020	135,436	3,466	1,512,197
Financial liabilities							
Borrowings	–	6,588	67,973	70,960	37,452	11,783	194,756
Trade payables	–	17,315	65,356	24,316	10,553	2,452	119,992
Other payables and accruals	2,709	936	47,155	54,676	6,004	204	111,684
Due to related parties	6,843	–	947	–	–	–	7,790
Intragroup payables	34,989	322,060	115,486	196,616	99,259	635	769,045
	44,541	346,899	296,917	346,568	153,268	15,074	1,203,267
Net financial (liabilities)/ assets	(8,856)	269,948	28,826	48,452	(17,832)	(11,608)	308,930
Add/(Less): Net financial (assets)/liabilities denominated in the respective entities' functional currencies	(4,774)	(144,006)	(25,923)	233,249	49,332	11,390	119,268
Net foreign currency exposure	(13,630)	125,942	2,903	281,701	31,500	(218)	428,198

* Others mainly comprise of Peso, Vietnam Dong and Hong Kong dollar

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

40. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

Group As at 31 December 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 – Bonds	–	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 related parties	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 liabilities/(assets) 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 2019 (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 2019	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	–	35,766	–	–	–	35,766
Due from subsidiaries	–	32,049	(6,477)	–	2,798	28,370
Cash and bank balances	646	47,520	97	–	–	48,263
	646	115,335	(6,380)	–	2,798	112,399
Financial liabilities						
Trade payables	–	2,095	–	–	–	2,095
Other payables and accruals	2,685	4,038	–	–	–	6,723
Due to related parties	6,842	–	–	–	–	6,842
Due to subsidiaries	40,696	35,723	–	–	–	76,419
	50,223	41,856	–	–	–	92,079
Net financial (liabilities)/ assets	(49,577)	73,479	(6,380)	–	2,798	20,320
Less: Net financial assets denominated in the Company's functional currency	–	(73,479)	–	–	–	(73,479)
Foreign currency exposure	(49,577)	–	(6,380)	–	2,798	(53,159)

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

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (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% (2018: 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 2018: 10%) change in foreign currency rates.

If the respective functional currency strengthens by 10% (2018: 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
2019		
SGD	**1,022**	**4,115**
USD	**(9,446)**	**–**
RMB	**(218)**	**–**
EUR	**(21,128)**	**530**
GBP	**(2,363)**	**(232)**
Others	**16**	**–**
2018		
SGD	505	(2,542)
USD	(17,458)	–
RMB	(64)	–
EUR	(20,148)	(4,331)
GBP	(3,354)	862
Others	(126)	(142)

A weakening of the RMB against the above currencies at 31 December 2019, 31 December 2018 and 1 January 2018 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 and EUR. As at 31 December 2019, the Group has no outstanding balance in forward currency contract (31 December 2018: no outstanding balance in forward currency contract) as disclosed in Note 23.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

40. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(b) Interest rate risk

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 2019, 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	
		2019 RMB'000	**2018 RMB'000**
Fixed rate instruments			
Financial assets			
– Fixed deposits	22	**59,382**	77,093
Financial liabilities			
– Borrowings	25	**(111,690)**	(60,958)
		(52,308)	16,135
Variable rate instruments			
Financial assets			
– Financial assets at FVOCI – Debt instruments	21	**–**	16,480
Financial liabilities			
– Borrowings	25	**(83,066)**	(119,665)
		(83,066)	(103,185)

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 2019 would increase/decrease by RMB623,000 (31 December 2018: RMB774,000) 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 2019 (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
2019					
Non-derivative instruments					
Borrowings					
– Loans[i]	**113,488**	**12,780**	**2,544**	**128,812**	**123,922**
– Lease liabilities	**22,600**	**44,981**	**19,080**	**86,661**	**70,834**
Trade payables	**119,992**	**–**	**–**	**119,992**	**119,992**
Other payables and accruals	**111,684**	**–**	**–**	**111,684**	**111,684**
Due to a related party (trade)	**7,790**	**–**	**–**	**7,790**	**7,790**
	375,554	**57,761**	**21,624**	**454,939**	**434,222**
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

(i) Included in the loans are Loan 6 and Loan 8 which are classified as current liabilities due to the overriding clause and breach of financial covenant respectively (Note 25). The banks have not demanded for immediate repayment despite the overriding clause and breach of financial covenant.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (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

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
2019	**98,547**	**30,069**	**2,543**	**131,159**	**123,922**
2018	134,998	34,390	7,564	176,952	167,976

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
2019					
Non-derivative instruments					
Trade payables	**2,095**	**–**	**–**	**2,095**	**2,095**
Other payables and accruals	**2,685**	**–**	**–**	**2,685**	**2,685**
Due to related parties	**6,842**	**–**	**–**	**6,842**	**6,842**
Due to subsidiaries	**76,419**	**–**	**–**	**76,419**	**76,419**
Financial guarantee	**48,999**	**–**	**–**	**48,999**	**4,038**
	137,040	**–**	**–**	**137,040**	**92,079**
2018					
Non-derivative instruments					
Trade payables	161	–	–	161	161
Other payables and accruals	1,490	–	–	1,490	1,490
Due to related parties	9,069	–	–	9,069	9,069
Due to subsidiaries	74,213	–	–	74,213	74,213
Financial guarantee	64,014			64,014	13,641
	148,947	–	–	148,947	98,574

The financial guarantee contract represents the maximum amount of the guarantee and is allocated to earliest period in which the guarantee could be recalled.

(iii) Credit risk

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

As the Group and the Company do not hold collateral, the carrying amounts of contract assets, trade and other receivables, derivative financial instruments (2018: contract assets, trade and other receivables, debt instruments at FVOCI) and cash and bank balances, represent the maximum exposure to credit risk in relation to financial assets, except for the financial guarantee contracts issued by the Company as disclosed in "Liquidity risk". No other financial assets carry a significant exposure to credit risk. The Group mitigates its credit risk exposure through a coverage of credit insurance against default or insolvency of selected customers, which is taken into account in assessing expected credit losses.

Cash and bank balances are placed with reputable financial institutions. Financial assets at FVOCI – debt investment 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

40. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

The Group's trade receivables are non-interest bearing and are generally on 30 – 60 days (2018: 30 – 60 days) term. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Top 5 balances (2018: 3) in the Group's contract assets and trade receivables comprise major customers from the USA and Germany, which are listed or multi-national corporations, and the balances at reporting date individually represented 4% to 21% (2018: 9% to 18%) of trade receivables.

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

	Group	
	31 December 2019 RMB'000	31 December 2018 RMB'000
By geographical location of the customers		
– People's Republic of China	**23,135**	20,867
– Asia Pacific	**7,050**	6,953
– Europe[(i)]	**121,124**	130,233
– North & South America[(ii)]	**103,901**	91,323
– Africa	**1,502**	12
– Oceania	**25,878**	–
	282,590	249,388

(i) Included amount of RMB100,053,000 and RMB17,353,000 (2018: RMB108,357,000 and RMB15,264,000) which are derived from Germany and United Kingdom respectively.

(ii) Included amount of RMB103,321,000 (2018: RMB90,992,000) which are derived from United States.

Expected Credit Losses

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

(A) Trade receivables and contract assets

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.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (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 and contract assets (Continued)

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

Group	31 December 2019 Gross carrying amount RMB'000	Probability of default rate %	ECL allowance RMB'000	Total RMB'000
Credit impaired[(i)]	2,123	100.00	(2,123)	–
Not credit-impaired				
Major customers with top 5 balances[(ii)]	125,787	0.00 to 5.24	(736)	125,051
Remaining customers[(iii)]	158,148	0.00 to 6.25	(609)	157,539
Trade receivables and contract assets	286,058		(3,468)	282,590

Group	31 December 2018 Gross carrying amount RMB'000	Probability of default rate %	ECL allowance RMB'000	Total RMB'000
Credit impaired[(i)]	3,371	100.00	(3,371)	–
Not credit-impaired				
Major customers with top 3 balances[(ii)]	100,836	0.00 – 7.15	(3,862)	96,974
Customers without credit ratings[(iv)]	27,110	0.78 – 4.32	(333)	26,777
Remaining customers and contract assets[(iii)]	125,637	–	–	125,637
Trade receivables and contract assets	256,954		(7,566)	249,388

(i) 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.

(ii) For these major customers with significant balance, the Group applied their published credit ratings (if available) or probability of default by industry and country from external credit rating agencies.

(iii) The Group assessed ECL allowance for remaining customers, based on historical loss experience, ageing profile and probability of default by industry and country extracted from external credit agencies' database. These are credit worthy customers with good payment history, and management has also considered forward-looking information and concluded that the ECL allowance is insignificant to the Group.

(iv) The Group applied the provision matrix to measure the ECLs of the 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (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 and contract assets (Continued)

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

Group	2019 RMB'000	2018 RMB'000
As at 1 January	**7,566**	4,700
ECL allowance recognised/(reversed) during the year		
– New assets originated	**800**	2,918
– Reversal of unutilised amount	**(4,888)**	(39)
	(4,088)	2,879
Currency translation differences	**(10)**	(13)
As at 31 December	**3,468**	7,566

The net amount recognised in profit and loss comprise:

	2019 RMB'000	2018 RMB'000
ECL allowance reversed/(recognised) during the year	**4,088**	(2,879)
Bad debts written off during the year	**–**	(5,418)[(i)]
Recovery of receivable amount previously written off	**181**	–
Reversal of/(Impairment loss) of financial assets	**4,269**	(8,297)

(i) Amount includes bad debt of RMB4,044,000 resulting from a restructuring order by the court on one of the Group's major customers in 2018. In May 2019, the remaining balance due from the customer was converted into ordinary shares of the customer entity (Note 21).

(B) Cash and cash equivalents

The Group held cash and cash equivalents of RMB448,421,000 (2018: RMB335,281,000) as at 31 December 2019. Cash and cash equivalents are held with financial institution counterparties, which is rated BB- to AA-, based on a reputable external credit rating agency.

Cash and cash equivalents have been measured on the 12-month expected loss basis and reflects the short maturities of the exposures. The amount of the ECL allowance on cash and cash equivalents is insignificant.

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (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 (Continued)

	Company RMB'000
As at 1 January 2019	**13,641**
Reversal of ECL allowance	**(9,747)**
New financial guarantee originated	**144**
As at 31 December 2019	**4,038**
At initial adoption of SFRS(I) 9, on 1 January 2018	3,151
Reversal of ECL allowance	(357)
New financial guarantee originated	10,847
As at 31 December 2018	13,641

Amount of RMB9,747,000 has been reversed to profit or loss as a result of loan repayment and reduction in expected credit losses for financial guarantee liability bought forward from financial year 2018 (Note 24C)).

(D) Other receivables

The Group and Company uses a similar approach for assessment of ECL for its 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.

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 2018.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

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 2019:

	Group			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 31 December 2019				
Financial assets				
Recurring fair value measurements				
Financial assets, at FVOCI (Note 21)	**–**	**–**	**2,404**	**2,404**
Financial assets, at FVPL (Note 21)	**–**	**17,656**	**–**	**17,656**
Derivative financial instruments (Note 23)	**–**	**2,606**	**–**	**2,606**
	–	**20,262**	**2,404**	**22,666**
Financial liabilities				
Recurring fair value measurements				
Contingent consideration (current)	–	–	–	–
As at 31 December 2018				
Financial assets				
Recurring fair value measurements				
Financial assets, at FVOCI (Note 21)	–	16,480	–	16,480
Financial liabilities				
Recurring fair value measurements				
Contingent consideration (non-current)	–	–	–	–

There have been no transfers between Level 1 and Level 2 during the financial years ended 31 December 2018 and 2019.

NOTES TO **THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (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

Financial assets, at FVOCI (Note 21):

Fair value of the equity instruments is calculated using the discounted cash flow method based on the actual and forecasted free cash flows of the entity invested.

Financial assets, at FVPL (Note 21):

Fair value of the investment funds is referenced to the valuations provided by the financial institution based on the net asset value of the investment funds.

Forward currency contracts (Note 23):

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

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 2019 and 2018 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 before the end of the term.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (Amounts in thousands of Chinese Renminbi ("RMB'000"), unless otherwise stated)

41. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(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 related parties, borrowings (floating rate) and lease liabilities 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.

		Group			
		31 December 2019		31 December 2018	
	Note	Carrying value RMB'000	Fair value RMB'000	Carrying value RMB'000	Fair value RMB'000
Loans – fixed rate	25(i)	**40,856**	**41,667**	48,311	49,244

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.

42. SUBSEQUENT EVENT

Since January 2020, the COVID-19 outbreak has brought uncertainties to the Group's operating environment and impacted the Group's operations and its financial position subsequent to the financial year end. It has adversely affected the supply chain and logistics activities of the Group. The Group has continued to closely monitor the impact of the outbreak, macroeconomic development, and put in place measures to mitigate the impact. As the situation is evolving, the full effect of the outbreak is as yet unknown, and will depend on how long the pandemic lasts and how quickly the economic is able to recover.

The critical estimates and assumptions made by the Group concerning the future is estimated based on the facts and circumstances existing at the reporting date in which the effect of COVID-19 outbreak had not been factored in as it is an event subsequent to the reporting date. COVID-19 will have an adverse impact on the key assumptions concerning impairment of non-financial assets, impairment of financial assets, allowance for inventory obsolescence, defined benefit pension plan and recognition of deferred tax assets in financial year 2020.

43. COMPARATIVES AND PRIOR YEAR RECLASSIFICATIONS

The Group reclassified the net gain on "sales of raw materials" and "amortisation of land use rights" previously presented under "Other income" and "Other expenses" to "Revenue" and "Cost of sales" respectively. In addition, the Group reclassified "Government grant received" from cash flow from investing activities to operating activities, and amount due from a related party from financing activities to operating activities. It is in view of the Group that such reclassification better reflects the substance of the transactions. Accordingly, the prior period comparatives have been reclassified to conform to such presentation.

Group 2018	Amount as previously reported RMB'000	Reclassification RMB'000	Amount as reclassified RMB'000
Consolidated statement of profit or loss and other comprehensive income			
Revenue	1,815,795	7,146	1,822,941
Cost of sales	1,363,479	1,350	1,364,829
Other income	35,451	(7,146)	28,305
Other expenses	27,799	(1,350)	26,449
Consolidated statement of cash flows			
Net cash from operating activities	130,285	2,162	132,447
Net cash used in investing activities	(46,558)	(2,162)	(48,720)

SHAREHOLDERS' **INFORMATION**

AS AT 28 APRIL 2020

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	0.14	1	0.00
100 – 1,000	91	12.64	76,504	0.02
1,001 – 10,000	289	40.14	1,609,894	0.45
10,001 – 1,000,000	319	44.30	26,423,000	7.41
1,000,001 and above	20	2.78	328,426,301	92.12
Total:	**720**	**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	28,595,700	8.02	–	–
Droege Group AG[(3)]	–	–	28,595,700	8.02
Droege Holding GmbH & Co. KG[(4)]	–	–	28,595,700	8.02
Walter P.J. Droege[(5)]	–	–	28,595,700	8.02
Stone Robert Alexander	23,059,900	6.47	–	–

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 DBS Nominees Pte 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.

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SHAREHOLDERS' INFORMATION

AS AT 28 APRIL 2020

TWENTY LARGEST SHAREHOLDERS

No.	Name of Shareholders	Number of Shares	%
1.	Spectacular Bright Corp.	152,438,956	42.76
2.	DBS Nominees Pte Ltd	61,304,465	17.19
3.	Droege Capital GmbH	28,595,700	8.02
4.	Stone Robert Alexander	23,059,900	6.47
5.	Shi Yi	9,229,000	2.59
6.	Daniel Tan Poon Kuan	8,768,702	2.46
7.	OCBC Securities Private Ltd	8,338,600	2.34
8.	Lim Yok Lan	7,355,000	2.06
9.	UOB Kay Hian Pte Ltd	4,584,900	1.29
10.	Kim Seng Holdings Pte Ltd	3,988,577	1.12
11.	Liu Wenying	3,500,000	0.98
12.	Chen Wenkun	3,264,000	0.92
13.	Citibank Nominees Singapore Pte Ltd	3,208,200	0.90
14.	Phillip Securities Pte Ltd	2,177,100	0.61
15.	Chua Yue Peng	1,957,100	0.55
16.	Raffles Nominees (Pte) Limited	1,906,600	0.53
17.	Lim Tiong Kheng Steven	1,370,000	0.38
18.	Loong Chay Wan	1,268,100	0.36
19.	Teo Yong Ping (Zhang Rongbin)	1,100,000	0.31
20.	Teo Chuan Teck	1,011,401	0.28
	Total:	**328,426,301**	**92.12**

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

Based on the information made available to the Company as at 28 April 2020, approximately 23.44% 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 convened and held by way of electronic means on Thursday, 28 May 2020 at 02.30 p.m. (Singapore time) 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 2019 together with the Auditors' Report thereon. **(Resolution 1)**

2. To re-elect the following Directors of the Company retiring pursuant to Articles 107 and 117 of the Constitution of the Company and who, being eligible, offer themselves for re-election:

Mr Christoph Hartmann	(retiring pursuant to Article 107)	**(Resolution 2)**
Dr Hedda Juliana im Brahm-Droege	(retiring pursuant to Article 107)	**(Resolution 3)**
Ms Tan Yee Peng	(retiring pursuant to Article 117)	**(Resolution 4)**

Mr Christoph Hartmann will, upon re-election as a Director of the Company, remain as a member of the Audit and Risk Committee, and will be considered non-independent.

Dr Hedda Juliana im Brahm-Droege will, upon re-election as a Director of the Company, remain as a member of the Remuneration Committee, and will be considered non-independent.

Ms Tan Yee Peng will, upon re-election as a Director of the Company, remain as the Chairman of the Audit and Risk Committee, a member of the Nominating Committee and the Remuneration Committee, and will be considered independent.

3. To approve the payment of Directors' fees of S$396,000 for the financial year ending 31 December 2020 to be paid quarterly in arrears. **(Resolution 5)**

4. 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 6)**

5. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

6. **Authority to issue shares**

That pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), the Directors of the Company be authorised and empowered to:

(a) (i) issue shares in the 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, provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual of the SGX-ST; 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 7)**

7. **Proposed Renewal 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**");

NOTICE OF **ANNUAL GENERAL MEETING**

(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;

(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 8)**

By Order of the Board

Marilyn Tan Lay Hong
Company Secretary
Singapore, 11 May 2020

NOTICE OF **ANNUAL GENERAL MEETING**

Explanatory Notes:

(i) The Ordinary Resolution 7 in item 6 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant Instruments convertible into shares and to issue shares pursuant to such Instruments, up to a number not exceeding, in total, 50% of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company, of which up to 20% may be issued other than on a pro-rata basis to shareholders.

For determining the aggregate number of shares that may be issued, the total number of issued shares (excluding treasury shares and subsidiary holdings) will be calculated based on the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company at the time this Ordinary Resolution is passed after adjusting for new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time when this Ordinary Resolution is passed, provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual of the SGX-ST, and any subsequent bonus issue, consolidation or subdivision of shares.

(ii) The Ordinary Resolution 8 in item 7 above, if passed, will empower the Directors of the Company, from the date of this Meeting until the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to 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. The Annual General Meeting is being convened and will be held by electronic means pursuant to the COVID-19 (Temporary Measures) (Alternate Arrangements for Meetings for Companies, Variable Capital Companies, Business Trusts, Unit Trusts and Debenture Holders) Order 2020. Printed copies of this Notice will not be sent to members. Instead, this Notice will be sent to members by electronic means via publication on the Company's website at the URL www.dutechholdings.com. This Notice will also be made available on the SGX website at the URL https://www.sgx.com/securities/company-announcements.

2. Alternative arrangements relating to attendance at the Annual General Meeting via electronic means (including instructions by which the meeting can be electronically accessed via live audio-visual webcast or live audio-only stream), submission of questions to the Chairman of the Meeting in advance of the Annual General Meeting, addressing of substantial and relevant questions at the Annual General Meeting and voting by appointing the Chairman of the Meeting as proxy at the Annual General Meeting, are set out in the accompanying Company's announcement dated 11 May 2020. This announcement may be accessed at the Company's website at the URL www.dutechholdings.com and will also be made available on the SGX website at the URL https://www.sgx.com/securities/company-announcements.

3. **Due to the current COVID-19 restriction orders in Singapore, a member will not be able to attend the Annual General Meeting in person. A member (whether individual or corporate) must appoint the Chairman of the Meeting as his/her/its proxy to attend, speak and vote on his/her/its behalf at the Annual General Meeting if such member wishes to exercise his/her/its voting rights at the Annual General Meeting.** The accompanying proxy form for the Annual General Meeting may be accessed at the Company's website at the URL www.dutechholdings.com, and will also be made available on the SGX website at the URL https://www.sgx.com/securities/company-announcements.

   Where a member (whether individual or corporate) appoints the Chairman of the Meeting as his/her/its proxy, he/she/it must give specific instructions as to voting, or abstentions from voting, in respect of a resolution in the form of proxy, failing which the appointment of Chairman of the Meeting as proxy for that resolution will be treated as invalid.

   CPF or SRS investors who wish to appoint the Chairman of the Meeting as proxy should approach their respective CPF Agent Banks or SRS Operators to submit their votes by 5.00 p.m. on 18 May 2020.

4. The Chairman of the Meeting, as proxy, need not be a member of the Company.

5. The instrument appointing the Chairman of the Meeting as proxy must be submitted to the Company in the following manner:

   (a) if submitted by post, be lodged at the Registered Office of the Company at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623; or

   (b) if submitted electronically, be submitted via email to the Company's Share Registrar at email address: farhan.izzuddin@zicoholdings.com,

   in either case not less than forty-eight (48) hours before the time appointed for holding the Annual General Meeting.

   A member who wishes to submit instrument of proxy must first download, complete and sign the proxy form, before submitting it by post to the address provided above, or before scanning and sending it by email to the email address provided above.

   In view of the current COVID-19 situation and the related safe distancing measures which may make it difficult for members to submit completed proxy forms by post, members are strongly encouraged to submit completed proxy forms electronically via email.

6. The Annual Report 2019 and the Appendix to the Notice of Annual General Meeting in relation to the Proposed Renewal of the Share Buy-back Mandate may be accessed at the Company's website as follows:

   (a) the Annual Report 2019 may be accessed at the URL www.dutechholdings.com; and

   (b) the Appendix to the Notice of Annual General Meeting in relation to the Proposed Renewal of the Share Buy-back Mandate may be accessed at the URL www.dutechholdings.com.

Personal data privacy:

By submitting an instrument appointing the Chairman of the Meeting to attend, speak and vote at the Meeting and/or any adjournment thereof, a member of the Company consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purpose of the processing and administration and analysis by the Company (or its agents or service providers) of the appointment of the Chairman of the Meeting as proxy for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, take-over rules, regulations and/or guidelines.

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

Mr Christoph Hartmann, Dr Hedda Juliana im Brahm-Droege and Ms Tan Yee Peng (collectively, the "**Retiring Directors**"), who are retiring pursuant to Articles 107 and 117 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, 28 May 2020 under Ordinary Resolutions 2, 3 and 4 as set out in the Notice of AGM dated 11 May 2020.

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	**Christoph Hartmann**	**Dr Hedda Juliana im Brahm-Droege**	**Tan Yee Peng**
Date of Appointment	1 December 2011	1 October 2014	25 April 2019
Date of last re-appointment (if applicable)	26 April 2017	26 April 2017	Not applicable
Age	56	65	46
Country of principal residence	Germany	Germany	Singapore
The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)	Not applicable	Not applicable	Not applicable
Whether appointment is executive, and if so, the area of responsibility	Non-executive	Non-executive	Non-executive
Job Title (e.g. Lead ID, AC Chairman, AC Member etc.)	• Non-Executive Director • Audit&Risk Committee member	• Non-Executive Director • Remuneration Committee member	• Lead Independent Director • Audit&Risk Committee Chairman • Nominating Committee member • Remuneration Committee member
Professional qualifications	• Degree in Business Economics	• Doctoral degree in Economics from University of Bonn, Germany	• First Class Honours degree in Accountancy from Nanyang Technological University
Working experience and occupation(s) during the past 10 years	• 2007 to present: Proxy Holder Droege Group AG (Holding Company with numerous group companies)	• 2001 to present: Vice President of the Supervisory Board Droege Group AG (Holding Company with numerous group companies)	• 2010 to 2011 Principal Advisor, KPMG Singapore • 2009 to 2018 Adjunct Associate Professor, NTU Singapore
Shareholding interest in the listed issuer and its subsidiaries	Nil	Dr Hedda Juliana im Brahm-Droege is deemed interested in 28,749,700 shares held by her spouse, Mr Walter P.J. Droege, who is a substantial shareholder of the Company.	Nil

ADDITIONAL INFORMATION ON
DIRECTORS PROPOSED FOR RE-ELECTION

Name of Director	Christoph Hartmann	Dr Hedda Juliana im Brahm-Droege	Tan Yee Peng
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	Yes Mr Hartmann is employed with Droege Group AG which is a substantial shareholder of Dutech Holdings Limited.	Yes Dr Hedda Juliana 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 the Company.	Nil
Conflict of interest (including any competing business)	Nil	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	Yes
Other Principal Commitments including Directorships			
Past (for the last 5 years)	• Special Purpose Vier Holding GmbH	Nil	• Hwa Chong International School
Present	• Droege Real Estate Holding GmbH • Special Energy Holding GmbH • Special Multi-Channel Holding GmbH • Special Technology Holding GmbH • Special Ventures Holding GmbH • Helis S.A. • Special Care Holding GmbH • Special Purpose Fünf Holding GmbH • Trenkwalder Personaldieste GmbH, Austria	• Sammlung Rheingold GbR • KID-Stiftung • Erich-Gutenberg Arbeitsgemeinschaft e.V. • Grafikstiftung Neo Rauch • Gesellschaft der Freunde der Kunstsammlung Nordrhein-Westfalen e.V. • Helis S.A. • Droege Real Estate Spain S.L. • Dr. im Brahm Immobilien Management GmbH • Stiftung Kunst und Musik Dresden • Board of Trustees Kunstsammlung Nordrhein-Westfalen	• City Developments Limited • Vanguard Health Fund Limited • L'Risco Advisory Pte. Ltd. • Viriya Community Services • Pureland Learning Society • Council for Agency for Care Effectiveness, Ministry of Health • Vanguard Healthcare Medifund Committee • 1FSS Pte Ltd • Hercules Pte Ltd

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

Name of Director	**Christoph Hartmann**	**Dr Hedda Juliana im Brahm-Droege**	**Tan Yee Peng**
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	No
(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?	Yes Mr Christoph Hartmann was appointed as Vice President of the Supervisory Board of METRIC mobility solutions AG (formerly Höft & Wessel AG) on 6 December 2013 until 21 May 2015. The respective preliminary insolvency proceedings were opened on 1 July 2016. On 5 October 2016 Almex GmbH (being a group company of Dutech Holdings Limited) acquired the core of the assets of METRIC mobility solutions AG.	No	No
(c) Whether there is any unsatisfied judgment against him?	No	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	No

ADDITIONAL INFORMATION ON DIRECTORS PROPOSED FOR RE-ELECTION

Name of Director	Christoph Hartmann	Dr Hedda Juliana im Brahm-Droege	Tan Yee Peng
(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	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	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	No
(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	No

ADDITIONAL INFORMATION ON DIRECTORS PROPOSED FOR RE-ELECTION

Name of Director	Christoph Hartmann	Dr Hedda Juliana im Brahm-Droege	Tan Yee Peng
(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	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	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	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	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	No

ADDITIONAL INFORMATION ON
DIRECTORS PROPOSED FOR RE-ELECTION

Name of Director	Christoph Hartmann	Dr Hedda Juliana im Brahm-Droege	Tan Yee Peng
(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	Yes On 28 June 2013 and on 20 November 2015, the Monetary Authority of Singapore ("**MAS**") and Accounting & Corporate Regulatory Authority ("**ACRA**") informed Dr. im Brahm-Droege that she had contravened against Section 82/84 of the Companies Act (Cap. 50) and Section 137 of the Securities and Futures Act (Cap. 289) for not notifying the change of her interest in Dutech Holdings Limited within the legally stipulated time frame. MAS and ACRA offered to compound the abovementioned offences and Dr. im Brahm-Droege had accepted and paid a small compound fine for late notification.	No
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	Not applicable

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DUTECH HOLDINGS LIMITED

(Company Registration No.: 200616359C)
(Incorporated in the Republic of Singapore)

PROXY FORM

IMPORTANT:

1. The Annual General Meeting is being convened and will be held by electronic means pursuant to the COVID-19 (Temporary Measures) (Alternative Arrangements for Meetings for Companies, Variable Capital Companies, Business Trusts, Unit Trusts and Debenture Holders) Order 2020. Printed copies of the Notice of Annual General Meeting will not be sent to members. Instead, the Notice of Annual General Meeting will be sent to members by electronic means via publication on the Company's website at the URL www.dutechholdings.com. The Notice of Annual General Meeting will also be made available on the SGX website at the URL https://www.sgx.com/securities/company-announcements.
2. Alternative arrangements relating to attendance at the Annual General Meeting via electronic means (including instructions by which the meeting can be electronically access via live audio-visual website or live audio-only stream), submission of questions to the Chairman of the Meeting in advance of the Annual General Meeting, addressing of substantial and relevant questions at the Annual General Meeting and voting by appointing the Chairman of the Meeting as proxy at the Annual General Meeting, are set out in the accompanying Company's announcement dated 11 May 2020. This announcement may be accessed at the Company's website at the URL www.dutechholdings.com and will also be made available on the SGX website at the URL https://www.sgx.com/securities/company-announcements.
3. Due to the current COVID-19 restriction orders in Singapore, a member will not be able to attend the Annual General Meeting in person. A member (whether individual or corporate) must appoint the Chairman of the Meeting as his/her/its proxy to attend, speak and vote on his/her/its behalf at the Annual General Meeting if such member wishes to exercise his/her/its voting rights at the Annual General Meeting.
4. CPF or SRS investors who wish to appoint the Chairman of the Meeting as proxy should approach their respective CPF Agent Banks or SRS Operators to submit their votes by 5.00 p.m. on 18 May 2020.
5. By submitting an instrument appointing the Chairman of the Meeting as proxy, the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 11 May 2020.
6. Please read the notes overleaf which contain instructions on, inter alia, the appointment of the Chairman of the Meeting as a member's proxy to attend, speak and vote on his/her/its behalf at the Annual General Meeting.

I/We, (Name) ______________________________

(NRIC/Passport/Company Registration No.) ______________________________

of (Address) ______________________________

being a member/members of **Dutech Holdings Limited** (the "**Company**"), hereby appoint the Chairman of the Meeting as my/our proxy to attend, speak and vote for me/us on my/our behalf at the Annual General Meeting (the "**Meeting**") of the Company to be convened and held by way of electronic means on Thursday, 28 May 2020 at 02.30 p.m. and at any adjournment thereof.

I/We have indicated with an "**X**" in the appropriate box against each item below on how I/we wish the Chairman of the Meeting as my/our proxy to vote, or to abstain from voting.

No.	Resolutions relating to:	For	Against	Abstain
1	Directors' Statement and Audited Financial Statements for the financial year ended 31 December 2019			
2	Re-election of Mr Christoph Hartmann as a Director			
3	Re-election of Dr Hedda Juliana im Brahm-Droege as a Director			
4	Re-election of Ms Tan Yee Peng as a Director			
5	Approval of Directors' fees amounting to S$396,000 for the financial year ending 31 December 2020 to be paid quarterly in arrears			
6	Re-appointment of Messrs Crowe Horwath First Trust LLP as Auditors			
7	Authority to issue shares			
8	Proposed renewal of the share buy-back mandate			

Note: Voting will be conducted by poll. If you wish the Chairman of the Meeting as your proxy to cast all your votes "For" or "Against" a resolution, please indicate with an "X" in the "For" or "Against" box provided in respect of that resolution. Alternatively, please indicate the number of votes "For" or "Against" in the "For or "Against" box provided in respect of that resolution. If you wish the Chairman of the Meeting as your proxy to abstain from voting on a resolution, please indicate with an "X" in the "Abstain" box provided in respect of that resolution. Alternatively, please indicate the number of shares that the Chairman of the Meeting as your proxy is directed to abstain from voting in the "Abstain" box provided in respect of that resolution. **In the absence of specific directions in respect of a resolution, the appointment of Chairman of the Meeting as your proxy for that resolution will be treated as invalid.**

Dated this ______________ day of May 2020

Total number of Shares held:

____

Signature of Shareholder(s) or,
Common Seal of Corporate Shareholder

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Notes:

1. Please insert the total number of shares (Shares) held by you. If you have Shares entered against your name in the Depository Register (maintained by the Central Depository (Pte) Limited), you should insert that number of Shares. If you have shares registered in your name in the Register of Members (maintained by or on behalf of the Company), you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares. If no number is inserted, this instrument of proxy will be deemed to relate to all Shares held by you.

2. **Due to the current COVID-19 restriction orders in Singapore, a member will not be able to attend the Annual General Meeting in person. A member (whether individual or corporate) must appoint the Chairman of the Meeting as his/her/its proxy to attend, speak and vote on his/her/its behalf at the Annual General Meeting if such member wishes to exercise his/her/its voting rights at the Annual General Meeting.** This proxy form may be accessed at the Company's website at the URL www.dutechholdings.com, and will be also be made available on the SGX website at the URL https://www.sgx.com/securities/company-announcements. Where a member (whether individual or corporate) appoints the Chairman of the Meeting as his/her/its proxy, he/she/it must give specific instructions as to voting, or abstentions from voting, in respect of a resolution in the form of proxy, failing which the appointment of the Chairman of the Meeting as proxy for that resolution will be treated as invalid.

   CPF or SRS investors who wish to appoint the Chairman of the Meeting as proxy should approach their respective CPF Agent Banks or SRS Operators to submit their votes by 5.00 p.m. on 18 May 2020.

3. The Chairman of the Meeting, as proxy, need not be a member of the Company.

4. The instrument appointing the Chairman of the Meeting as proxy must be submitted to the Company in the following manner:

   (a) if submitted by post, be lodged at the Registered Office of the Company at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623; or

   (b) if submitted electronically, be submitted via email to the Company's Share Registrar at email address: farhan.izzuddin@zicoholdings.com,

   in either case not less than forty-eight (48) hours before the time appointed for holding the Annual General Meeting.

   A member who wishes to submit instrument of proxy must first download, complete and sign the proxy form, before submitting it by post to the address provided above, or before scanning and sending it by email to the email address provided above.

   In view of the current COVID-19 situation and the related safe distancing measures which may make it difficult for members to submit completed proxy forms by post, members are strongly encouraged to submit completed proxy forms electronically via email.

5. The instrument appointing the Chairman of the Meeting as proxy must be under the hand of the appointor or of his/her attorney duly authorised in writing. Where the instrument appointing the Chairman of the Meeting as proxy 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 the Chairman of the Meeting as proxy 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 (failing previous registration with the Company), if the instrument appointing the Chairman of the Meeting as proxy is submitted by post, be lodged with the instrument of proxy or, if the instrument appointing the Chairman of the Meeting as proxy is submitted electronically via email, it must be emailed with the instrument, failing which the instrument may be treated as invalid.

PERSONAL DATA PRIVACY:

By submitting an instrument appointing the Chairman of the Meeting as proxy, the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 11 May 2020.

General:

The Company shall be entitled to reject the instrument appointing the Chairman of the Meeting as proxy 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 the Chairman as proxy. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing the Chairman of the Meeting as proxy lodged or submitted 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.