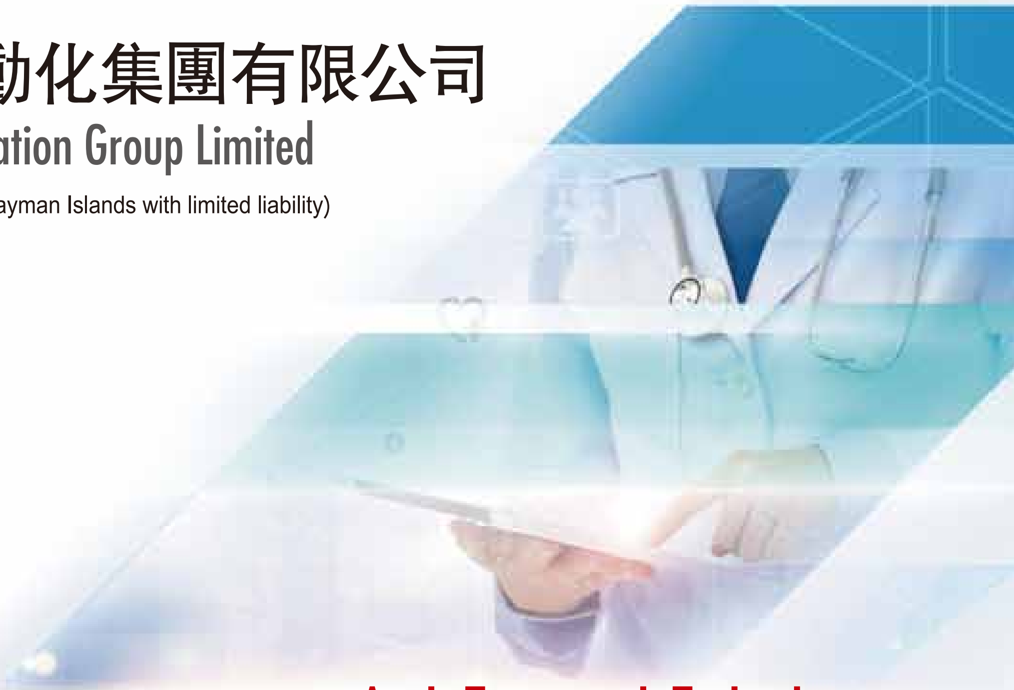
# 中國自動化集團有限公司
# China Automation Group Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 569)



**Apply Tomorrow's Technology**
**Safeguard Security Today**

## Annual Report 2018

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# COMPANY PROFILE

China Automation Group Limited (the "Company") was established in 1999 and listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 July 2007. The Company and its subsidiaries (collectively referred to as the "Group") specialise in providing safety and critical control systems and control valves mainly for the petrochemical industries. The Group is the largest integrated solution provider of safety and critical control systems in the petrochemical industry as well as the largest domestic manufacturer of control valves in the People's Republic of China (the "PRC").

In view of the promising prospect of the healthcare services industry in China, the Group had acquired 60% of the total issued share capital of Etern Group Limited, an investment holding company holding 98% equity interest in Yongding Hospital Company Limited, which is principally engaged in hospital business in Suzhou, China in July 2017.

Given the promising prospects of the healthcare services sector in China and the profitability track record of acquired hospital business, Board of Directors ("the Board") considers that the hospital business will broaden the income source and enhance the financial stability of the Group, which may help to shield the Group from market pressure on its existing core businesses.


永鼎 医院

**Xuan Ruiguo**

*Chairman*

# CHAIRMAN'S **STATEMENT**

We are dedicated to providing high-tech products and services to the highest standard for petrochemical industries ensuring a safe and comfortable environment for our people.

The Board considers that the acquired hospital services business will broaden the income source and enhance the financial stability of the Group, given the promising prospects of the healthcare services sector in China.

# CHAIRMAN'S STATEMENT

On behalf of the Board of the Company, I am pleased to report the audited annual results of the Group for the year ended 31 December 2018.

China has achieved steady expansion with a 6.6% year-on-year growth in the country's gross domestic product in 2018. The economy operated within an appropriate range and established a stable and improving trend. China's petrochemical industry achieved steady performance while cutting overcapacity and promoting green development would be the top priority for the industry in the future. Meanwhile, China's healthcare services market represents promising prospect as demand for healthcare increases.

During the year under review, the Group continued to undertake various measures to streamline and enhance its operations. The Group implemented a stringent budgetary planning and control system and cost control measures with an aim to lower its selling and distribution expenses as well administrative costs.

For the year ended 31 December 2018, revenue of the Group increased significantly by 54.6% to RMB1,891.1 million (2017: RMB1,223 million).

Revenue generated from the petrochemical segment soared 37.9% to RMB1,423.2 million (2017: RMB1,031.8 million), whereas revenue generated from the hospital services segment rose significantly by 144.7% to RMB467.9 million (2017: RMB191.2 million) for the year ended 31 December 2018. The significant increase was primarily due to the consolidation of hospital services business for the full year whereas it only contributed to the revenue for about five months in 2017 as the acquisition was completed on 26 July 2017.

## PETROCHEMICAL BUSINESS

At present, China's petrochemical industry has achieved steady performance while undergoing industrial restructuring. Cutting overcapacity and promoting green development would be the top priority for the industry in the future. Furthermore, the growth of the coal chemical industry has slowed down due to rising coal prices and stringent environmental protection requirements. The growth in demand for high-end petrochemical and chemical products which are green, safe and cost-effective will outstrip the traditional products. The safety and environmental standards for the industry are expected to continue to be more stringent. As such, the petrochemical and coal chemical industries will continue to embrace exceedingly intense competition, dwarfing the revenue, margin and profitability prospects.

In terms of provision of safety and critical control systems for the petrochemical industry, during the year, the Group maintained its market share and leading market position and continued to secure large scale projects from renowned petrochemical and coal chemical related companies, including PetroChina and Sinochem, etc. The Group continued to upgrade its self-developed proprietary products namely, iMEC, iSOM and OTS systems, providing energy-saving solutions and comprehensive upgrades for turbine and compressor control systems.

As for control valve segment, the Group continued to develop high-end control valves. In 2018, the Group received "The First Prize of Science and Technology Progress" from Science and Technology Department of Ningxia for development of smart decompression regulating valve. Leveraging years of experiences in this area, the Group's control valve engineering and maintenance services team can undertake plant-wide control valve engineering and maintenance services projects.

## HEALTHCARE SERVICES BUSINESS

China is the most populous country in the world. In recent years, residents' average lifespan continues being prolonged. Besides, with the increase in per capita GDP, the expenditure on healthcare grows while demand for healthcare treatments increases. As the population grows, lifespan prolongs, personal income increases, demand for healthcare services is being promoted and will grow in tandem.

According to China National Health and Family Planning Development Statistical Bulletin, the total healthcare expenditure in China in 2017 amounted to RMB5,159.88 billion, representing an increase of 11.3% from RMB4,634.49 billion in 2016. The total healthcare expenditure in 2017 accounted for 6.2% of the GDP for the same year, and the ratio is still lagging behind when compared to middle- and high-income countries.

The aging population in China, the growing disposable income of residents as well as initiatives and objectives developed under Regulation Plan for Deepening Medical and Health System Reformation for China during the 13th Five-Year Plan Period will boost healthcare demand of residents.

Under an agreement signed with China Trauma Rescue and Treatment Association, "Suzhou Yongding Hospital Trauma Rescue and Treatment Center" was set up in 2018 to further enhance expertise of staff and competitiveness of Yongding Hospital. On the other hand, the hospital has been actively participating in and initiating its cultural movements, and fulfilled its social responsibilities, striving to enhance its overall image.

## PROSPECTS AND OUTLOOK

The Group has undertaken a detailed strategic review of the Group for the purpose of developing business plans and strategies for its business development in the future, and determining whether any change would be appropriate or desirable in order to optimise its business. The Group has also rolled out an internal restructuring program to dispose of the non-profit making business units.

As disclosed in the announcement of the Company dated 18 December 2018, the Company is considering disposal of the whole petrochemical business segment. If the disposal was materialised and completed, the Group's business will solely consist of the hospital services business as described below. The Board considers that the disposal may further enhance its growth potential and maximise value for shareholders as the petrochemical segment has been experiencing losses over the past years and would face uncertainties.

In July 2017, the Group completed an acquisition of 60% equity interest in Etern Group Limited, an investment holding company holding 98% interest in Yongding Hospital, which is principally engaged in hospital business in Suzhou, China. Given the promising prospects in the healthcare services sector in China and the profitability track record of acquired hospital business, the Board considers that the hospital business will broaden the income source and enhance the financial stability of the Group, which may help to shield the Group from market pressure on its existing core businesses.

Leveraging our unique competencies, distinguished development strategies and experienced professional management team, the Group will continue to maximise returns for our shareholders and achieve remarkable results.

**Xuan Ruiguo**
*Chairman*

Hong Kong
21 March 2019

## OPERATION AND BUSINESS REVIEW

In 2018, the Group maintained a leading position in its two core businesses in petrochemical industry in China. The Group is the largest integrated solution provider of safety and critical control systems in the petrochemical and coal chemical industries as well as the largest domestic manufacturer of control valves in China.

In 2018, the Group continued to undertake various measures to streamline and enhance its operations. The Group implemented a stringent budgetary planning and control system and cost-control measures with an aim to lower its sales and marketing costs as well as operational costs. The Group has also rolled out an internal restructuring program to dispose of the non-profit making business units.

On the other hand, the Group has considered the prospect of healthcare services sector in China is extremely promising. As such, the Group has actively researched and looked into the investment opportunities in healthcare services industry.

In July 2017, the Group has completed the acquisition of 60% equity interest in Etern Group Ltd., an investment holding company holding 98% equity interest in Yongding Hospital, which is principally engaged in hospital business in Suzhou, China. Given the promising prospect of the healthcare services sector in China and the historical profitability of acquired hospital business, the Group considers the hospital business would broaden the income source and enhance financial stability to the Group which may help shield the Group from market pressure on its existing core businesses.

## PETROCHEMICAL INDUSTRY

In 2018, China's petrochemical industry achieved steady performance. The Group's safety and critical control maintained its market share and leading position in the market. As at 31 December 2018, the Group successfully completed and delivered approximately 455 sets of systems, bringing the cumulative delivered 4,711 system count to approximately sets. The Group continued to secure large-scale projects in 2018 from renowned petrochemical and coal-chemical related companies, including PetroChina and Sinochem, etc. In addition, as a qualified vender for GE, MAN Turbo, Hitachi, Siemens, Atlas Copco, Mitsubishi, Dresser Rand and Elliot, the Group continued to win new contracts in 2018 from these corporations.

Moreover, the Group has upgraded its self-developed proprietary products namely, iMEC, iSOM and OTS systems, providing energy-saving and more complete solutions for turbine and compressor control systems.

With persistent efforts in research and development, production, sales and marketing, and internal operation, the Group's control valve business protected its market positioning in 2018. The Group's unparalleled capability in provision of engineering and maintenance services constitutes a core competitive advantage in its control valve business. Leveraging years of experiences in this area, the Group's control valve engineering and maintenance services team can undertake plant-wide control valve engineering and maintenance services projects for both its own products and the products supplied by other corporations, including first-tier multi-national corporations. Not only had the maintenance services made significant contribution to the Group's overall profit, they also helped secure new orders in connection with replacement of control valves manufactured by other producers.

## HEALTHCARE SERVICES BUSINESS

According to China National Health and Family Planning Development Statistical Bulletin, the total healthcare expenditure in China in 2017 amounted to RMB5,159.88 billion, representing an increase of 11.3% from the RMB4,634.49 billion in 2016. The total healthcare expenditure in 2017 accounted for 6.2% of the country's GDP for the same year. At this level, the ratio is still lagging behind those of the middle- and high-income countries. Meanwhile, considering the aging population in China, the growing disposable income of residents as well as initiatives and objectives developed under Regulation Plan for Deepening Medical and Health System Reformation for China during the 13th Five-Year Plan Period, the Group believes in bright prospects for the healthcare services industry in the country.

Suzhou Yongding Hospital has been maintaining good development momentum for its operation since the acquisition in 2017 and delivered promising operating results in 2018. The key operating results include (i) the total number of outpatient visits reached 590,481, representing a year-on-year increase of 11.0%, mainly attributable to the outpatient flow improvement; (ii) the total number of inpatient visits was 23,191, representing a year-on-year decrease of -7.8%, mainly due to inpatient capacity constraint from moving inpatient facilities and internal renovation of Phase I inpatient building; and (iii) the average length of stay maintained in an efficient level of 7.1 days.

In addition to maintaining business momentum, Suzhou Yongding Hospital has been enhancing its healthcare capabilities, including (i) In February 2018, joining in "China Trauma Care Alliance" (中國創傷救治聯盟) to provide more timely and normative emergency aid services to local residents; (ii) In October 2018, completing "hyperbaric oxygen chamber" project and putting it into use, which was the first facility in local area and would enrich the medical treatments on patients with severe cerebral diseases or neurogenic diseases; (iii) In December 2018, becoming a member of "medical treatment alliance of Jiangsu rheumatic immune diseases" (江蘇省風濕免疫病醫聯體聯盟) to benefit from resources sharing among the members within the alliance.

Looking ahead the Group will tap fully opportunities afforded by rapid development of the healthcare services industry in China, and will further expand and strengthen its healthcare services business by adopting the following strategies:

- Strengthening and improving management and operation of Suzhou Yongding Hospital, enhancing the quality of service of the hospital, and offering higher quality services for local residents;

- Implementing various measures under the Group's talent development strategies, which specifically include: establishing and strengthening its cooperation with medical schools, focusing on staff training with more learning and exchange opportunities, and introducing medical and management talents in line with its development strategies, etc.;

- Carrying out diversified cooperation, adhering to the government's hierarchical medical system, and at the same time, expanding the Group's scope of services, establishing community service centers and improving distribution of medical resources;

- Striving to establish and optimize a standardized management system and a quality control system for integrated hospitals; and

- Building regional medical service centers, offering better quality and more convenient medical services for the residents in the respective regions, and actively considering to increase the Group's further investments in the healthcare services industry at appropriate timing

## FINANCIAL REVIEW

## CONTINUING OPERATIONS

### REVENUE

For the year ended 31 December 2018, revenue of the Group increased significantly by 54.6% to RMB1,891.1 million (2017: RMB1,223 million).

Revenue generated from the petrochemical segment soared 37.9% to RMB1,423.2 million (2017: RMB1,031.8 million), whereas revenue generated from the hospital services segment rose significantly by 144.7% to RMB467.9 million (2017: RMB191.2 million) for the year ended 31 December 2018.

### TURNOVER ANALYSIS BY OPERATING SEGMENT

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2018** | | 2017 | | Change |
| | **(RMB' million)** | **%** | (RMB' million) | % | (%) |
| Petrochemical | **1,423.2** | **75.3** | 1,031.8 | 84.4 | +37.9 |
| Hospital services | **467.9** | **24.7** | 191.2 | 15.6 | +144.7 |
| | **1,891.1** | **100.0** | 1,223.0 | 100.0 | +54.6 |

### TURNOVER ANALYSIS BY TYPES OF GOODS SUPPLIED AND SERVICES RENDERED

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2018** | | 2017 | | |
| | **(RMB million)** | **Proportion (%)** | (RMB million) | Proportion (%) | Change (%) |
| **Petrochemical** | | | | | |
| – Systems and software | **535.3** | **28.3** | 287.9 | 23.5 | +85.9 |
| – Industrial control valves | **580.1** | **30.7** | 467.9 | 38.3 | +24.0 |
| – Provision of maintenance and engineering services | **235.6** | **12.5** | 177.2 | 14.5 | +33.0 |
| – Design and consulting services | **72.2** | **3.8** | 98.8 | 8.1 | -26.9 |
| Sub-total | **1,423.2** | **75.3** | 1,031.8 | 84.4 | +37.9 |
| **Hospital services** | | | | | |
| – Sales of pharmaceuticals and healthcare services | **467.9** | **24.7** | 191.2 | 15.6 | +144.7 |
| Sub-total | **467.9** | **24.7** | 191.2 | 15.6 | +144.7 |
| **Total** | **1,891.1** | **100.0** | 1,223.0 | 100.0 | +54.6 |

## SYSTEM SALES AND RELATED SERVICES TO THE PETROCHEMICAL INDUSTRIES

### SYSTEMS AND SOFTWARE SALES

For the year ended 31 December 2018, revenue generated from system and software sales in relation to the petrochemical industries increased by 85.9% to RMB535.3 million (2017: RMB287.9 million). It was mainly attributable to the bottoming-out of the market and therefore more tendering and delivery activities in the petrochemical industry.

### INDUSTRIAL CONTROL VALVES

Revenue from the Group's industrial control valves business increased by 24.0% to RMB580.1 million (2017: RMB467.9 million). Such increase was primarily attributable to more contracts won following the market recovery in the petrochemical industry.

### PROVISION OF MAINTENANCE AND ENGINEERING SERVICES

For the year ended 31 December 2018, revenue generated from provision of maintenance and engineering services increased by 33.0% to RMB235.6 million (2017: RMB177.2 million). The management of the Group believes that more recurring income related to maintenance services will be generated as there will be more aged installations needed to be replaced.

### DESIGN AND CONSULTING SERVICES

For the year ended 31 December 2018, revenue generated from design and consulting services decreased by 26.9% to RMB72.2 million (2017: RMB98.8 million).

## THE HOSPITAL SERVICES

### PHARMACEUTICAL AND HEALTHCARE SERVICES

Revenue generated from the hospital services for the year ended 31 December 2018 increased significantly by 144.7% to RMB467.9 million (2017: RMB191.2 million). The significant increase was primarily due to the consolidation of hospital services business for the full year whereas it only contributed to the revenue for about five months in 2017 as the acquisition was completed on 26 July 2017.

In addition, in terms of operating segment, 75.3% (2017: 84.4%) of the Group's revenue was generated from the petrochemical segment and 24.7% (2017: 15.6%) from the hospital services segment.

### GROSS PROFIT

Gross profit for the year ended 31 December 2018 amounted to RMB575.7 million (2017: RMB192.4 million), representing a significant increase by 199.2% as compared with that of the previous year.

The overall gross profit margin for the year ended 31 December 2018 widened greatly by 14.7% percentage points to 30.4% (2017: 15.7%).

## GROSS PROFIT ANALYSIS BY TYPES OF GOODS SUPPLIED AND SERVICES RENDERED

| | For the year ended 31 December | | |
|---|---|---|---|
| | 2018 (%) | 2017 (%) | Change (%) Point |
| Petrochemical | | | |
| – Systems and software | 33.2 | 3.1 | +30.1 |
| – Industrial control valves | 32.8 | 19.7 | +13.1 |
| – Provision of maintenance and engineering services | 26.7 | 14.4 | +12.3 |
| – Design and consulting services | 3.3 | 12.7 | –9.4 |
| Sub-total | 30.4 | 13.5 | +16.9 |
| Hospital services | | | |
| – Sales of pharmaceuticals and healthcare services | 30.5 | 27.8 | +2.7 |
| Total | 30.4 | 15.7 | +14.7 |

## GROSS PROFIT MARGIN IN THE PETROCHEMICAL INDUSTRIES

### GROSS PROFIT MARGIN OF SYSTEMS AND SOFTWARE

The gross profit margin of systems and software sales increased significantly by 30.1% to 33.2% (2017: 3.1%). The significant improvement in gross profit margin was primarily due to the Group's revised tendering strategy of emphasizing the quality of the contracts namely higher margin and better payment terms.

### GROSS PROFIT MARGIN OF INDUSTRIAL CONTROL VALVES

The gross profit margin of industrial control valves business improved by 13.1% to 32.8% (2017: 19.7%). The significant improvement in gross profit margin was primarily due to the change in strategy of the Group for bidding new projects to ensure reasonable margin as well as better payment terms.

### GROSS PROFIT MARGIN OF PROVISION OF MAINTENANCE AND ENGINEERING SERVICES

The gross profit margin of provision of maintenance and engineering services was 26.7% (2017: 14.4%).

### GROSS PROFIT MARGIN OF DESIGN AND CONSULTING SERVICES

The gross profit margin of design and consulting services was 3.3% (2017: 12.7%).

### GROSS PROFIT MARGIN OF HOSPITAL SERVICES

For the year ended 31 December 2018, the gross profit margin of the hospital services business was 30.5% (2017: 27.8%).

### OTHER INCOME

For the year ended 31 December 2018, other income decreased by RMB7.1 million to RMB37.7 million (2017: RMB44.8 million). The decrease was primarily due to the decline in government grant as a result of a lower level of industrial control valve research projects in 2018.

### OTHER GAINS AND LOSSES

For the year ended 31 December 2018, other losses amounted to RMB65.2 million (2017: other gains of RMB77.2 million). The significant turnaround from gains into losses was primarily attributable to: (i) loss from change in fair value of convertible bonds amounted to RMB60.4 million (2017: gain of RMB71.3 million); and (ii) net foreign exchange loss amounted to RMB4.7 million (2017: gain of RMB4.6 million) due to devaluation of RMB in 2018.

## IMPAIRMENT LOSSES, NET OF REVERSAL

For the year ended 31 December 2018, impairment losses (net of reversal) decreased significantly by RMB37.6 million to RMB13.7 million (2017: RMB51.3 million). The significant decrease was primarily due to the significant decline in impairment losses of RMB35.9 million in relation to trade receivables. Thanks to the dedicated team which has been tasked to follow up payment especially the aged account receivables with the customers in accordance with corporate credit control policies. In addition, the Group has been negotiating better and more upfront payment terms in the contracts with the customers and dropped those customers with bad payment records.

## SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses for the year ended 31 December 2018 increased by 6.3% to RMB117.8 million (2017: RMB110.8 million).

Such increase was mainly attributable to higher travelling expenses and cargo charges in line with the increased business activities.

Selling and distribution expenses as a percentage of the Group's full year revenue was 6.2% (2017: 9.1%).

## ADMINISTRATIVE EXPENSES

Administrative expenses for the year ended 31 December 2018 amounted to RMB230.6 million (2017: RMB198.9 million), representing an increase of 15.9% year-on-year. The increase was mainly due to the consolidation of hospital services business for the full year whereas it only consolidated for about five months in 2017 as the acquisition was completed on 26 July 2017.

Administrative expenses as a percentage of the Group's full year revenue was 12.2% (2017: 16.3%).

## RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the year ended 31 December 2018 were RMB63.9 million (2017: RMB62.1 million). The research and development projects undertaken were mainly related to development of: (i) high-end control valves in response to the preferential policies regarding localization enacted by the Chinese Government; and (ii) hardware for the turbine machinery control system business.

## FINANCE COSTS

Finance costs for the year ended 31 December 2018 decreased by 6.4% to RMB56.8 million (2017: RMB60.7 million). However, it is noted that there was a capitalisation of borrowing costs of RMB6.5 million in connection with the construction of Wuzhong Instrument investment project in 2018.

## INCOME TAX EXPENSES

Income tax expenses for the year ended 31 December 2018 amounted to RMB45.6 million (2017: RMB17.4 million). The effective income tax rate at 86.2% was primarily due to (i) tax losses not recognised; and (ii) expenses not deductible for tax purpose.

## PROFIT/LOSS FOR THE YEAR

As a result of the foregoing, the Group recorded a profit from continuing operations of RMB7.3 million for the year ended 31 December 2018 (2017: loss of RMB192.3 million).

## DISCONTINUED OPERATIONS

The Group did not record any gain or loss from discontinued operations for the year ended 31 December 2018. (2017: losses of RMB15.3 million)

On 25 January 2017, the Group completed the disposal of entire equity interest in Beijing Consen Transportation Technology Company Limited. The Group also completed the disposal of 100% equity interests of Beijing Consen Process Control Technology Company Limited ("Consen Process Control") on 11 July 2017 and the disposal of 100% equity interests of Beijing Liboyuan Investment Management Company Limited ("Liboyuan Investment") on 27 September 2017. Consen Process Control holds 51% equity interest of Nanjing Huashi Electronic Scientific Company Limited ("Nanjing Huashi Electronic") and Liboyuan Investment holds 51% equity interest of Nanjing Huashi Power Equipment Company Limited ("Nanjing Power Equipment"). Nanjing Huashi Electronic and Nanjing Power Equipment engage in the design, production and sale of railway traction control and auxiliary electricity supply systems in the PRC. At the moment, the Group has already disposed the whole railway segment.

## LOSS FOR THE YEAR (FROM CONTINUING AND DISCONTINUED OPERATIONS) ATTRIBUTABLE TO OWNERS OF THE COMPANY

The Group recorded loss amounting to RMB18.5 million for the year ended 31 December 2018 (2017: RMB208.2 million).

## LOSS PER SHARE

Loss per share (from both continuing and discontinued operations) for the year ended 31 December 2018 was RMB1.80 cents (2017: RMB20.29 cents).

Loss per share (from continuing operations) for the year ended 31 December 2018 was RMB1.80 cents (2017: RMB19.64 cents).

## DIVIDEND

The Board had resolved not to recommend distribution of a final dividend (2017: Nil) in respect of the year.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net cash generated from the Group's operating activities for the year ended 31 December 2018 amounted to RMB323.3 million (2017: RMB111.5 million). The Group has adopted a prudent working capital management strategy. As such, the Group had been able to generate significant positive operating cashflow primarily due to: (i) the significant increase in trade and bills payables; and (ii) the significant increase in advance from customers.

Net cash used in investing activities of the Group for the year ended 31 December 2018 amounted to RMB213.6 million (2017: net cash generated from investing activities amounted to RMB129.1 million). This was primarily due to the purchases of property, plant and equipment and deposits for acquisition of property, plant and equipment and the increase in prepaid lease payments in relation to Wuzhong Instrument investment project.

Net cash generated from financing activities for the year ended 31 December 2018 amounted to RMB373.1 million (2017: Net cash used in financing activities of RMB108 million). This was mainly attributable to the capital contribution of RMB499.6 million from Ningxia Industrial Guide Fund Management Limited to support the investment project of Wuzhong Instrument Company Limited ("Wuzhong Instrument") in 2018.

As at 31 December 2018, cash and bank balances (including pledged bank deposits of RMB54.7 million) amounted to RMB848.1 million (31 December 2017: RMB347.3 million (including pledged bank deposits of RMB38.4 million)).

## GEARING POSITION

The net gearing (total borrowings less cash over total equity) ratio was at 80.1% as at 31 December 2018 (31 December 2017: at 76.8%).

As at 31 December 2018, total borrowings of the Group amounted to RMB1,946.7 million (31 December 2017: RMB1,398.7 million), of which the long term payables in relation to the capital contribution of RMB499.6 million from Ningxia Industrial Guide Fund Management Limited; the convertible bonds amounted to RMB617.8 million, the corporate bonds due 2019 amounted to RMB197 million and the guaranteed notes due 2019 amounted to US$10 million (equivalent to approximately RMB69.4 million).

## SIGNIFICANT INVESTMENTS, MERGERS AND ACQUISITIONS

For the year ended 31 December 2018, the Group spent RMB269.6 million related to the purchases of property, plant and equipment and deposits for acquisition of property, plant and equipment, and prepaid lease payments and capitally committed RMB834.2 million mainly for the acquisition of property, plant and equipment in relation to Wuzhong Instrument investment project.

## CONTINGENT LIABILITIES

As at 31 December 2018, the Group had no material contingent liabilities.

## FUTURE OUTLOOK

The Group has undertaken a detailed strategic review of the Group for the purpose of developing business plans and strategies for its business development in the future, and determining whether any change would be appropriate or desirable in order to optimise its business. The Group has also rolled out an internal restructuring program to dispose of the non-profit making business units.

As disclosed in the announcement of the Company dated 18 December 2018, the Company is contemplating disposal of the whole petrochemical business segment. If the Possible Disposal was materialized and completed, the Group's business will solely consist of the hospital services business as described below. The Board considers that the Possible Disposal may further enhance its growth potential and maximise value for shareholders as the petrochemical segment has been experiencing losses over the past years.

In July 2017, the Group completed an acquisition of 60% equity interest in Etern Group Limited, an investment holding company holding 98% interest in Yongding Hospital, which is principally engaged in hospital business in Suzhou, China. Given the promising prospects in the healthcare services sector in China and the profitability track record of acquired hospital business, the Board considers that the hospital business will broaden the income source and enhance the financial stability of the Group, which may help to shield the Group from market pressure on its existing core businesses.

# INVESTOR RELATIONS REPORT

In the year of 2018, the Group continued to conduct extensive information exchanges and communication with investors, so that they could have better knowledge and understanding of the Group's future development strategy, operational situation and financial performance. Such efforts enhanced the transparency of the Group in the capital market and offered strong support to the Group's investors to make informed and reasonable investment decisions.

On the basis of fair disclosure, the Group has maintained sincere and timely communication with investors through various channels to report the Group's latest development:

- Interim and annual results announcement
- Publicity through the mass media
- Continually arranging meetings between senior management and investors and site visits to the Group's facilities and customer sites
- Prompt response to investor enquiries
- The Group's website

In 2018, the Group has hosted site visits for investors in Hong Kong and Beijing during the period, during which visitors could witness the Group's stable development with their own eyes. The Group's top management and IR team meet with investors, so as to inform and update them about the Group's latest developments.

In 2019 and onwards, the Group will continuously enhance investor relations. The senior management of the Group will consistently support investor relations, and the Group will persistently make transparent disclosures.

## DIRECTORS

### EXECUTIVE DIRECTORS

**Mr. Xuan Rui Guo (宣瑞國)**, aged 50, the Group's founder, Executive Director and Chairman, is mainly responsible for the overall strategy, financial planning and long-term development. Mr. Xuan is a director of both Araco Investment Limited and Brightex Enterprises Limited (The two companies are all the Group's main shareholders subject to Part XV of the Securities and Futures Ordinance). Mr. Xuan is also one of the winners of Ernst & Young Entrepreneur of The Year 2009 China. He is an incumbent director of Yabuli Entrepreneur Association and Deputy Chairman of China Instrument and Control Society. Mr. Xuan is also a director and deputy chairman of Guangdong Huatie Tongda High-speed Railway Equipment Corporation (廣東華鐵通達高鐵裝備股份有限公司), which is listed on the Shenzhen Stock Exchange (Stock Code: 000976). Mr. Xuan graduated from Renmin University of China (中國人民大學) with a bachelor's degree in international politics. He has extensive experience in management, administration and business development in different industries including industrial automation, biotechnology, telecommunication and trading in the PRC. He previously served General Manager of Beijing Consen Automation Control Company Limited, (北京康吉森自動化設備技術有限責任公司) ("Beijing Consen"), etc.

**Mr. Wang Chuen Sheng (王春生)**, aged 59, is an Executive Director since August 2016. Mr. Wang obtained his Bachelor of Engineering degree in hydraulic and offshore oil construction engineering from Tianjin University (天津大學) in 1981. From 1982 to 1985, he served as a teaching assistant in Tianjin University, and subsequently joined the Shenzhen branch office of Eastman Christensen (subsequently acquired by Baker Hughes Incorporated) in 1985 and worked as a technical manager till 1987. Mr. Wang obtained his Master of Engineering in petroleum engineering from the University of Alaska Fairbanks in 1990, and subsequently joined Sperry-Sun Drilling Services (subsequently acquired by Halliborton Company) in the United States of America and served as a technical manager till 1997. Mr. Wang was the Chairman of Hayden Inc. in the United States of America from 1997 to 2000, and has been the Chairman of Beijing Haidun New Technology Company Limited (北京海頓新科技術有限公司) since 2000.

### INDEPENDENT NON-EXECUTIVE DIRECTOR

**Mr. Wang Tai Wen (王泰文)**, aged 72, is an Independent Non-executive Director of the Group since January 2008 while serving as External Director of China National Foreign Trade Transportation (Group) Corporation. Mr. Wang is also an independent director of Guangdong Huatie Tongda High-speed Railway Equipment Corporation (廣東華鐵通達高鐵裝備股份有限公司), which is listed on the Shenzhen Stock Exchange (Stock Code: 000976). He had also held various managerial positions in Ziyang Internal Combustion Locomotive Plant; served as Chairman, General Manager and Secretary to Communist Party Committee of China National Railway Locomotive Corporation; and as Chairman and Secretary to Communist Party Committee of China Southern Locomotive Industrial Group Corporation (中國南方機車車輛工業集團). In November 2006, Mr. Wang joined China Railway Engineering Group Company Limited (中國鐵路工程總公司) as External Director. According to "Notice on Board of Directors of Wholly State-Owned Companies" issued by State-owned Assets Supervision and Administration Commission of the State Council, as External Director of China Railway Engineering Group Company Limited, Mr. Wang's main responsibilities are to attend meetings of its board of directors and to make decision in his capacity as a director. He did not participate in any daily operation at both China Railway Engineering Group Company Limited, and companies under the group. He graduated from Dalian Railway Institute (中國大連鐵道學院), China, majoring in machinery and manufacturing.

**Mr. Zhang Xin Zhi (張新志)**, aged 75, is an Independent Non-executive Director since August 2016. Mr. Zhang is a senior engineer and has more than 40 years of experience in the petrochemical industry. Mr. Zhang graduated from the University of Science and Technology of China in 1967. From 1967 to 1989, he served in various positions in the No. 3 Fushun Petroleum Factory (撫順石油三廠), as a technical officer, engineer, vice-manager in engineer's office and deputy plant manager. Mr. Zhang joined PetroChina Corporation in 1999, and served as a director of the refinery and chemical department, as well as a vice president of PetroChina Holdings, the general manager of the chemical and sales branch and a deputy director of the consulting centre of PetroChina Corporation. Mr. Zhang retired in 2004. Mr. Zhang has been engaged since 2003 as a part-time instructor for doctoral students by the Dalian Institute of Chemistry and Physics, the Beijing Institute of Chemistry and the Qingdao Institute of Bioenergy and Bioprocess Technology, Chinese Academy of Sciences. From 2006 to 2012, Mr. Zhang was appointed as the independent non-executive director of China BlueChemical Ltd., a company whose shares are listed on the Stock Exchange (Stock Code: 3983). From 2010 to 2015, Mr. Zhang was appointed as the chief engineer of Xuyang Chemical Industry Group Company Limited and the chief engineer of its research institute. Mr. Zhang has been appointed as the independent non-executive director of Danhua Chemical Technology Co. Ltd., (丹化化工科技股份有限公司), a company whose shares are listed on the Shanghai Stock Exchange (Stock Codes: 600844 (A Shares) and 900921 (B Shares)) since 2013. In 2015, Mr. Zhang was appointed as the independent non-executive director of Gansu Lanpec Technologies Limited (甘肅藍科石化高新裝備股份有限公司), a company whose shares are listed on the Shanghai Stock Exchange (Stock Code: 601798).

**Mr. Ng Wing Fai (吳榮輝)**, aged 60, is an Independent Non-executive Director since June 2007. He has over 15 years of experience in audit, taxation and consultancy in government and non-government institutes. Mr. Ng holds a bachelor's of arts degree in accountancy and a master's degree of arts in international accounting from City University of Hong Kong. He also holds a bachelor of laws degree from The Manchester Metropolitan University. He is a fellow member of Hong Kong Institute of Certified Public Accountants, an associate member of Institute of Chartered Accountants in England and Wales, a past president of Society of Chinese Accountants & Auditors (2011), and a member of Hong Kong Securities Institute. Mr. Ng is also an independent non-executive director of Evergreen International Holdings Limited, a company listed on the Stock Exchange (Stock Code: 238) since June 2016 and an independent non-executive director of Honworld Group Limited (老恒和釀造有限公司), a company listed on the Stock Exchange (Stock Code: 2226) since June 2017.

## SENIOR MANAGEMENT

**Mr. Zhou Zheng Qiang (周政強)**, aged 53, President of the Group and Chairman of Beiing Consen, is primarily responsible for daily operation of the Group. Mr. Zhou graduated with a bachelor's degree in process automation from the Department of Chemical Engineering in Zhejiang University (浙江大學) and also holds a Certificate of Senior Automation Engineer in China. He had served as deputy chief engineer in China Hua Lu Engineering Company (中國華路工程設計有限責任公司) from 1988 to 2002. From April 2002 to January 2006, he was the General Manager of Xi'an Lan Xi Control System Engineering Company Limited (西安市籃溪控制系統工程有限責任公司). He joined the Group in February 2006.

**Mr. Ma Yu Shan (馬玉山)**, aged 50, is Vice President of the Group and Chairman of Wuzhong Instrument. In 2009, Mr. Ma graduated from Xi'an University of Technology (西安理工大學), majoring in instrumentation, and earned a PhD in engineering and Special State Allowance Scholar. In 2001, he was named a National Youth Station Expert. In 2002, he won the National Youth Creativity and Efficiency Award. In 2011, he received a national science and technology prize in the 11th Five year Plan of China for his outstanding contributions. In 2013, he was named a China youth science and technology innovation talent. From 1991 to 2001, Mr. Ma was a technician and Director of the technology department in Wuzhong Instrument. During the period between 2001 and 2006, he served as Deputy General Manager of Wuzhong Instrument and the period between 2006 and 2016, he served as General Manager of Wuzhong Instrument.

**Ms. Dong Yan (董艷)**, aged 51, is Vice President of the Group. Ms. Dong joined the Group in September 2003. She graduated from Tsinghua University with a bachelor's degree in chemical engineering. From 1990 to 1993, Ms. Dong was a production planning officer of Beijing Chemical Industry Group. From 1993 to 2003, she served at Beijing Chemical Group Import and Export Company Limited as a department manager. In China Automation Group Company Limited, Ms. Dong is in charge of secretarial matters of the Board of Directors, investing activities, legal issues as well as administration management.

**Ms. Wang Qiu Ping (王秋萍)**, aged 39, is Chief Financial Officer of the Group. She is primarily responsible for overseeing the Group's financial planning, accounting and financial affairs. She joined the Group in December 2001. Prior to being appointed to the position of Chief Financial Officer of the Group, she served as a department manager of Beijing Consen, Financial Controller of Beijing Jiaoda Microunion Technology Company Limited and Financial Controller of the Group consecutively. Ms. Wang graduated from University of Science & Technology Beijing with a specialization in accountancy. She also obtained a master's degree in business administration from Beijing Jiaotong University, majoring in financial management. She earned a title of intermediate accountant, and is a member of China Merger & Acquisition Association as well as a certified dealmaker.

**Mr. Chen Yong (陳勇)**, aged 51, is Vice President of the Group. He is primarily responsible for marketing of the Group. Prior to joining the Group in 2003, Mr. Chen worked in manufacturing management and sales at Shanghai Foxboro Company Limited (上海福克斯波羅有限公司). From 1990 to 1992, he worked in a textile mill in Shanghai. He graduated from Shanghai Technology College of Metallurgy (上海冶金高等專科學校) with a specialization in computer applications, and from University of Science and Technology Beijing (北京科技大學) with a specialization in engineering management

**Mr. Duan Min (段民)**, aged 52, is Vice President of the Group.He is primarily responsible for infrastructure management of the Group. He graduated with a bachelor's degree in automation of chemical engineering in Dalian University of Technology (大連理工大學). He has over 16 years of experiences working in the automation systems and instruments industry in China. He joined the Group in May 1999.

**Mr. Ji Jun (季俊)**, aged 49, is General Manager of Beijing Consen, primarily responsible for overall operation and management. He is graduated from Zhejiang University, majoring in production process automation. Mr. Ji joined Beijing Consen since 2001, and served as project manager of engineering department, manager of after-sales service department, manager of engineering department as well as vice general manager of Beijing Consen. From 2014 to 2017, he served as general manager of Beijing Consen Technology Company and general manager of Beijing Consen since 2017.

**Mr. Yang Zhan Fu (楊占富)**, aged 50, is General Manager of Wuzhong Instrument Company Limited since December 2016. He is responsible for overall operation and management of the company. Mr. Yang graduated from Xi'an Technological University (西安工業學院), majoring in mechanical manufacturing and equipment. He joined Wuzhong Instrument in 1989, and being vice general manager from 2008 to 2016.

**Ms. Han Chi Biao (韓赤飆)**, aged 49, is General Manager of Beijing Haidian ZhongJing Engineering Software Technologies Limited (北京海澱中京工程設計軟體技術有限公司). She graduated from China University of Petroleum in 1993, majoring in industrial foreign trade. She obtained master degree in finance from MONASH University in Australia in 2003. She is a senior economist and a registered consulting engineer. She also serves as vice-chairman of Information Technology Commission under Association of China Engineering and Consulting (中國勘察設計協會資訊化推進工作委員會). Ms. Han served in a position of Shihua International Leasing Company Limited (實華國際租賃有限公司), a joint venture of Sinopec Group from 1993 to 1999, and joined Beijing Haidian ZhongJing Engineering Software Technologies Limited since 2003.

**Mr. William Erik Barkovitz**, aged 48, is President of the Group's US operations, Inovex Corporation. He graduated from University of California, Irvine in 1993 with a bachelor's degree in applied physics. Upon graduation, he started his career in control and automation. From 1994 to 2005, Mr. Barkovitz worked for Triconex Corporation, a division of Invensys. Triconex is a global leading supplier of safety, critical control, and turbomachinery systems for the process industries. He served as sales director of Northern Asia Pacific, based in Singapore from 1995-1998, general sales manager of Europe, Middle East, and Africa from 1998-2001, based in the UK. In 2001, Mr. Barkovitz moved to the Triconex corporate headquarters in Irvine, California to assume the position of Vice President of Marketing. He moved to a start-up company in 2005, ORYXE Energy International, as Vice President of Marketing. ORYXE Energy develops emissions reduction chemical technologies for oil refiners and fuel distributors. In 2007, he left ORYXE Energy and formed the first US corporate entity of China Automation Group called Inovex.

**Mr. Wen Yi Ming (溫宜明)**, aged 37, is General Manager of Beijing Consen Technology Company Limited. He obtained master degree from Beihang University, majoring in detection and measurement technology and automation equipment. He is TUV Rheinland Functional Safety Engineer and TUV Rheinland Information Safety Engineer. From 2006 to 2014, he worked for Hollysys Automation Technologies,and had also held various managerial positions, including deputy general manager of industrial automation product research center and general manager of safety system business segment. From 2014 to 2017, he served as deputy general manager of Beijing Consen Technology Company Limited.

**Mr. Chow Chiu Chi (周昭智)**, aged 60, is the Group's Financial Controller and Company Secretary. He joined the Group in June 2006. He graduated from Hong Kong Polytechnic University with a bachelor's degree of arts in Accountancy. He is a fellow member of Hong Kong Institute of Certified Public Accountants. He has over 30 years of experiences in finance, accounting and internal audit.

The directors of the Company (the "Directors") are pleased to present their report together with the audited consolidated financial statements for the year ended 31 December 2018.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSES OF OPERATIONS

The Company is an investment holding company. The Group is engaged in the provision of safety and critical control system and control valves specialised for petrochemical industries, along with related maintenance and engineering services. In July 2017, the Group completed an acquisition of 60% equity interest in Etern Group Limited, an investment holding company holding a 98% interest in Yongding Hospital Company Limited (蘇州永鼎醫院有限公司), which is principally engaged in hospital business in Suzhou, the PRC.

The activities of the Group are mainly based in the PRC. Analyses of the Group's revenue and contribution to operating result by principal activities and by principal markets are set out in notes 5 and 6 to the consolidated financial statements.

## BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2018 is set out in the section headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 4 to 7 and pages 8 to 15 of this annual report respectively.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

Discussion on the Group's environmental policies and performance for the year 31 December 2018 is set out in the "Environmental, Social and Governance Report" on pages 35 to 40 of this annual report.

## COMPLIANCE WITH RELATED LAWS AND REGULATIONS

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations, in particular, those have a significant impact on the Group. Save as otherwise disclosed and as far as the Board and management are aware, the Group has complied with all related laws and regulations in all material aspects which may have significant impact on the business and operation of the Group during the year under review.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 46 to 47 of this annual report.

## KEY RISKS AND UNCERTAINTIES

### PETROCHEMICAL BUSINESS SEGMENT

**Reliance on the overall demand of various processing industries**

The business of the Group is largely dependent on the development of various processing industries in the PRC including petrochemical, coal chemical, oil and gas as well as iron and steel industries. The sale of safety and critical control systems used in various processing industries may be affected by the investment, profitability, and overall demand generated from those industries. Although the Group's major products are used in those industries that are encouraged by the PRC government, if these existing government policies are changed to the disadvantage of these industries, the Group's sales to such industries may be adversely affected.

**Changes in economic developments in the PRC or a downturn in the economy in the PRC may adversely affect the Group's business**

The Group mainly conducts its business through its operating subsidiaries in the PRC. Therefore, the Group's results of operations and financial positions will continue to be affected, to a large extent, by economic developments in the PRC.

The growth of the Chinese economy has been uneven across different geographic regions and various economic sectors. The effects on the Group's business, financial position or results of operations brought about by the future economic trends or the growth of gross domestic product cannot be accurately predicted and hence increase the uncertainties of the Group's future development. Since the Group mainly derives its sales from the PRC, the Group's continued growth depends heavily on the general economic condition in the PRC. A downturn or slowdown in the PRC's economic growth may have material adverse effects on the Group's operational and financial results.

**A prolonged decline in oil prices could adversely affect the demand for our products in the petrochemical and coal chemical industries**

The demand for our products in the petrochemical and coal chemical industries is influenced by current and anticipated oil prices and the level of capital expenditures in these industries, which is in turn affected by oil prices. Oil prices are largely affected by global general demand for energy, which in turn affects the coal industry and coal chemical industry. A reduction or prolonged decline in oil prices could have a material adverse impact on the demand for our products for the coal chemical industry.

Producers generally react to the decline in oil prices by reducing expenditures which may have an adverse effect on our business in the future and it would be hard to predict the future oil prices or the level of activity for the oil industry. A prolonged low level of activity in the oil and gas industry will adversely affect both the demand for petrochemical and coal chemical industry products and our financial positions and results of operations.

**Our results may be affected by the depth, breadth and progress of mixed ownership reforms of state-owned enterprises in the PRC**

In recent years, the PRC has implemented various measures to emphasise mixed ownership reforms for state-owned enterprises. These reforms may not be applied uniformly across various industries or regions in the PRC. As a result, some of these reforms may affect the industries which we engage in. Results of our operations may be adversely affected by the pace of mixed ownership reforms of state-owned enterprises.

### HEALTHCARE SERVICES BUSINESS SEGMENT

**Human Resources Risks**

As our hospital operations continue to expand, we are required to increase the number of qualified medical staff according to the laws and regulations of the PRC. If we are unable to recruit, train and maintain adequate medical staff and management staff, the hospital operation could be materially and adversely affected.

**Reputation and Medical Safety Risks**

Service quality and patient safety are paramount to the reputation of a hospital. Hospitals are highly regulated and hospital licenses are subject to renewal by the regulatory authorities. Any material medical incidents or malpractice may subject the hospital to severe penalties or even suspension of licenses required for the operations of a hospital.

## DIVIDEND

The Board did not recommend the distribution of final dividend (2017: Nil) for the year ended 31 December 2018.

## CLOSURES OF REGISTER OF MEMBERS

In order to qualify for attending and voting at the forthcoming annual general meeting, the register of members of the Company will be closed from Monday, 27 May 2019 to Thursday, 30 May 2019 (both dates inclusive), during such period no transfer of shares of the Company will be registered. For determining the entitlement to attend and vote at the annual general meeting, the unregistered holders of shares of the Company should ensure that all share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 24 May 2019.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years ended 31 December 2018 is set out on page 154 of this annual report. The summary of results is for comparative purposes only, and does not form an integral part of the audited financial statements.

## DISTRIBUTABLE RESERVES

Movements in the reserves of the Group during the year ended 31 December 2018 are set out on page 153 of this annual report. As at the balance sheet date, the Company's distributable reserves amounted to RMB724,943,000 (2017:750,772,000), subject to the applicable statutory requirements under the laws of the Cayman Islands.

## EQUITY-LINKED AGREEMENTS

Save as disclosed in this annual report relating to share option scheme, no equity-linked agreements were entered into during the year ended 31 December 2018 or subsisted at the end of the year.

## SHARE CAPITAL

Details of the movements of the share capital of the Company during the year ended 31 December 2018 are set out in note 43 to the consolidated financial statements.

## CHARITABLE CONTRIBUTIONS

During the year ended 31 December 2018, the Group made charitable contributions amounting to RMB230,000 (2017: Nil).

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 18 to the consolidated financial statements.

## SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2018 are set out in note 56 to the consolidated financial statements.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group had a total of 2,307 employees (31 December 2017: 2,218), of which 1,514 employees (31 December 2017: 1,449) were related to petrochemical business segment whereas 793 employees (31 December 2017: 769) were related to healthcare business segment.

The emoluments payable to the employees of the Group are determined by their responsibilities, qualifications, performance and experience and the related industrial practices.

## DIRECTORS

The Directors during the year and as at the date of this annual report were:

### EXECUTIVE DIRECTORS

Mr. Xuan Rui Guo
Mr. Wang Chuensheng

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Tai Wen
Mr. Ng Wing Fai
Mr. Zhang Xin Zhi

Pursuant to articles 86 and 87 of the articles of association of the Company, Mr. Wang Chuen Sheng and Mr. Zhang Xin Zhi shall retire from office by rotation at the annual general meeting and shall be eligible for re-election.

## DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company or any of its subsidiaries which is of a duration exceeding three years or which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

The emoluments payable to the Directors are based on the terms of their respective service contracts with the Company. The Directors' fee payable is subject to annual assessment and approval by the Board and shareholders of the Company at annual general meetings. Details of the emoluments paid and payable to the Directors for the year ended 31 December 2018 are set out in note 14 to the consolidated financial statements.

The contributions to pension schemes for the Directors for the year ended 31 December 2018 are disclosed in note 14 to the consolidated financial statements.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 17 to 20 of this annual report.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance in relation to the Company's business to which the Company, its holding company, its fellow subsidiaries or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 December 2018 or at any time during the year.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Apart from the share option scheme of the Company as disclosed in note 45 to the consolidated financial statements, at no time during the year ended 31 December 2018 was the Company or its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## PERMITTED INDEMNITY PROVISION

The articles of association of the Company provides that for the time being acting in relation to any of the affairs of the Company, every director shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of duties of his/her office or otherwise in relation thereto.

The Company has taken out insurance against the liabilities and costs associated with defending any proceedings which may be brought against the Directors of the Company and its subsidiaries.

## DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Hong Kong Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

| **Name of Director** | **Capacity/nature of interest** | **No. of shares interested** (Note 1) | **Approximate percentage of shareholding in the Company** |
|---|---|---|---|
| Mr. Xuan Rui Guo | Beneficial owner | 1,000,000 (L) | 0.10% |
| | Interest of controlled corporation (Note 2, 3) | 515,696,164 (L) | 50.25% |
| | | 300,000,000 (S) | 29.23% |

Save as disclosed above and disclosed under the paragraph headed "Share Option Scheme" below, as at 31 December 2018, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and chief executive were taken or deemed to have under the provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, to the best knowledge of the Directors, the following persons, other than the Directors and chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein:

| Name of substantial shareholder | Capacity/nature of interest | No. of Shares interested (Note 1) | Approximate percentage of shareholding in the Company |
|---|---|---|---|
| Araco Investment Limited (Note 2, 3) | Beneficial owner | 515,696,164 (L)<br>300,000,000 (S) | 50.25%<br>29.23% |
| Brightex Enterprises Limited (Note 2, 3) | Interest of controlled corporation | 515,696,164 (L)<br>300,000,000 (S) | 50.25%<br>29.23% |
| Ascendent Automation (Cayman) Limited (Note 3, 4) | Beneficial owner | 548,235,132 (L) | 53.42% |
| Ascendent Capital Partners II, L.P. (Note 3, 4) | Interest of controlled corporation | 548,235,132 (L) | 53.42% |
| Ascendent Capital Partners II, GP, L.P. (Note 3, 4) | Interest of controlled corporation | 548,235,132 (L) | 53.42% |
| Ascendent Capital Partners II GP Limited (Note 3, 4) | Interest of controlled corporation | 548,235,132 (L) | 53.42% |
| Ascendent Healthcare (Cayman) Limited (Note 5, 6) | Beneficial owner | 634,951,127 (L) | 61.87% |
| Ascendent Capital Partners I, L.P. (Note 5, 6) | Interest of controlled corporation | 634,951,127 (L) | 61.87% |
| Ascendent Capital Partners I, GP, L.P. (Note 5, 6) | Interest of controlled corporation | 634,951,127 (L) | 61.87% |
| Ascendent Capital Partners I GP Limited (Note 5, 6) | Interest of controlled corporation | 634,951,127 (L) | 61.87% |
| Mr. Meng Liang (Note 3, 4, 5, 6) | Interest of controlled corporation | 548,235,132 (L)<br>634,951,127 (L) | 53.42%<br>61.87% |

Notes:
1. The letters "L" and "S" denote the person's long position and short position respectively in the shares (the "Shares") or underlying shares (the "Underlying Shares") of the Company.

2. Araco Investment Limited ("Araco") is a wholly-owned subsidiary of Brightex Enterprises Limited ("Brightex") which is in turn is wholly-owned by Mr. Xuan Rui Guo ("Mr. Xuan"). By virtue of the SFO, Brightex and Mr. Xuan are deemed to be interested in the Shares and/or Underlying Shares in which Araco is interested.

3. Pursuant to the facility agreement dated 17 December 2018 (the "Facility Agreement") between Araco and Ascendent Automation (Cayman) Limited ("AACL"), AACL has the right to require Araco to transfer Shares at HK1.20 per Share (subject to adjustment) to AACL (the "Exchange Right") after the utilisation date of the loan under the Facility Agreement but on or before the final exchange date (i.e. 31 December 2023), and such Exchange Right may be exercised on one occasion. The Exchange Right will entitle AACL to require Araco to transfer 300,000,000 Shares held by Araco. Further details of the Facility Agreement and Exchange Right are set out in the announcement of the Company dated 17 December 2018.

4. AACL is a wholly-owned subsidiary of Ascendent Capital Partners II, L.P. ("ACP II"). The general partner of ACP II is Ascendent Capital Partners II GP, L.P. ("ACP GP II") and its general partner is Ascendent Capital Partners II GP Limited ("ACP GP Ltd II"). ACP GP II and ACP GP Ltd II are wholly-owned by Mr. Meng Liang ("Mr. Meng"). By virtue of the SFO, ACP II, ACP GP II, ACP GP Ltd II and Mr. Meng are deemed to be interested in the Shares and/or Underlying Shares in which AACL is interested.

5. On 26 July 2017, the Company issued convertible bonds ("Convertible Bonds") to Ascendent Healthcare (Cayman) Ltd. ("Ascendent Healthcare") in the principal amount of RMB675,588,000 in settlement of the consideration for the acquisition of 60% equity interest in Etern Group Ltd., an investment holding company holding 98% equity interest in a company principally engaged in hospital business in the PRC (the "Acquisition"). Upon full conversion of the Convertible Bonds based on the initial conversion price of RMB1.0640 per conversion share (subject to adjustments), 634,951,127 Shares will be allotted and issued to Ascendent Healthcare. Further details of the Acquisition and the Convertible Bonds are set out in the circular of the Company dated 23 June 2017.

6. Ascendent Healthcare is a wholly-owned subsidiary of Ascendent Capital Partners I, L.P. ("ACP I"). The general partner of ACP I is Ascendent Capital Partners I GP, L.P. ("ACP GP I") and its general partner is Ascendent Capital Partners I GP Limited ("ACP GP Ltd I"). ACP GP I and ACP GP Ltd I are wholly-owned by Mr. Meng. By virtue of the SFO, ACP I, ACP GP I, ACP GP Ltd I and Mr. Meng are deemed to be interested in the Shares and/or Underlying Shares in which Ascendent Healthcare is interested.

Save as disclosed above, as at 31 December 2018, the Directors were not aware of any persons, other than a Director or a chief executive of the Company, who had or were deemed or taken to have interests or short positions in shares or underlying shares of the Company, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be entered in the registered kept by the Company under the SFO.

## SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 29 May 2018 for the primary purpose of providing the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the following participants: (i) any executive or non-executive Directors including independent non-executive Directors or any employees (whether full-time or part-time) of each member of the Group or any entity in which the Group holds an equity interest; (ii) any discretionary objects of a discretionary trust established by any employees, executive or non-executive Directors of each member of the Group or any entity in which the Group holds an equity interest; (iii) any consultants, professional and other advisers to each member of the Group or any entity in which the Group holds an equity interest (or persons, firms or companies proposed to be appointed for providing such services); (iv) any chief executives or substantial shareholders of the Company; (v) any associates of directors, chief executive or substantial shareholder of the Company; and (vi) any employees (whether full-time or part-time) of substantial shareholders of the Company. The Scheme will remain valid for a period of ten years commencing on 29 May 2018.

The total number of shares in which may be issued upon exercise of all options to be granted under the Scheme and any other share option scheme(s) of the Company shall not in aggregate exceed 10% of the total number of shares of the Company in issue as at the date of adoption of the Scheme (i.e. not exceeding 102,626,372 shares).

The number of shares issued and to be issued upon exercise of the options granted to any participant under the Scheme and any other schemes of the Company (or its subsidiary) (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of relevant class of securities of the Company (or its subsidiary) in issue, without prior approval from the Company's shareholders.

Where the Board proposes to grant any options to substantial shareholders of the Company or independent non-executive Directors or any of their respective associates which would result in the shares issued and to be issued upon exercise of all options already granted and to be granted under the Scheme and any other share option schemes of the Company (or its subsidiary) (including options exercised, cancelled and outstanding) to him in any 12-month period up to and including the date of such grant (i) representing in aggregate more than 0.1% of the relevant class of securities in issue; and (ii) (where the securities are listed on the Stock Exchange) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5,000,000, such proposed grant of options must be approved by the Company's shareholders in general meeting.

An amount of HK$1 is payable by participants on acceptance of the option as consideration for the grant within 28 days from the date upon which the offer is made. The exercise price is determined by the Directors of the Company, and shall be at least the highest of (i) the closing price of a share of the Company as on the offer date, which must be a business day; (ii) a price being the average of the closing price of the shares of the Company for the five business days immediately preceding the offer date; and (iii) the nominal value of the a share of the Company.

As at 31 December 2018, no options were granted.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2018.

## PRE-EMPTIVE RIGHTS

No provisions for pre-emptive rights exist in the laws of the Cayman Islands in respect of the Company's share capital.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2018.

## MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and revenue for the year ended 31 December 2018 attributable to the Group's major suppliers and customers respectively are as follows:

| | **2018** | 2017 |
|---|---|---|
| | **%** | % |
| Purchases | | |
| – the largest supplier | **13.1** | 14.1 |
| – the five largest suppliers combined | **25.3** | 25.7 |
| Revenue | | |
| – the largest customer | **6.8** | 7.1 |
| – the five largest customers combined | **17.7** | 19.8 |

None of the Directors, their associates, or shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) held any interests in the five largest suppliers or customers noted above.

## KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS, SUPPLIERS AND INVESTORS

The Company recognises that our employees, customers and business associates are key to our sustainability journey. We strive to achieve corporate sustainability through engaging our employees, providing quality services for our customers, collaborating with business partners and supporting our community.

### RELATIONSHIP WITH EMPLOYEES

The Company places significant emphasis on human capital. The Company provides a fair workplace, promoting non-discrimination and diversity to our staff, together with competitive remuneration and benefits, as well as a range of opportunities for career advancement based on employees' merits and performance. The Company administers its employee health and safety management system and ensures the adoption of proper principles across the Group. The Company provides regular trainings for staff to keep them abreast of the latest developments in the market and industry, in the form of both internal trainings and trainings provided by experts from external organizations.

## RELATIONSHIP WITH CUSTOMERS

To enhance customer satisfaction and promote a customer-oriented culture within the Company, we value the feedbacks from clients through daily communications, regular visits and client dialogues. We treat receiving feedbacks from clients as an opportunity to improve our relationships with them, addressing the concern in a timely manner and in accordance with conventional standards.

Most of the customers of the Group's petrochemical business are sizable and reputable companies in the PRC. The sizable and reputable customers of the Group not only provide the Group with a stable demand for its products and services but also lower the risk of default payment. The Group has a strong marketing team that is responsible for organising regular meetings and seminars so as to maintain good relationships with customers, understand customers' needs and to keep abreast of the latest market trends and developments. The Group provides quality after-sales services and maintains close relationships with customers which help the Group to secure more business in system upgrading and maintenance service as well as gaining information on potential new projects.

Customers of the Group's healthcare service business are typically individual patients. The Group values the patients' satisfaction and adheres to the provision of comprehensive, high-quality and patient-oriented healthcare services. We provide every patient with experienced medical staff and advanced technologies and facilities for diagnosis and treatment to best satisfy the medical needs of our customers. Moreover, we strive to apply technologies to improve customer experience by allowing our patients to make appointments on the hospital's website or WeChat official account. Meanwhile, to ensure and improve the service quality to our customers, we carry out regular management meetings and conduct patient surveys to seek feedback from patients and assess customer satisfaction level, and we have also set up a customer service hotline to respond to any feedback or complaints from customers.

## RELATIONSHIP WITH SUPPLIERS

We believe that our suppliers (including contractors) are equally important in driving quality delivery of both our engineering services and healthcare services. Suppliers are carefully selected and are generally required to possess the requisite licenses and qualifications (such as GMP and/or GSP certificates for suppliers of the Group's healthcare service business). We proactively collaborate with our business partners (including suppliers and contractors) to deliver quality sustainable products and services. To communicate with contractors on sustainability issues, we have developed proper codes of conducts for suppliers and included the associated requirements in supplier contracts. These requirements include regulatory compliance, labour practices, anti-corruption, environmental measures, green procurement, occupational safety and health and other business ethics. We assure the performance of our suppliers through supplier approval process and by conducting factory audits/site visits, laboratory tests by accredited laboratories in the PRC on the delivered services during the contractual periods.

## RELATIONSHIP WITH INVESTORS

The advice we receive from investors provide strong support to our business improvement. We believe effective communications and accurate information disclosure help nurture investor confidence, and also facilitates the flow of constructive feedback and ideas that are beneficial for our investor relations and future corporate development. Besides regular results announcements and corporate disclosures, we facilitate our communications with investors by explaining financial and operational information through conference calls, meetings and roadshows.

## SUBSEQUENT EVENT

No significant event occurred after the end of the reporting year up to the approval date of the financial statements.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules and considers the independent non-executive Directors to be independent.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors as at the latest practicable date prior to the issue of the annual report, it is confirmed that there is sufficient public float of the Company's issued shares in the market as required under the Listing Rules.

## AUDIT COMMITTEE

The Company has set up an audit committee in accordance with the requirements of Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The consolidated financial statements of the Group for the six months ended 30 June 2018 and the year ended 31 December 2018 and the related disclosures have been reviewed and approved by the audit committee.

## AUDITORS

The consolidated financial statements have been audited by Deloitte Touche Tohmatsu Certified Public Accountants who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

**Xuan Rui Guo**
*Chairman*
Hong Kong, 21 March 2019

## CORPORATE GOVERNANCE PRACTICES

The Company is committed to the establishment of good corporate governance practices and procedures which serves as an important element of risk management throughout the growth and expansion of the Company. The Company emphasises on maintaining and carrying out sound, solid and effective corporate governance principles and structures.

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with all the applicable code provisions set out in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2018, save and except for the following deviation:

Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. On 14 September 2016, Mr. Xuan Rui Guo, the Chairman and executive Director of the Company, was appointed as the Chief Executive Officer of the Company. The Board believes that with the support of the management, vesting the roles of both chairman and chief executive officer by the same person can facilitate execution of the Group's business strategies and boost effectiveness of its operation. In addition, under the supervision by the Board which currently consists of two executive Directors and three independent non-executive Directors, the interests of the shareholders of the Company will be adequately and fairly represented.

The Company will continue to review and enhance its corporate governance practices to ensure compliance with the Code.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. The Company has made specific enquiries of all the Directors, and all of them had confirmed that they have complied with the required standard set out in the Model Code during the year ended 31 December 2018.

## BOARD OF DIRECTORS

The overall management of the Company's business is vested in the Board. The Board has delegated the day-to-day management of the Company's business to the executive management team, and focuses its attention on matters affecting the Company's overall strategic policies, finances and shareholders. Major responsibilities of the Board include approving the Company's overall business, financial and technical strategies, setting key performance targets, approving budgets and overseeing the performance of management.

As at the date of this annual report, the Board comprises five members, consisting of two executive Directors, namely Mr. Xuan Rui Guo (the Chairman and the Chief Executive Officer) and Mr. Wang Chuensheng; and three independent non-executive Directors, namely Mr. Wang Tai Wen, Mr. Zhang Xin Zhi and Mr. Ng Wing Fai.

Non-executive Directors have a term of office of three years, subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws. The profile of all the Directors are set out on pages 17 to 18 of this annual report. The relationship among members of the Board (including financial, business, family or other material or relevant relationships, if any) are also disclosed.

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules, and considers all of the independent non-executive Directors to be independent.

Four Board meetings were held during the year ended 31 December 2018. Directors actively participated in each meeting in person or via telephone conferencing. Directors received reports on the activities of the operating divisions and present papers supporting decisions which required the Board's approval. The Board's consents were given by vote at the Board meetings.

If a Director has a conflict of interest in a transaction or proposal to be considered by the Board and which the Board has determined to be material, the individual Director concerned must declare his interest and is required to abstain from voting. The matter is considered at a Board meeting attended by independent non-executive Directors who have no material interest in the transaction.

Details of the attendance of Directors at these Board meetings, committee meetings (the Audit Committee, the Remuneration Committee and the Nomination Committee) and general meetings in the relevant period are set out in the following table:

| | Number of meetings attended/Number of meetings held (during Director's tenure) | | | | |
|---|---|---|---|---|---|
| **Name of Directors** | **Board** | **Audit Committee** | **Remuneration Committee** | **Nomination Committee** | **AGM** |
| **Executive Directors** | | | | | |
| Mr. Xuan Rui Guo | 4/4 | N/A | 1/1 | 1/1 | 1/1 |
| Mr. Wang Chuensheng | 4/4 | N/A | N/A | N/A | N/A |
| **Independent non-executive Directors** | | | | | |
| Mr. Wang Tai Wen | 4/4 | 2/2 | 1/1 | 1/1 | 1/1 |
| Mr. Ng Wing Fai | 4/4 | 2/2 | 1/1 | 1/1 | 1/1 |
| Mr. Zhang Xin Zhi | 4/4 | 2/2 | 1/1 | 1/1 | 1/1 |

Minutes of Board meetings are taken by the company secretary and, together with any supporting documents, are available to all the Directors. Draft and final versions of the minutes are sent to all the Directors for their comment and record respectively.

The company secretary regularly updates the Board on governance and regulatory matters.

Whenever the Board appoints a new Director, such new Director receives formal and comprehensive induction on the first occasion of his/her appointment to ensure proper understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

The Directors acknowledge the need to continue to develop and refresh their knowledge and skills for making contributions to the Company. The Directors confirmed that they have complied with the code provision A.6.5 of the Code on Directors' training. The participation by individual Directors in the continuous professional development program with appropriate emphasis on the roles, functions and duties of a director of a listed company in 2018 is recorded in the table below.

| **Name of Directors** | **Reading regulatory updates** | **Attending external seminars/ programmes** |
|---|---|---|
| **Executive Directors** | | |
| Mr. Xuan Rui Guo | ✓ | ✓ |
| Mr. Wang Chuensheng | ✓ | ✓ |
| **Independent non-executive Directors** | | |
| Mr. Wang Tai Wen | ✓ | ✓ |
| Mr. Ng Wing Fai | ✓ | ✓ |
| Mr. Zhang Xin Zhi | ✓ | ✓ |

## AUDIT COMMITTEE

The Audit Committee was established in June 2007 and its current members include:

Mr. Ng Wing Fai *(Committee Chairman)*
Mr. Wang Tai Wen
Mr. Zhang Xin Zhi

The Board considers that each Audit Committee member has broad commercial experience and there is a suitable mix of expertise in legal, business and accounting on the Audit Committee. The composition and members of the Audit Committee complies with the requirements under Rule 3.21 of the Listing Rules. The written terms of reference which describe the authority and duties of the Audit Committee were approved and adopted on 30 March 2012 to conform to the provisions of the Code and the Listing Rules, a copy of which is posted on the Company's website.

The Audit Committee meets regularly to review the Group's financial reporting and other information provided to shareholders, the system of internal control, risk management, and the effectiveness and objectivity of the audit process. The Audit Committee also provides an important link between the Board and the Company's auditors in matters coming within the scope of its terms of reference and keeps under review the independence and objectivity of the auditors.

Two Audit Committee meetings were held during the relevant period to review and discuss risk management, internal control and financial reporting matters including a review of the financial statements for the six months ended 30 June 2018 and the year ended 31 December 2018.

## REMUNERATION COMMITTEE

The Remuneration Committee was established in June 2007 and its current members include:

Mr. Wang Tai Wen *(Committee Chairman)*
Mr. Zhang Xin Zhi
Mr. Ng Wing Fai
Mr. Xuan Rui Guo

The Remuneration Committee advises and makes recommendations to the Board on the Group's overall policy and structure for the remuneration of Directors and senior management. The Remuneration Committee ensures that no Director or any of his associate is involved in deciding his own remuneration. The terms of reference of the Remuneration Committee were approved and adopted on 30 March 2012 to conform to the provisions of the Code, a copy of which is posted on the Company's website.

In determining the emolument payable to Directors, the Remuneration Committee takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and the desirability of performance-based remuneration.

The Remuneration Committee meets regularly to determine the policy for the remuneration of Directors and assess performance of executive Directors and certain senior management. One Remuneration Committee meeting was held during the Relevant Period and all members have attended the meeting.

## NOMINATION COMMITTEE

The Nomination Committee was established in June 2007 and its current members include:

Mr. Zhang Xin Zhi *(Committee Chairman)*
Mr. Ng Wing Fai
Mr. Wang Tai Wen
Mr. Xuan Rui Guo

The written terms of reference which describe the authority and duties of the Nomination Committee were approved and adopted on 30 March 2012 and amended on 28 December 2018 to conform to the provisions of the Code and the Listing Rules, a copy of which is posted on the Company's website.

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of the independent non-executive Directors. Where the Board proposes a resolution to elect an individual as an independent non-executive director at the general meeting, it should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting (i) the process used for identifying the individual and why the Board believes the individual and the reasons why it considers the individual to be independent; (ii) if the proposed independent non-executive director will be holding their seventh (or more) listed company directorship, why the Board believes the individual would still be able to devote sufficient time to the Board; (iii) the perspectives, skills and experience that the individual can bring to the Board; and (iv) how the individual contributes to diversity of the Board.

The Nomination Committee reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. One Nomination Committee meeting was held during the Relevant Period and all members have attended the meeting.

The Board adopted a board diversity policy ("Board Diversity Policy") for the Company in August 2013 which stipulates that for selection of candidates to become Directors, the Nomination Committee should take into consideration a range of diversity perspectives, including but not limited to age, experience, cultural and educational background, expertise, skills and know-how. The Board Diversity Policy is available on the Company's website. The Committee will review the policy to ensure its effectiveness.

Pursuant to articles 86 and 87 of the articles of association of the Company, Mr. Wang Chuensheng and Mr. Zhang Xin Zhi shall retire from office by rotation at the annual general meeting and shall be eligible for re-election.

## AUDITORS' REMUNERATION

For the year ended 31 December 2018, the fees charged by the Company's auditors in respect of audit and non-audit (taxation) services amounted to approximately RMB3,125,000 for the year ended (2017: RMB4,200,000) and RMB150,000 for the year ended (2017: RMB200,000) respectively.

## CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as follows:

(i) to develop, review and update the Company's policies and practices on corporate governance;

(ii) to review and monitor the training and continuous professional development of directors and senior management;

(iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the employees and directors;

(v) to review the Company's compliance with the code of corporate governance and disclosure in the Corporate Governance Report; and

(vi) to perform such other corporate governance duties and functions set out in the code of corporate governance (as amended from time to time) for which the Board are responsible.

## COMPANY SECRETARY

Mr. Chow Chiu Chi ("Mr. Chow") is the company secretary of the Company. Mr. Chow is a fellow member of the Hong Kong Institute of Certified Public Accountants. In compliance with Rule 3.29 of the Listing Rules, Mr. Chow had undertaken no less than 15 hours of relevant professional training during the relevant period.

## DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE ACCOUNTS

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance and prospects. The Directors are responsible for the preparation of accounts which give a true and fair view of the state of affairs and of the results and cash flows of the Group on a going concern basis. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently and that judgments and estimates made are prudent and reasonable. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group. The responsibilities of the auditors for the accounts are set out in the Independent Auditor's Report on pages 44 to 45 of this annual report.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for implementation and maintenance of the Group's systems of risk management and internal control for the smooth running of its business. In this connection, the management of the Company has established a set of comprehensive policies, standards and procedures in areas of operational, financial and risk controls for safeguarding assets against unauthorized use or disposition; ensuring the maintenance of proper accounting records for internal use or for publication; and for ensuring the reliability of financial information to achieve a satisfactory level of assurance against the likelihood of the occurrence of fraud and errors. The Company has an internal audit function and the risk management and internal control systems of the Group are reviewed on an annual basis. The Board has reviewed the Group's risk management and internal control systems for the year ended 31 December 2018 and considered the systems to be effective and adequate.

## COMMUNICATION WITH SHAREHOLDERS

The Group believes that effective communication with investors is essential in developing its business. Since the listing of the Company in July 2007, it has devoted itself to strengthen good communication with all shareholders, investors, analysts and public media all the time in order to enhance the level of corporate governance.

The Group uses several formal channels to ensure fair disclosure and comprehensive and transparent reporting of its performance and activities. Annual and interim reports are printed and sent to all shareholders. Press releases are posted on the Company's website at www.cag.com.hk, which is constantly being updated in a timely manner, and so contains additional information on the Group's business activities.

The Directors have been continuing to put their utmost effort to develop direct communication channels with all investors to deepen their understanding in the business, strategies and future development of the Group.

## SHAREHOLDERS' RIGHTS

### PROCEDURES FOR CONVENING AN EXTRAORDINARY GENERAL MEETING BY SHAREHOLDERS

Under article 58 of the articles of association of the Company, any one or more of the shareholders of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of the deposit of such written requisition the Board fails to proceed to convene such general meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

### PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

To put forward a proposal at the general meeting of the Company (the "Proposal"), a shareholder should lodge at the head office and principal place of business of the Company in Hong Kong at Unit 3205B-3206, 32nd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong, a written notice setting out (i) information of the shareholder and his/her/its contact details and (ii) details of the Proposal and relevant supporting documents.

### MAKING ENQUIRIES TO THE BOARD

Shareholders may send written enquiries, either by post or by facsimiles, together with his/her contact details, such as postal address, fax or email, addressing either to (i) the principal place of business of the Company in Hong Kong at Unit 3205B-3206, 32nd Floor, Office Tower, Convention Plaza, 1, Harbour Road, Wan Chai, Hong Kong or facsimile number (852) 2598 6633; or (ii) the principal place of business and head office of the Company in Beijing, the PRC at No. 7, Anxiang Street, Area B, Tianzhu Airport Economic Development Zone, Shunyi District, Beijing, China, 101318 or facsimile number (86) 10 8046 9966.

## INVESTOR RELATIONS

### AMENDMENT OF THE COMPANY'S CONSTITUTIONAL DOCUMENTS

There have been no changes to the Company's constitutional documents during the year ended 31 December 2018.

Apart from the Environmental, Social and Governance ("ESG") Reporting Guide issued by the Stock Exchange, we have adopted the Integrated Reporting Framework published by the International Integrated Reporting Council to answer stakeholders' needs. As part of our commitment to achieve continuous improvement, this ESG report makes further disclosure on matters relating to the ESG strategy of the Company, priority and the concepts that drives sustainable development of our businesses.

Sustaining the Group's businesses through our operations requires a clear vision, and the balancing of the interests of our stakeholders while determining and executing our strategies.

While our visions remain consistent, the dynamic nature of stakeholders' preferences requires us to carry out regular review and refinement of our strategies and risk management procedures to ensure stakeholders' ever changing needs are fulfilled.

It is an on-going journey for the Group to align all aspects of our business processes and organizational performance measures to our visions.

## STAKEHOLDERS ENGAGEMENT

Our goal is to create long-term and sustainable value for shareholders who are the ultimate owners of the Company. We engage and interact with our stakeholders about our activities and identify any potential impacts such activities may have on the environment, workforce or communities. At corporate and working levels, and through our environmental and social impact assessment processes, we communicate with a range of stakeholders to ensure that we understand their concerns.

Representatives of the auditor of the Company also attended the annual general meeting to answer questions about the consolidated financial statements of the Group for the year ended 31 December 2017. The 2018 AGM was conducted to discuss and approve 2017 accounts. The Board meets regularly to discuss the overall strategies, monitor financial performance, evaluate operation performances and discuss other significant matters.

Shareholders will expect the quality of the information they receive and the Group's commitment to the on-going delivery of sustainable value for shareholders are supported by strong and comprehensive systems and processes. In our Annual Report, particular effort is made to address an extensive description of the performance and outlook for our businesses. For example, the Chairman's Statement focuses on the recent review of the Group's operation strategy and changes, an overview of the Group's performance in 2018 and an outline of our key plans in the coming years.

The Company will update our shareholders and the investment community through various channels, including but not limited to investor meeting, conference call and investment conference. In 2018, we frequently communicated with investors to keep them abreast of the operations and development trends of the Company.

In order to further enhance communication with the shareholders of the Company and enable the Company's shareholders to have timely and updated information of the Group, the Group has set up its own website at http://www.cag.com.hk where corporate governance principles and practices, interim and annual reports, announcements, circulars, corporate business development and other information of the Company can be accessed by the public.

## CORPORATE CULTURE

Inspiring our staff towards excellence is one of our core strategies to fulfil our mission of promoting a people-oriented culture. This goal is achieved through the recognition of our priority subjects, identification of the relevant strategies and management approach, as well as through management of related risks.

The group has 9 sales offices and 6 service centers in China with our headcount reaching a total of 2,307 employees as at 31 December 2018, enabling us to deliver our products and services to different locations in China where we operate.

Respect is an important value for the Company that reflects our attitude towards both internal and external stakeholders. We see respect as a core strength that must reside at the heart of our Group and include all our stakeholders.

We believe that in an increasingly complex and fast changing business environment, respecting stakeholders' diversity helps us to understand and cater to the needs of different stakeholders with varying perspectives and also helps us stay sensitive to different opportunities and risks.

## WORKPLACE QUALITY

The Company implements a set of policies, operating manuals, handbooks and protocols to build a workplace where our colleagues can feel respected in a diverse and fair working environment, enabling everyone to deliver their performances unrelentingly and prosper in their preferred career paths.

The Company is committed in promoting occupational health and safety by providing a safe working environment and safety equipment for the staff and ensuring that safety measures are in place in order to achieve zero accident rate.

We endeavored more resources in monitoring and minimising the potential occupational health and safety risk in the workplace, improving the safety equipment and facilities and maintaining insurance policies, with the ultimate goal of creating a safe workplace for the staff. There were zero case of fatality due to workplace accidents in 2018. There were zero case of work related injuries in 2018.

## OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT

In accordance with the requirements under the international managements standards – OHSAS 18001 (Occupational Health and Safety Management Systems) and the Group's own environmental and occupational health safety management policy, we identified sources of danger and compiled preventive measures to reduce risks.

Our occupational health and safety system is regularly audited by both internal and external parties to ensure its effectiveness and that compliance is achieved. With our occupational health and safety system in place throughout the year, there had been no observed incidence of non-compliance with the relevant laws and regulations that have had a significant impact on the Group.

Safe, effective and congenial workplace and policies are important in the operation of the Group and we comply with labour standards and laws of the PRC, where the Group operates its principle businesses in. All of the Group's key business units have set up internal guidelines and systems specific to their industries to protect and ensure the health and safety of the employees. They have teams dedicated to workplace safety, tools and equipment sourcing, and provide trainings to employees in order ensure that they can discharge their duties safely.

## STAFF DEVELOPMENT AND TRAINING

The Group recognises the importance of skilled and professionally trained employees to its business's development and future success and aspires to provide inspiring career paths for our staff.

The Group established a fair and equitable mechanism to manage staff's remunerations and provides performance incentives that enable staff to grow with the Group. Apart from statutory packages, the Group also offers meal allowances, holiday gifts and gold medals for long service.

We also provide employees with paid leave, offer dispatched employees and marketing employees family visit leave. The Group also pays salaries to employees on time and in full, and makes required contributions to the statutory social insurance, housing provident fund and personal accident insurance in accordance with the law. The Group also provides prenatal leave, breast-feeding leave and annual gynecological examinations for female staff.

The Group encourages staff to undertake training to enhance their job-related skills and knowledge through various channels, including in-house training, external seminar, management trainee program and apprenticeship, etc. to promote safety production, sales skills, customer services, etc.

During the year, over 85 hours of in-house training were delivered to staff at the management level and over 60 hours were delivered to staff at the operation levels by our training department.

### WORKFORCE

The Group strives to offer equal and fair job opportunities to all qualified candidates regardless of age, nationality, race, religion, sexual orientation, gender, marital status, pregnancy, disability and political stance. Meanwhile, we offer employees competitive remuneration and benefits and strictly complies with the labour laws and regulations in which businesses are operated.

As at 31 December 2018, the Group had a total of 2,307 employees.

The Group prohibits and does not employ child or forced labour. The Group reviews its employment policies from time to time to ensure that all relevant laws and regulations on preventing child or forced labour throughout the reporting period are complied with and we are not aware of any non-compliance case.

## ENVIRONMENTAL PROTECTION

The Group is committed to avoiding developing at the expense of the environment, and has complied with international and national environmental standards and implemented green production policies to raise energy efficiency and minimise energy consumption and the discharge of pollutants.

### ENVIRONMENT MANAGEMENT

In order to fulfill requirements under relevant internationally recognized environment management systems and the Group's own environment management policy, we conducted identification and assessment of environment factors faced by each business unit. We identified within each of them key environment factors and established objectives, targets and control measures and enhanced our procedural document and management systems.

Over the years, the Group continued its energy saving improvements. Most of the Group's business units had plans and metrics to reduce pollution and emissions throughout 2018.

### AIR AND GREENHOUSE GASES ("GHG") EMISSIONS

The Group's greenhouse gas emissions mainly come from the indirect energy emission and direct emission from our official gasoline vehicles.

| Types of greenhouse gas emissions | Emission sources Energy type (unit) | Emission volume of carbon dioxide (tons) Current volume |
|---|---|---|
| Indirect energy emission | Electricity consumption in production and office area (kwh) | 19,517 |
| Direct energy emission | Official gasoline vehicles (l) | 156 |

Note: According to the energy conversion data, emissions in Northern China is calculated by allocating 50% to EFgrid,OM,y and EFgrid,BM,y respectively for 1.0416 tons and 0.4780 tons of carbon dioxide produced from electricity consumption for each megawatt hour, and emissions in Eastern China is calculated by allocating 50% to EFgrid,OM,y and EFgrid,BM,y respectively for 0.8112 ton and 0.5945 ton of carbon dioxide produced from electricity consumption for each megawatt hour. Carbon dioxide emissions volume for fossil fuel are calculated according to 2006 IPCC Guidelines for National Greenhouse Gas Inventories.

The Group has adopted measures to reduce air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste during the year. We give due consideration to carbon emissions issues in decision-making processes, and actively seek to reduce, whenever practicable, the impact of our operations on the environment. The Group promote the use of recyclable materials, minimise the use of paper and dispose of wastes in a socially responsible manner. We encourage the use of eco-friendly products and services and keep on improving our emissions management practices. In the meantime, the Group promote awareness amongst staff, customers and business partners to manage environmental and social risks and support community activities in relation to environmental protection and sustainability. During the year, there was no violation of any emissions laws and regulations that had a significant impact on the Group known to the directors relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

## SEWAGE DISPOSAL

Beijing Consen generates most sewage from livelihood activities which is disposed of via the city government's sewage channels. Examinations were conducted regularly.

Wuzhong Instrument centralises its collection of oil-containing sewage for production and hands them over to Ningxia Dangerous Goods and Medical Waste Disposal Centre for safe treatment and disposal. The sewage from the production facilities was mostly livelihood sewage that met the relevant sewage disposal standards according to tests conducted by the Wuzhong City Environment Monitoring Station.

## NOISE CONTROL

Key noise sources of our business units are maintained and utilised in strict adherence to relevant requirements and had effectively kept noise pollution under effective control. Every year, we invite officials from the relevant government authorities to conduct noise emission assessments and the results were positive.

## SOLID WASTE DISPOSAL

The Group's business units classify and collect solid wastes in accordance with List of Hazardous Waste of China and its own Electronic Waste Management Protocol, to be transferred to eligible treatment contractors for safety disposal via the property managers. Waste with recycling or resale values, such as packing paperboards, from various departments and production workrooms, are collected and centralised for delivery to recyclable waste storage stations, where they are taken care of in accordance with relevant laws and regulations.

## HAZARDOUS WASTE DISPOSAL

The Group's business units comply with requirements from the environment protection departments of the city governments and their own hazardous waste management systems and have established storages for hazardous wastes with proper logistics records that track wastes coming in and going out of the storage including the departments that are responsible for generating the wastes, the types the quantities and the entry and exit records.

## MEDICAL WASTE DISPOSAL

The healthcare service business units comply with the Regulations on Administration of Medical Waste ("醫療廢物管理條例") and the Implementation Measures of the administration of Medical Waste for Healthcare Institutions ("醫療衛生機構醫療廢物管理辦法"), and in addition, Yongding Hospital has its internal policies to formulate the treatments on medical wastes, including (i) medical wastes to be categorised separately and collected in yellow cases or plastic bags, followed by anticorrosion treatment if required; (ii) medical wastes to be centralised in a designated location and delivered to an independent company with authorised qualifications to dispose such medical wastes; and (iii) medical wastes to be conveyed in specialised vehicles, which are required to be cleared and sterilised each day.

In 2018, a total of 91.3 tons of hazardous waste and 28,561 tons of nonhazardous waste were generated in the Group.

## MATERIAL USE

The Group is committed to providing environmentally responsible packaging materials for its products and has streamlined the production process in order to reduce the packaging materials. For office administration, we strengthen the control on the use of office paper for photocopying and printing. For example, internal use or unofficial documents are requested to print on both sides. Also, we strictly control the procurement, management and use of office supplies and consumables to avoid waste.

During the year, we consumed a total of 1,064 tons of packaging materials.

## WATER

The water consumed mainly represents water used during the manufacturing process and as daily water in office area, which has no major impact on the water source. Water conservation is one of our key performance indicators for performance assessment – we monitor our water consumption and encourage our employees to save water. We serve reminders by affixing conspicuous "save water" and "protect our natural environment" labels near water taps. We notify the responsible personnel of any leaking water taps or pipes for repair to avoid wastage of water. We appoint staff to inspect the water supply system on a regular basis to ensure no leakage.

In 2018, we consumed a total of 251,700 m3 freshwater in production and office area which is approximately 109 m3 per employee.

### ENERGY SAVING AND CONSUMPTION MANAGEMENT

The Group promotes various cost saving and efficiency enhancement initiatives to enhance staff awareness on this, including: switch off unneeded lights, electrical appliances and office equipment (such as printers, copiers, shredders, computers and monitors) when not in use; whenever practicable, turn them off completely during non-operating hours; serve reminders by affixing conspicuous "save energy" labels near the power switches of printing equipment and information and communications technology equipment, and designate staff to monitor the situation periodically; carry out regular checking and cleaning of office equipment; where necessary, arrange for maintenance and procure timely replacement of deteriorated/aged parts to reduce power loss due to equipment malfunction and component failure; Switch off all unnecessary power supply before leaving the office, and remind the staff remaining in the office to do so. Resources were consumed on need basis.

Beijing Consen utilises the centralised thermal heat supply from the city government and thereby effectively saved energy and other resources. We persistently improved product design and processing craftsmanship to enhance material utilisation.

Wuzhong Instrument accomplished energy saving through improvements in craftsmanship, material utilization and various measures.

In 2018, we consumed a total of 26.35 million kWh electricity in production and office area which is approximately 11,400 kWh per employee. The Group consumed a total of 1,381,600 m3 natural gas and 87.8 tons motor gasoline in 2018..

## OPERATING PRACTICES

### SUPPLY CHAIN MANAGEMENT

The Group developed a comprehensive internal procurement system. It strictly adheres to relevant laws and regulations of each of the countries from which it sources materials and supplies. International best practices are implemented and fair and unbiased tender processes are conducted. Steps are also taken to ensure that our partners and suppliers do not employ child labour or abuse human rights.

Steel plates, steel components, electrical and electronic components are major raw materials for the Group's production line, and for healthcare business units, the supplies required mainly include pharmaceuticals, medical consumables and medical equipment. In the process of procurement, the Group applies a fair procurement principle and adopts a low-carbon and green supply chain standard and the highest priority is given to suppliers who have obtained relevant certifications, in addition to the requisite licenses and qualifications, such as GMP and/or GSP certificates for healthcare business. In 2018, the Company procured its steel plates and steel components mainly from domestic suppliers in Jiangsu, Zhejiang, Tianjin, Shanghai, Beijing, Hebei, Shanxi, Lanzhou, Xi'an, Sichuan and Ningxia; electrical and electronic components mainly from both domestic suppliers in China and overseas suppliers; and medical-related suppliers mainly in Jiangsu. The Company strives to emphasise the quality of the products and services we provided, and in the meanwhile to minimise the impact of procurement on the environment and help maintain an ecological balance.

Furthermore, the Company conducts annual reviews on its suppliers based on specific national and industry specific standards of the PRC and of other jurisdictions where our suppliers are based to ensure that they comply with environmental requirements and hygiene standards and that the ecosystem and consumers' rights to safe products are protected.

## PRODUCT RESPONSIBILITY

Protecting our clients and safe-guarding their proprietary and confidential information are some of our top priorities. In addition to guidelines and handbooks, the group issues periodic reminders and runs workshops for our client relationship managers to continuously remind them of the importance of protecting confidential information. In addition, we have been maintaining adequate customer communications so that feedbacks can be taken note of and complaints can be handled efficiently. Customer complaints are thoroughly investigated and root causes are identified and acted upon.

## ANTI-CORRUPTION/ANTI-MONEY LAUNDERING

The Group has established a strong internal control framework, put in place a set of stringent policies and procedures, and has instituted a vigorous enforcement regime for preventing corruption, fraud and anti-money laundering in order to achieve a zero-tolerance stance on corruption and fraud which emphasize on our values of integrity, fairness, transparency and accountability is evident.

In addition, our strong stance against corruption and fraud is communicated to all our employees, and requisite provisions are incorporated into our contracts with third party suppliers to ensure that they are fully aware of our position. These measures are further bolstered by independent audits conducted by the Company's internal audit function.

Furthermore, incidents or suspected incidents of corruption and fraud are immediately investigated by the business units concerned, and will be reported to the Audit Committee and executive management and scrutinised by the Company's internal audit function as and when appropriate.

A whistleblowing policy has also been adopted by the Group to allow anonymous reporting of improprieties, of which zero case of suspected or actual irregularities or misdeeds have been reported to us via this route in 2018.

During the year, there were no legal case regarding corruption or money laundering brought against the Group or its employees and no whistle-blowing concerning criminal offence or misconduct was reported to the Group. We would cooperate fully with any investigation conducted by law enforcement agencies.

The Group keeps itself familiar with the ever-changing landscape of corruption and fraud, and is relentlessly searching for more effective measures to combat them. Trends and transaction analyses are carried out and incidents are dissected to ascertain the cause, course and remedies of the underlying issues, and periodic sessions are held within the Company to share knowledge, skills and experience.

## COMMUNITY INVOLVEMENT

The Group is passionate about charity. It extends its reach to the disadvantaged students, the elderly and the physically impaired. The Group has a volunteer team and encourages its employees to serve the community by participating in community and charity works. Charitable contribution made by the Group during the year ended 31 December 2018 amounted to RMB230,000.

The Group has developed programs to promote voluntary activities and encourage more volunteers to participate in community service and visit those in need and the underprivileged groups. The total number of participants and hours of service in all activities of the Group's volunteer team throughout 2018 were 280 and 4,760.

In addition, the Group's community involvement extends to locations in China where it operates. As members of the community that we cherish, the Group takes responsibility of seeing to its well-being seriously. We will continue to take a region-specific approach and develop tailor-made programmes to address the needs and expectations of the local communities we serve.

Deloitte. 德勤

**TO THE MEMBERS OF CHINA AUTOMATION GROUP LIMITED**
*(incorporated in Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of China Automation Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 46 to 153, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the IASB. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the 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 those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Impairment assessment of goodwill* | |
| We identified impairment assessment of goodwill related to the acquisition of the Etern Group Ltd. ("Etern Group") as a key audit matter due to its significance to the consolidated financial statements and the significant estimate in respect of revenue growth rate, operating margins and discount rate involved in assessing the impairment of goodwill.<br><br>At 31 December 2018, the Group has recorded goodwill related to the acquisition of the Etern Group amounting to RMB436,610,000. Any changes in the estimates may have a significant impact on the consolidated financial statements. Details of significant judgments and assumptions in the impairment assessment are disclosed in Notes 4 and 22 to the consolidated financial statements. | Our procedures in relation to impairment assessment of goodwill included:<br><br>• Obtaining an understanding of independent professional valuer's competence, capabilities and objectivity and how the valuer's work was relied on by management for the impairment assessment;<br><br>• Evaluating the reasonableness of management's forecasts of revenue growth and operating margins by comparing the forecasts to historical performance and industry trends; and<br><br>• Evaluating, with the assistance of our fair value specialists, the reasonableness of the valuation methodology and discount rate, including developing a range of independent estimates and comparing those to the discount rate selected by management. |
| *Impairment assessment of trade receivables* | |
| We identified provision of expected credit losses ("ECL") for trade receivables as a key audit matter due to the significance of trade receivables on the consolidated statement of financial position and the significant judgement and estimation involved in assessing the impairment.<br><br>At 31 December 2018, the Group has recorded trade receivables, net of impairment losses, amounting to RMB733,162,000. A net impairment loss amounting to RMB11,664,000 was recognised for the year ended 31 December 2018.<br><br>Details of the trade receivables, the estimation uncertainty on provision of ECL for trade receivables and the ECL information are set out, respectively, in Notes 28, 4 and 53 to the consolidated financial statements. | Our procedures in relation to provision of ECL for trade receivables included:<br><br>• Understanding key controls on how the management estimates the loss allowance for trade receivables;<br><br>• Testing the integrity of information used by management to develop the provision matrix, including trade receivables ageing analysis, on a sample basis, by comparing individual items in the analysis with the relevant sales agreements, sales invoices and other supporting documents; and<br><br>• Challenging management's basis of judgement in determining credit loss allowance on trade receivables, including their identification of credit impaired trade receivables with reference to the events of default, the reasonableness of management's grouping of the remaining trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix with reference to the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current as well as the forecast direction of conditions at the reporting date. |

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are 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 the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated 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 solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 the directors.

- Conclude on the appropriateness of the directors' 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated 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 those charged with governance 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 those charged with governance 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.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

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

The engagement partner on the audit resulting in the independent auditor's report is Mok Sau Fan.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
21 March 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue from goods and services | 5 | **1,891,094** | 1,223,022 |
| Cost of sales | | **(1,315,395)** | (1,030,607) |
| Gross profit | | **575,699** | 192,415 |
| Other income | 7 | **37,655** | 44,771 |
| Other gains and losses | 8 | **(65,154)** | 77,231 |
| Impairment losses, net of reversal | 10 | **(13,745)** | (51,338) |
| Selling and distribution expenses | | **(117,795)** | (110,757) |
| Administrative expenses | | **(230,562)** | (198,938) |
| Research and development expenses | | **(63,901)** | (62,143) |
| Other expenses | | **(3,556)** | (5,519) |
| Finance costs | 9 | **(56,846)** | (60,747) |
| Share of results of associates | | **(8,931)** | 173 |
| Profit (loss) before taxation | | **52,864** | (174,852) |
| Income tax expense | 11 | **(45,576)** | (17,403) |
| Profit (loss) for the year from continuing operations | 12 | **7,288** | (192,255) |
| **Discontinued operations** | | | |
| Loss for the year from discontinued operations | 13 | **–** | (15,295) |
| Profit (loss) for the year | | **7,288** | (207,550) |
| **Other comprehensive income for the year (net of income tax)** | | | |
| *Items that will not be reclassified to profit or loss:* | | | |
| Fair value gain on: | | | |
| – Equity instruments at fair value through other comprehensive income | | **873** | – |
| – Financial liabilities designated at fair value through profit or loss, attributable to changes in own credit risk | | **3,178** | – |
| | | **4,051** | – |
| *Item that may be subsequently reclassified to profit or loss:* | | | |
| Exchange differences arising on translation of foreign operations | | **101** | 964 |
| | | **101** | 964 |
| Other comprehensive income for the year, net of income tax | | **4,152** | 964 |
| Total comprehensive income (expense) for the year | | **11,440** | (206,586) |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| Loss for the year attributable to: | | | |
| Owners of the Company | | | |
| – from continuing operations | | **(18,480)** | (201,550) |
| – from discontinued operations | | **–** | (6,634) |
| | | **(18,480)** | (208,184) |
| Non-controlling interests | | | |
| – from continuing operations | | **25,768** | 9,295 |
| – from discontinued operations | | **–** | (8,661) |
| | | **25,768** | 634 |
| Total comprehensive (expense) income attributable to: | | | |
| Owners of the Company | | **(14,328)** | (207,220) |
| Non-controlling interests | | **25,768** | 634 |
| | | **11,440** | (206,586) |
| **Loss per share** | 17 | | |
| From continuing and discontinued operations | | | |
| Basic (RMB cents) | | **(1.80)** | (20.29) |
| Diluted (RMB cents) | | **(1.80)** | (21.45) |
| From continuing operations | | | |
| Basic (RMB cents) | | **(1.80)** | (19.64) |
| Diluted (RMB cents) | | **(1.80)** | (20.94) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| Non-current Assets | | | |
| Property, plant and equipment | 18 | **1,008,045** | 923,516 |
| Deposit for acquisition of property, plant and equipment | | **114,919** | 30,937 |
| Prepaid lease payments – non-current portion | 19 | **272,759** | 256,998 |
| Intangible assets | 20 | **257,432** | 249,136 |
| Goodwill | 21 | **445,500** | 445,500 |
| Interests in an associate | 23 | **10,405** | 19,336 |
| Pledged bank deposits | 32 | **1,623** | 119 |
| Deferred tax assets | 24 | **83,989** | 79,689 |
| Available-for-sale financial assets | 26 | **–** | 26,953 |
| Equity instruments at fair value through other comprehensive income | 27 | **28,026** | – |
| | | **2,222,698** | 2,032,184 |
| Current Assets | | | |
| Prepaid lease payments – current portion | 19 | **7,248** | 6,804 |
| Inventories | 31 | **443,474** | 425,992 |
| Trade and bills receivables | 28 | **1,158,535** | 1,022,907 |
| Contract assets | 29 | **41,782** | – |
| Other receivables and prepayments | 30 | **161,265** | 165,766 |
| Financial assets at fair value through profit or loss | 25 | **1,689** | – |
| Available-for-sale financial assets | 26 | **–** | 31,000 |
| Pledged bank deposits | 32 | **53,028** | 38,284 |
| Bank balances and cash | 33 | **793,475** | 308,932 |
| | | **2,660,496** | 1,999,685 |
| Current Liabilities | | | |
| Trade and bills payables | 34 | **651,903** | 492,441 |
| Other payables, deposits received and accruals | 36 | **270,295** | 337,514 |
| Contract liabilities | 35 | **120,554** | – |
| Dividend payable | | **2,806** | 2,305 |
| Income tax payable | | **42,789** | 45,898 |
| Bank borrowings – due within one year | 37 | **429,131** | 304,947 |
| Corporate bonds – due within one year | 39 | **196,950** | – |
| Guaranteed notes – due within one year | 38 | **69,418** | 155,549 |
| | | **1,783,846** | 1,338,654 |
| Net Current Assets | | **876,650** | 661,031 |
| Total Assets less Current Liabilities | | **3,099,348** | 2,693,215 |

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| Capital and Reserves | | | |
| Share capital | 43 | **9,548** | 9,548 |
| Share premium and reserves | 44 | **1,156,544** | 1,170,872 |
| Equity attributable to owners of the Company | | **1,166,092** | 1,180,420 |
| Non-controlling interests | | **205,688** | 188,179 |
| Total Equity | | **1,371,780** | 1,368,599 |
| Non-current Liabilities | | | |
| Deferred tax liabilities | 24 | **68,033** | 66,056 |
| Bank borrowings – due after one year | 37 | **60,000** | 110,000 |
| Corporate bonds | 39 | **–** | 196,697 |
| Convertible bonds | 40 | **617,784** | 560,556 |
| Long term payables | 41 | **573,408** | 70,963 |
| Deferred income | 42 | **408,343** | 320,344 |
| | | **1,727,568** | 1,324,616 |
| Total Equity and Non-current Liabilities | | **3,099,348** | 2,693,215 |

The consolidated financial statements on pages 46 to 153 were approved and authorised for issue by the board of directors on 21 March 2019 and are signed on its behalf by:

**Xuan Rui Guo**
*Director*

**Wang Chuen Sheng**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 | Other reserve RMB'000 | Statutory surplus reserves RMB'000 | Contribution from owners RMB'000 | Translation reserve RMB'000 | Fair value through other comprehensive income reserve RMB'000 | Convertible bonds reserve RMB'000 | Retained profits RMB'000 | Sub-total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| At 1 January 2017 | 9,548 | 648,367 | 34,666 | 276,173 | 1,503 | 13,307 | – | – | 404,076 | 1,387,640 | 125,031 | 1,512,671 |
| (Loss) profit for the year | – | – | – | – | – | – | – | – | (208,184) | (208,184) | 634 | (207,550) |
| Exchange differences on translation of foreign operations | – | – | – | – | – | 964 | – | – | – | 964 | – | 964 |
| Total comprehensive income (expense) for the year | – | – | – | – | – | 964 | – | – | (208,184) | (207,220) | 634 | (206,586) |
| Appropriations to reserves | – | – | – | 168 | – | – | – | – | (168) | – | – | – |
| Acquisition of a subsidiary (Note 47) | – | – | – | – | – | – | – | – | – | – | 135,917 | 135,917 |
| Derecognised on disposal of a subsidiary (Note 48) | – | – | – | – | – | – | – | – | – | – | (72,203) | (72,203) |
| Dividend declared to non-controlling shareholders | – | – | – | – | – | – | – | – | – | – | (1,200) | (1,200) |
| At 31 December 2017 | 9,548 | 648,367 | 34,666 | 276,341 | 1,503 | 14,271 | – | – | 195,724 | 1,180,420 | 188,179 | 1,368,599 |
| Adjustments (see Note 2) | – | – | – | – | – | – | (22,964) | 318 | 22,646 | – | – | – |
| At 1 January 2018 (restated) | 9,548 | 648,367 | 34,666 | 276,341 | 1,503 | 14,271 | (22,964) | 318 | 218,370 | 1,180,420 | 188,179 | 1,368,599 |
| (Loss) profit for the year | – | – | – | – | – | – | – | – | (18,480) | (18,480) | 25,768 | 7,288 |
| Exchange differences on translation of foreign operations | – | – | – | – | – | 101 | – | – | – | 101 | – | 101 |
| Fair value adjustment attributable to changes in equity instruments at fair value through other comprehensive income | – | – | – | – | – | – | 873 | – | – | 873 | – | 873 |
| Fair value adjustment attributable to changes in own credit risk of the liability | – | – | – | – | – | – | – | 3,178 | – | 3,178 | – | 3,178 |
| Total comprehensive income (expense) for the year | – | – | – | – | – | 101 | 873 | 3,178 | (18,480) | (14,328) | 25,768 | 11,440 |
| Appropriations to reserves | – | – | – | 58,027 | – | – | – | – | (58,027) | – | – | – |
| Dividend declared to non-controlling shareholders | – | – | – | – | – | – | – | – | – | – | (7,879) | (7,879) |
| Acquisition of additional interest in a subsidiary (Note 56 (ix)) | – | – | – | – | – | – | – | – | – | – | (380) | (380) |
| At 31 December 2018 | **9,548** | **648,367** | **34,666** | **334,368** | **1,503** | **14,372** | **(22,091)** | **3,496** | **141,863** | **1,166,092** | **205,688** | **1,371,780** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Profit (loss) for the year | **7,288** | (207,550) |
| Adjustments for: | | |
| Income tax expense | **45,576** | 17,403 |
| Finance costs | **56,846** | 63,792 |
| Interest income | **(1,611)** | (820) |
| Dividends received from available-for-sale financial assets | **–** | (2,008) |
| Share of results of associates | **8,931** | (173) |
| Depreciation of property, plant and equipment | **66,353** | 56,959 |
| Impairment losses, net of reversal | | |
| – financial assets | **11,569** | 51,338 |
| – other items subject to expected credit losses | **2,176** | – |
| Amortisation of intangible assets | **19,054** | 14,314 |
| Prepaid lease payments released | **6,001** | 6,588 |
| Deferred income released to profit or loss | **(12,168)** | (10,158) |
| Loss (gain) from changes in fair value of convertible bonds | **60,406** | (71,305) |
| Gain on relocation | **–** | (28,987) |
| Loss on disposal of property, plant and equipment | **569** | 26,522 |
| Loss on disposal of an associate | **–** | 222 |
| Gain on disposal of subsidiaries | **–** | (3,932) |
| Loss on disposal of available-for-sale financial assets | **–** | 3,012 |
| Fair value gains of financial assets at fair value through profit or loss | **(1,855)** | (1,232) |
| Acquisition-related costs | **–** | 4,719 |
| Foreign exchange losses (gains) | **8,541** | (7,030) |
| Operating cash flows before movements in working capital | **277,676** | (88,326) |
| (Increase) decrease in inventories | **(17,482)** | 26,210 |
| (Increase) decrease in trade and bills receivables | **(177,416)** | 230,185 |
| Increase in contract assets | **(15,210)** | – |
| Increase in financial assets at fair value through profits or losses | **(1,689)** | – |
| Decrease (increase) in other receivables and prepayments | **4,596** | (31,742) |
| Increase in trade and bills payables | **159,462** | 34,690 |
| Increase in contract liabilities | **58,295** | – |
| Increase in deferred income | **36,079** | 3,120 |
| Increase in other payables, deposits received and accruals | **9,983** | 44,877 |
| Increase (decrease) in discounted bills receivables | **39,983** | (86,740) |
| Cash generated from operations | **374,277** | 132,274 |
| Income tax paid | **(51,008)** | (20,757) |
| Net cash from operating activities | **323,269** | 111,517 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| INVESTING ACTIVITIES | | | |
| Interest received | | **1,611** | 820 |
| Dividends received from available-for-sale investments | | **–** | 2,008 |
| Proceeds on disposal of available-for-sale financial assets | 7 | **–** | 7,832 |
| Purchases of equity instruments at fair value through other comprehensive income | | **(200)** | – |
| Proceeds on disposal of an associate | | **–** | 1,200 |
| Proceeds from relocation | 42 | **40,000** | 100,000 |
| Proceeds from disposal of property, plant and equipment | | **1,583** | 1,912 |
| Purchases of property, plant and equipment and deposits for acquisition of property, plant and equipment | | **(247,380)** | (111,734) |
| Increase in prepaid lease payments | | **(22,206)** | – |
| Net cash inflow on acquisition of subsidiaries | 47 | **–** | 12,379 |
| Acquisition cost paid | | **–** | (4,719) |
| Net cash inflow on completed disposal of a subsidiary classified as held for sale | | **–** | 925 |
| Net cash inflow on disposal of subsidiaries | 48 | **–** | 67,877 |
| Transaction costs paid for disposal of subsidiaries | 48 | **–** | (3,000) |
| Receipts of government grants | | **24,088** | 44,875 |
| Purchase of financial assets as fair value through profit or loss | | **(854,940)** | (800,780) |
| Proceeds from disposal of financial assets as fair value through profit or loss | | **887,795** | 830,012 |
| Development costs paid | | **(27,350)** | (20,593) |
| Purchase of shares from non-controlling shareholders | | **(380)** | – |
| Placement of pledged bank deposits | | **(30,261)** | (36,101) |
| Withdrawal of pledged bank deposits | | **14,013** | 36,151 |
| Net cash (used in) from investing activities | | **(213,627)** | 129,064 |
| FINANCING ACTIVITIES | | | |
| Bank borrowings raised | | **362,001** | 345,844 |
| Repayment of bank borrowings | | **(327,800)** | (354,475) |
| Repayment of guaranteed notes | | **(95,866)** | (40,393) |
| Long term payables raised | | **499,600** | – |
| Interest paid | | **(52,057)** | (52,870) |
| Transaction costs incurred for issue of corporate bonds | | **(4,944)** | (4,944) |
| Dividends paid to non-controlling shareholders | | **(7,879)** | (1,200) |
| Net cash from (used in) financing activities | | **373,055** | (108,038) |
| Net increase in cash and cash equivalents | | **482,697** | 132,543 |
| Cash and cash equivalents at beginning of the year | | **308,932** | 179,113 |
| Effect of foreign exchange rate changes | | **1,846** | (2,724) |
| Cash and cash equivalents at end of the year | | **793,475** | 308,932 |
| Analysis of the balances of cash and cash equivalents: represented by | | | |
| Bank balances and cash | | **793,475** | 308,932 |

## 1. GENERAL

China Automation Group Limited (the "Company") is an exempted company with limited liability incorporated in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). Its immediate holding company is Araco Investment Limited, incorporated in the British Virgin Islands ("BVI") and its ultimate controlling shareholder is Mr. Xuan Rui Guo ("Mr. Xuan"), the Chairman and an executive director of the Company. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" in the annual report.

The activities of its subsidiaries are set out in Note 56.

The consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") are presented in Renminbi ("RMB") which is the same as the functional currency of the Company.

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

**New and amendments to IFRSs that are mandatorily effective for the current year**

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board ("IASB") for the first time in current year.

| | |
|---|---|
| IFRS 9 | *Financial Instruments* |
| IFRS 15 | *Revenue from Contracts with Customers and the related Amendments* |
| IFRIC 22 | *Foreign Currency Transactions and Advance Consideration* |
| Amendments to IFRS 2 | *Classification and Measurement of Share-based Payment Transactions* |
| Amendments to IFRS 4 | *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* |
| Amendments to IAS 28 | *As part of the Annual Improvements to IFRS Standards 2014 – 2016 Cycle* |
| Amendments to IAS 40 | *Transfers of Investment Property* |

Except as described below, the application of the above new and amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") – CONTINUED

### 2.1 IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contacts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 Revenue and IAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Sales of goods
- Provision of services

Information about the Group's accounting policies and performance obligations the resulting from application of IFRS 15 are disclosed in notes 3 and 5 respectively.

***Summary of effects arising from initial application of IFRS 15***

There was no impact of transition to IFRS 15 on retained profits at 1 January 2018. The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

| | Notes | Carrying amounts previously reported at 31 December 2017<br>RMB'000 | Adjustments<br>RMB'000 | Carrying amounts under IFRS 15 at 1 January 2018*<br>RMB'000 |
|---|---|---|---|---|
| **Current Assets** | | | | |
| Trade and bills receivables | (a) | 1,022,907 | (31,942) | 990,965 |
| Contract assets | | – | 31,942 | 31,942 |
| **Current Liabilities** | | | | |
| Other payables, deposits received and accruals | (b) | 337,514 | (62,259) | 275,255 |
| Contract liabilities | | – | 62,259 | 62,259 |

* The amounts in this column are before the adjustments from the application of IFRS 9.

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") – CONTINUED

### 2.1 IFRS 15 Revenue from Contracts with Customers – continued

***Summary of effects arising from initial application of IFRS 15 – continued***

Notes:

(a) At the date of initial application, unbilled revenue of RMB31,942,000 arising from system and software sales contracts are conditional on the Group's achieving specified milestones as stipulated in the contracts, and hence such balance was reclassified from trade and bills receivables to contract assets.

(b) As at 1 January 2018, advances from customers of RMB62,259,000 in respect of contracts with customers previously included in other payables, deposits received and accruals were reclassified to contract liabilities.

There was no impact of applying IFRS 15 on the Group's consolidated statements of profit or loss and other comprehensive income for the current year.

The following table summarises the impacts of applying IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

*Impact on the consolidated statement of financial position*

| | As reported | Adjustments | Amounts without application of IFRS 15 |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| **Current Assets** | | | |
| Trade and bills receivables | 1,158,535 | 41,782 | 1,200,317 |
| Contract assets | 41,782 | (41,782) | – |
| **Current Liabilities** | | | |
| Other payables, deposits received and accruals | 270,295 | 120,554 | 390,849 |
| Contract liabilities | 120,554 | (120,554) | – |

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") – CONTINUED

### 2.1 IFRS 15 Revenue from Contracts with Customers – continued

***Summary of effects arising from initial application of IFRS 15 – continued***

*Impact on the consolidated statement of cash flow*

| | As reported<br>RMB'000 | Adjustments<br>RMB'000 | Amounts without application of IFRS 15<br>RMB'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Increase in trade and bills receivables | (177,416) | (15,210) | (192,626) |
| Increase in contract assets | (15,210) | 15,210 | – |
| Increase in other payables, deposits received and accruals | 9,983 | 58,295 | 68,278 |
| Increase in contract liabilities | 58,295 | (58,295) | – |

### 2.2 IFRS 9 Financial Instruments and the related amendments

In the current year, the Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for l) the classification and measurement of financial assets and financial liabilities, 2) expected credit loss ("ECL") for financial assets and other items and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement.*

Accounting policies resulting from application of IFRS 9 are disclosed in Note 3.

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") – CONTINUED

### 2.2 IFRS 9 Financial Instruments and the related amendments – continued

***Summary of effects arising from initial application of IFRS 9***

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

| | Notes | AFS financial assets RMB'000 | Financial assets at FVTPL RMB'000 | Equity instruments at fair value through other comprehensive income RMB'000 | Fair value through other comprehensive income reserve RMB'000 | Convertible bonds reserve RMB'000 | Retained profits RMB'000 |
|---|---|---|---|---|---|---|---|
| **Closing balance at 31 December 2017 – IAS 39** | | 57,953 | – | – | – | – | 195,724 |
| **Effect arising from initial application of IFRS 9:** | | | | | | | |
| **Reclassification** | | | | | | | |
| From available-for-sale ("AFS") financial assets | (a) | (57,953) | 31,000 | 26,953 | (22,964) | – | 22,964 |
| Fair value adjustment attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss ("FVTPL") | (b) | – | – | – | – | 318 | (318) |
| **Opening balance at 1 January 2018** | | – | 31,000 | 26,953 | (22,964) | 318 | 218,370 |

*(a) AFS investments*

From AFS equity investments to fair value through other comprehensive income ("FVTOCI")

The Group elected to present in other comprehensive income for the fair value changes of all its equity investments previously classified as AFS financial assets, of which RMB26,953,000 related to unquoted equity investments previously measured at cost less impairment under IAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, unquoted equity investments amounting to RMB26,953,000, which are previously measured at cost less impairment under IAS 39, were reclassified from AFS financial assets to equity instruments at FVTOCI. In addition, impairment losses, net of tax, previously recognised of RMB22,964,000 were transferred from retained profits to FVTOCI reserve as at 1 January 2018.

From AFS debt investments to FVTPL

Unlisted wealth management products with a fair value of RMB31,000,000 were reclassified from AFS financial assets to financial assets at FVTPL. This is because even though the Group's business model is to hold financial assets in order to collect contractual cash flows, the cash flows of these investments do not meet the IFRS 9 criteria as solely payments of principal and interest on the principal amount outstanding.

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") – CONTINUED

### 2.2 IFRS 9 Financial Instruments and the related amendments – continued

***Summary of effects arising from initial application of IFRS 9 – continued***

*(b) Financial liabilities designated as at FVTPL*

Convertible notes issued by the Group designated as at FVTPL qualified for designation as measured at FVTPL under IFRS 9. However, the amount of change in the fair value of these financial liabilities that is attributable to changes in the credit risk of those liabilities will be recognised in other comprehensive income with the remaining fair value change recognised in profit or loss. Related fair value gains/losses attributable to changes in the credit risk of those liabilities of RMB318,000 were transferred from the retained profits to convertible bonds reserve on 1 January 2018.

*(c) Impairment under ECL model*

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all contract assets and trade receivables. Except for those which had been determined as credit impaired under IAS 39, contract assets and trade receivables have been assessed individually with outstanding significant balances, the remaining balances are grouped based on shared credit risk characteristics. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore estimated the expected loss rates for the trade receivables and the contract assets on the same basis.

Except for those which had been determined as credit impaired under IAS 39, ECL for other financial assets at amortised cost, including pledged bank deposits, bank balances and cash, bills receivables and other receivables, are assessed on 12m ECL basis as there had been no significant increase in credit risk since initial recognition.

All loss allowances, including contract assets and trade receivables, as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

| | **Contract assets** RMB'000 | **Trade receivables** RMB'000 |
|---|---|---|
| At 31 December 2017 – IAS 39 | – | (271,550) |
| Reclassification | (3,194) | 3,194 |
| At 1 January 2018 | (3,194) | (268,356) |

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") – CONTINUED

### 2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table showed the adjustments recognised for each individual line item affected. Line items that were not affected by the changes have not been included.

| | 31 December 2017 (Audited) RMB'000 | IFRS 15 RMB'000 | IFRS 9 RMB'000 | 1 January 2018 (Restated) RMB'000 |
|---|---|---|---|---|
| **Non-current Assets** | | | | |
| AFS financial assets | 26,953 | – | (26,953) | – |
| Equity instruments at FVTOCI | – | – | 26,953 | 26,953 |
| **Current Assets** | | | | |
| Trade and bills receivables | 1,022,907 | (31,942) | 3,194 | 994,159 |
| **Contract assets** | – | 31,942 | (3,194) | 28,748 |
| AFS financial assets | 31,000 | – | (31,000) | – |
| Financial assets at FVTPL | – | – | 31,000 | 31,000 |
| **Capital and Reserves** | | | | |
| Retained profits | 195,724 | – | 22,646 | 218,370 |
| Other reserves | – | – | (22,646) | (22,646) |
| **Current Liabilities** | | | | |
| Other payables, deposits received and accruals | 337,514 | (62,259) | – | 275,255 |
| Contract liabilities | – | 62,259 | – | 62,259 |

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening statement of financial position as at 1 January 2018 as disclosed above.

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") – CONTINUED

**New and amendments to IFRSs in issue but not yet effective**

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective.

| | |
|---|---|
| IFRS 16 | *Leases*[1] |
| IFRS 17 | *Insurance Contracts*[3] |
| IFRIC 23 | *Uncertainty over Income Tax Treatments*[1] |
| Amendments to IFRS 3 | *Definition of a Business*[4] |
| Amendments to IFRS 9 | *Prepayment Features with Negative Compensation*[1] |
| Amendments to IFRS 10 and IAS 28 | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2] |
| Amendments to IAS 1 and IAS 8 | *Definition of Material*[5] |
| Amendments to IAS 19 | *Plan Amendment, Curtailment or Settlement*[1] |
| Amendments to IAS 28 | *Long-term Interests in Associates and Joint Ventures*[1] |
| Amendments to IFRSs | *Annual Improvements to IFRS Standards 2015-2017 Cycle*[1] |

1 Effective for annual periods beginning on or after 1 January 2019

2 Effective for annual periods beginning on or after a date to be determined

3 Effective for annual periods beginning on or after 1 January 2021

4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

5 Effective for annual periods beginning on or after 1 January 2020

The directors of the Company anticipate that the application of the new and amendments to IFRSs, other than those set out below, will have no material impact on the consolidated financial statements in the foreseeable future.

**IFRS 16 Leases**

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Lease and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") – CONTINUED

**IFRS 16 Leases – continued**

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications amongst other. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under IAS 17, the Group has already recognised an asset for prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB30,183,000 as disclosed in Note 50. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases. In addition, the application of new requirements may result changes in measurements, presentation and disclosure as indicated above.

In addition, the Group currently considers refundable rental deposits paid of RMB1,119,000 as rights under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. Furthermore, the Group intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS *2 Inventories* or value in use in IAS 36 *Impairment of Assets*.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Basis of consolidation – continued**

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

**Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 Income Taxes.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units ("CGUs") (or group of CGUs) that is expected to benefit from the synergies of the combination, which represented the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs). Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU or any of the CGU within the group of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the CGU (or a CGU within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the CGU) disposed of and the portion of the CGU (or the group of CGUs) retained.

### Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Investments in associates – continued**

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss be recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of IAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in Note 2)**

Under IFRS 15, 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 customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates and enhances an assets that the customer controls as the Group perform; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

**Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation**

***Input method***

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Revenue recognition (prior to 1 January 2018)**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed. When the sales contract includes an identifiable amount for warranty service, that amount is deferred and recognised as revenue over the period during which the service is performed. Service fees received in advance are recorded as deferred income and recognised as service fee income when the services are rendered.

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. Servicing fees are recognised by reference to the proportion of the total cost of providing the service.

Service income from the provision of healthcare services is recognised when the related services are rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as lessee***

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Contingent rental arising under operating leases are recognised as an expense in the period in which they are incurred. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

***Leasehold land and building***

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Leases – continued**

***Leasehold land and building – continued***

To the extent the allocation of the relevant payment can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

**Borrowing costs**

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

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

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

**Government grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### Government grants – continued

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

### Retirement benefits costs

Payments to defined contribution retirement benefits schemes, including state-managed retirement benefits schemes in the People's Republic of China (the "PRC") and the Mandatory Provident Fund Scheme ("MPF Scheme") are recognised as an expense when employees have rendered service entitling them to the contributions.

### Short-term employee benefit

Short-term employee benefits are recognised at the undiscounted amount of the benefits to be paid as and when employees rendered the service. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave after deducting any amount already paid.

### Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable and deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 goodwill or 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. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Taxation – continued**

Deferred tax liabilities are recognised for taxable temporary differences arising on investments 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

**Property, plant and equipment**

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for production or supply of goods or services, or for administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Property, plant and equipment – continued**

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with effects of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

***Buildings under development for future owner-occupied purpose***

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

**Intangible assets**

***Intangible assets acquired separately***

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets other than goodwill below).

***Internally-generated intangible assets – research and development expenditure***

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development or from the development phase of an internal project is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Intangible assets – continued**

***Internally-generated intangible assets – research and development expenditure – continued***

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

***Intangible assets acquired in a business combination***

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible with finite useful lives assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows 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(or a CGU) for which the estimates of future cash flows have not been adjusted.

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Impairment on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)**

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if applicable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs necessary to make the sale.

**Financial instruments**

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payment (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Financial instruments – continued**

***Financial assets***

*Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in Note 2)*

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/ initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Financial instruments – continued**

***Financial assets – continued***

*Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in Note 2) – continued*

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCL or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest earned on the financial asset and is included in the "other gains and losses" line item.

*Impairment of financial assets (upon application IFRS 9 with transitions in accordance with Note 2)*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 including trade and bills receivables, other receivables, pledged bank deposits and bank balances and cash and contract assets. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done 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 conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed individually for debtors with significant balances or collectively using a provision matrix appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised based on significant increases in the likelihood or risk of a default occurring since initial recognition.

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Financial instruments – continued**

***Financial assets – continued***

*Impairment of financial assets (upon application IFRS 9 with transitions in accordance with Note 2) – continued*

(i) Significant increase in credit risk

In assessing whether the credit has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

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

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Financial instruments – continued**

***Financial assets – continued***

*Impairment of financial assets (upon application IFRS 9 with transitions in accordance with Note 2) – continued*

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default 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:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default event;

(c) 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;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the differences between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Financial instruments – continued**

***Financial assets – continued***

*Impairment of financial assets (upon application IFRS 9 with transitions in accordance with Note 2) – continued*

(v) Measurement and recognition of ECL – continued

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the collective basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables and contract assets where the corresponding adjustment is recognised through a loss allowance account.

*Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)*

The Group's financial assets are classified into loans and receivables and AFS financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) AFS financial assets

AFS financial assets are non-derivatives that are either designated as available for sale or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. The Group classified certain unlisted equity and debt securities as AFS financial assets.

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Financial instruments – continued**

***Financial assets – continued***

*Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018) – continued*

(i) AFS financial assets – continued

Equity and debt securities held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Changes in the carrying amount of AFS debt instruments relating to interest income calculated using the effective interest method are recognised in profit or loss. Dividends on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investment AFS investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the AFS investments revaluation reserve is reclassified to profit or loss.

AFS equity investment that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost less any identified impairment losses at the end of each reporting period (see accounting policy on impairment loss on financial assets below).

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bill receivables, other receivables, bank balances and cash as well as pledged bank deposits) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

*Impairment of financial assets (before application of IFRS 9 on 1 January 2018)*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the financial assets have been affected.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of counterparty; or
- default or delinquency in settlement of receivables; or
- it becoming probable that the debtors will enter bankruptcy or financial re-organisation.

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Financial instruments – continued**

***Financial assets – continued***

*Impairment of financial assets (before application of IFRS 9 on 1 January 2018) – continued*

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets carried at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

*Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Financial instruments – continued**

***Financial assets – continued***

*Derecognition of financial assets – continued*

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of IFRS 9, the cumulative gain or loss previously accumulated in the FVTOCI reserve is not reclassified to profit or loss, but is transferred to retained profits.

***Financial liabilities and equity***

*Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs. Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue, or cancellation of the Company's own equity instruments.

*Financial liabilities*

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

*Financial liabilities at FVTPL*

The Group designated the convertible bonds as financial liabilities at FVTPL. The convertible bonds contained one embedded derivative, the convertible option, which will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments.

Upon application of IFRS 9, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, such as convertible bonds, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Financial instruments – continued**

***Financial liabilities and equity instruments – continued***

*Financial liabilities at FVTPL – continued*

Prior to application of IFRS 9 on 1 January 2018, financial liabilities designated at FVTPL are stated at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss. The net gain or loss recognised in profit or loss is included in the "other gains and losses" line item.

*Financial liabilities at amortised cost*

Financial liabilities including bank borrowings, trade and bills payables, other payables, dividend payable, corporate bonds, guaranteed notes and long term payable are subsequently measured at amortised cost, using the effective interest method.

*Derivative financial instruments*

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair values at the end of the 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.

Generally, multiple embedded derivatives in a single instrument that are separated from the host contracts are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

*Derecognition/non-substantial modification of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognised in profit or loss.

The Group accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Group) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the reporting period in which the estimate is revised if the revision affects only that reporting period, or in the reporting period of the revision and future reporting periods if the revision affects both current and future reporting periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### Estimated impairment of goodwill

Determining whether goodwill is impaired requires the comparison of the fair value less disposal cost of the CGU to its carrying amount. The Group uses the discounted cash flow model to estimate fair value, which requires management to make significant estimates and assumptions related to forecasts of revenue growth, operating margins and discount rate. Changes in these assumptions could have a significant impact on either the fair value, the amount of goodwill impairment charge, or both.

As at 31 December 2018, the carrying amount of goodwill was RMB445,500,000 (2017: RMB445,500,000). Details of the recoverable amount calculation are disclosed in Note 22.

### Useful life of operating license of a hospital

Included in the intangible assets is operating license of a hospital with carrying value of RMB94,071,000 (2017: RMB97,362,000) and an estimated useful life of 30 years. The useful life of this license will change significantly as a result of change in the PRC government policies in the future. If the useful life of this licence is estimated to be less than previously estimates, the amortisation of this license will increase accordingly.

### Indefinite useful life of trademarks

As at 31 December 2018, the carrying amount of trademarks with indefinite useful lives was RMB23,827,000 (2017: RMB23,827,000). Details of the recoverable amount calculation are disclosed in Note 21. The trademarks are classified as indefinite-lived intangible assets and supported by the fact that trademarks are capable of being renewed indefinitely by the PRC government upon its expiration at insignificant cost. Based on future financial performance of the Group, they are expected to generate positive cash flows indefinitely. The Group re-evaluates the useful life of trademarks each year to determine whether events and circumstances continue to support the view of indefinite useful life for these assets.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – CONTINUED

**Provision of ECL for trade receivables**

The Group uses provision matrix and individual assessment to calculate ECL for the trade receivables. The provision matrix is based on internal credit ratings which are reassessed at every reporting date. The estimated loss rates applied in each category in the provision matrix are based on the Group's historical credit loss experience supported by ageing analysis and adjusted for factors that are specific to the debtors and an assessment of both the current as well as the forecast direction of conditions at the reporting date. Trade receivables with credit-impaired are assessed for ECL individually. Determining whether trade receivables are credit-impaired is based on evidence that one or more events of default that have a detrimental impact on the estimated future cash flows have occurred.

The information about the ECL and the Group's trade receivables are disclosed in Notes 53 and 28.

## 5. REVENUE FROM GOODS AND SERVICES

### A. For the year ended 31 December 2018

#### *(i) Disaggregation of revenue from contracts with customers relating to continuing operations*

| | For the year ended 31 December 2018 | | |
|---|---|---|---|
| **Segments** | **Petrochemical** | **Hospital services** | **Total** |
| | RMB'000 | RMB'000 | RMB'000 |
| **Types of goods or service** | | | |
| Sales of goods | | | |
| System and software sales | 535,295 | – | 535,295 |
| Industrial control valves sales | 580,119 | – | 580,119 |
| Pharmaceuticals | – | 231,232 | 231,232 |
| | 1,115,414 | 231,232 | 1,346,646 |
| Provision of service | | | |
| Provision of maintenance and engineering services | 235,597 | – | 235,597 |
| Design and consulting services | 72,238 | – | 72,238 |
| Healthcare services | – | 236,613 | 236,613 |
| | 307,835 | 236,613 | 544,448 |
| | 1,423,249 | 467,845 | 1,891,094 |

## 5. REVENUE FROM GOODS AND SERVICES – CONTINUED

### A. For the year ended 31 December 2018 – continued

#### *(i) Disaggregation of revenue from contracts with customers relating to continuing operations – continued*

| | For the year ended 31 December 2018 | | |
|---|---|---|---|
| **Segments** | **Petrochemical** | **Hospital services** | **Total** |
| | RMB'000 | RMB'000 | RMB'000 |
| **Geographical markets** | | | |
| Mainland China | 1,257,631 | 467,845 | 1,725,476 |
| Others | 165,618 | – | 165,618 |
| | 1,423,249 | 467,845 | 1,891,094 |
| **Timing of revenue recognition** | | | |
| A point in time | 1,351,011 | 467,845 | 1,818,856 |
| Over time | 72,238 | – | 72,238 |
| | 1,423,249 | 467,845 | 1,891,094 |

#### *(ii) Performance obligations for contracts with customers*

For sales of goods, revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location (delivery). Following delivery, the customer bears the risks of obsolescence and loss in relation to the goods. Revenue is recognised for sales which are considered highly probable that a significant reversal in the cumulative revenue recognised will not occur. A contract liability is recognised for sales in which revenue has yet been recognised.

Revenue from design and consulting service is recognised over time due to the Group's performance creates or enhances an asset that the customer controls as asset is created or enhanced. The Group's design and consulting service contracts include payment schedules which require stage payments over the service period once certain specified milestones are reached. The Group requires certain customers to provide upfront deposits, which will give rise to contract liabilities at the start of a contract.

Revenue from other services is recognised at a point in time when the service is rendered and the customer has received, since only by that time the Group has a present right to payment for the services performed.

All sales and services are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

## 5. REVENUE FROM GOODS AND SERVICES – CONTINUED

### B. For the year ended 31 December 2017

An analysis of the Group's revenue for the year from continuing operations is as follows:

| | 2017<br>RMB '000 |
|---|---|
| **Continuing operations** | |
| Sales of goods | |
| System and software sales | 287,930 |
| Industrial control valves sales | 467,924 |
| Pharmaceuticals | 96,368 |
| | 852,222 |
| Provision of service | |
| Provision of maintenance and engineering services | 177,188 |
| Design and consulting services | 98,770 |
| Healthcare services | 94,842 |
| | 370,800 |
| | 1,223,022 |

## 6. SEGMENT INFORMATION

The Group's operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the operating management committee, being the chief operating decision maker (the "CODM"), in order to allocate resources to the segments and to assess their performance.

As a result of the completion of the acquisition of a hospital group as set out in Note 47, the CODM has added hospital services segment, being the provision of medical consultation services and sales of pharmaceuticals, to the segment presentation in July 2017.

As a result of the disposal of the Group's railway operations as set out in Note 48, the CODM has removed the railway segment, being the integration and sales of traction systems, auxiliary electricity supply systems and industrial signaling systems, trading of equipment, provision of maintenance and engineering services for the railway industry, from the segment presentation in September 2017.

The Group's operating segments are identified and relevant information is presented below:

| | | |
|---|---|---|
| Petrochemical | – | integration and sales of safety and critical control systems, trading of equipment, provision of maintenance and engineering services, design and consulting services and sales of software products for the petrochemical, chemical, oil and gas, biodiesel and coal chemical industries, manufacture of industrial control valves. |
| Hospital services | – | provision of healthcare services and sales of pharmaceuticals |

## 6. SEGMENT INFORMATION – CONTINUED

**Segment revenue and results**

The details of the segment revenue and results from continuing operations are as follows:

**2018**

| | Petrochemical RMB'000 | Hospital services RMB'000 | Consolidated RMB'000 |
|---|---|---|---|
| Segment revenue | 1,423,249 | 467,845 | 1,891,094 |
| Segment profit before taxation | 11,812 | 108,891 | 120,703 |
| Income tax expense | (12,152) | (33,424) | (45,576) |
| Segment (loss) profit | (340) | 75,467 | 75,127 |
| Unallocated other gains and losses | | | (60,406) |
| Unallocated administrative expenses | | | (7,433) |
| Profit for the year from continuing operations | | | 7,288 |

2017

| | Petrochemical RMB'000 | Hospital services RMB'000 | Consolidated RMB'000 |
|---|---|---|---|
| Segment revenue | 1,031,812 | 191,210 | 1,223,022 |
| Segment (loss) profit before taxation | (257,974) | 34,098 | (223,876) |
| Income tax expense | (6,716) | (10,687) | (17,403) |
| Segment (loss) profit | (264,690) | 23,411 | (241,279) |
| Unallocated other income | | | 1,989 |
| Unallocated other gains and losses | | | 76,247 |
| Unallocated administrative expenses | | | (11,176) |
| Unallocated finance costs | | | (18,036) |
| Loss for the year from continuing operations | | | (192,255) |

All segment revenue reported above is from external customers. There were no inter-segment sales in both reporting periods.

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment profit represents the post-tax profit earned by each segment without allocation of centain administrative expenses, other income, other gains and losses, as well as finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

## 6. SEGMENT INFORMATION – CONTINUED

**Segment assets and liabilities**

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| **Segment assets** | | |
| Petrochemical | 3,784,174 | 2,916,893 |
| Hospital services | 1,095,642 | 1,055,708 |
| Total segment assets | 4,879,816 | 3,972,601 |
| Other assets | 3,378 | 59,268 |
| Total consolidated assets | 4,883,194 | 4,031,869 |
| **Segment liabilities** | | |
| Petrochemical | 2,643,846 | 1,628,140 |
| Hospital services | 248,861 | 273,142 |
| Total segment liabilities | 2,892,707 | 1,901,282 |
| Guaranteed notes | – | 155,549 |
| Convertible bonds | 617,784 | 560,556 |
| Other liabilities | 923 | 45,883 |
| Total consolidated liabilities | 3,511,414 | 2,663,270 |

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than unallocated corporate assets, mainly included certain bank balances and cash and property, plant and equipment.
- all liabilities are allocated to operating segments other than unallocated corporate liabilities, mainly include convertible bonds, other payables and dividend payable.

## 6. SEGMENT INFORMATION – CONTINUED

### Other segment information

Amounts included in the measure of segment results or segment assets:

**2018**

| | Petrochemical RMB'000 | Hospital services RMB'000 | Unallocated RMB'000 | Consolidated RMB'000 |
|---|---|---|---|---|
| Addition of non-current assets (Note) | 256,904 | 29,668 | – | 286,572 |
| Depreciation and amortisation | (62,958) | (22,449) | – | (85,407) |
| Release of prepaid lease payments | (5,118) | (883) | – | (6,001) |
| Loss on disposal of property, plant and equipment | (108) | (461) | – | (569) |
| Impairment losses, net of reversal | (13,333) | (412) | – | (13,745) |
| (Loss) gain from changes in fair value of | | | | |
| – listed securities held for trading | (1,478) | – | – | (1,478) |
| – wealth management products | 101 | 1,754 | – | 1,855 |
| Share of results of an associate | (8,931) | – | – | (8,931) |
| Interest income | 1,272 | 339 | – | 1,611 |
| Finance costs | (52,501) | (4,345) | – | (56,846) |

2017

| | Petrochemical RMB'000 | Hospital services RMB'000 | Unallocated RMB'000 | Consolidated RMB'000 |
|---|---|---|---|---|
| Addition of non-current assets (Note) | 89,011 | 462,254 | – | 551,265 |
| Depreciation and amortisation | (46,843) | (8,307) | – | (55,150) |
| Release of prepaid lease payments | (5,925) | (368) | – | (6,293) |
| Loss on disposal of property, plant and equipment | (26,426) | (96) | – | (26,522) |
| Gain on relocation | 28,987 | – | – | 28,987 |
| Impairment losses, net of reversal | (51,338) | – | – | (51,338) |
| Share of results of associates | 173 | – | – | 173 |
| Interest income | 492 | 328 | – | 820 |
| Finance costs | (40,571) | (2,140) | (18,036) | (60,747) |

## 6. SEGMENT INFORMATION – CONTINUED

### Geographical information

The Group operates principally in the PRC (including Hong Kong), and overseas countries (mainly including the United States of America (the "USA"), Japan and Singapore).

Information about the Group's revenue from continuing operations from external customers is presented based on the operations. Information about the Group's non-current assets is presented based on the geographical location of the assets.

| | Revenue from external customers | | Non-current assets (Note) | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| PRC | **1,725,476** | 1,119,675 | **2,106,988** | 1,920,519 |
| Overseas countries | **165,618** | 103,347 | **2,072** | 4,904 |
| | **1,891,094** | 1,223,022 | **2,109,060** | 1,925,423 |

Note: Non-current assets included property, plant and equipment, intangible assets, prepaid lease payments, deposit for acquisition of property, plant and equipment, interest in an associate and goodwill.

### Information about major customers

For the year ended 31 December 2018, no individual customer contributes over 10% of the total sales of the Group (2017: Nil).

## 7. OTHER INCOME

| | **2018** | 2017 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| ***Continuing operations*** | | |
| Interest income on bank deposits | **1,611** | 820 |
| Value added tax ("VAT") refund (Note i) | **3,351** | 1,790 |
| Government grants (Note ii) | **32,368** | 39,451 |
| Dividend income from AFS financial assets (Note iii) | **–** | 2,008 |
| Others | **325** | 702 |
| | **37,655** | 44,771 |

## 7. OTHER INCOME – CONTINUED

Notes:

i. The amount represents the VAT refund from local tax bureau in accordance with the preferential policy on VAT of software manufacturers.

ii. Other than the deferred income released to profit or loss as set out in Note 42, government grants also include the government subsidies received by the Company's subsidiaries from relevant government bodies in connection with expenses on technology development. All government grants were recognised at the time the grants are receivable as the corresponding expenses has already been incurred and recognised in profit or loss.

iii. The amount represent the dividend income amounting to RMB2,008,000 received during the prior year from EM Global Limited ("EM Global"), a private entity incorporated in Singapore.

On 28 June 2017, the Group disposed of its interest in EM Global to an independent third party for cash consideration of US$1,148,000 (equivalent to approximately RMB7,832,000) and resulted in a loss on disposal of AFS financial assets of RMB3,012,000 recognised in profit or loss under "other gains and losses" as set out in Note 8.

## 8. OTHER GAINS AND LOSSES

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| **Continuing operations** | | |
| Gain (loss) on disposal of property, plant and equipment and prepaid lease payments: | | |
| – Upon relocation of operations (Note 42) | – | 28,987 |
| – Other disposals | (569) | (26,522) |
| Net foreign exchange (loss) gain | (4,706) | 4,565 |
| Loss on disposal of subsidiaries | 150 | – |
| (Loss) gain from changes in fair value of convertible bonds (Note 40) | (60,406) | 71,305 |
| Gain (loss) from changes in fair value of: | | |
| – wealth management products (Note 26) | 1,855 | 1,232 |
| – listed securities held for trading (Note 25) | (1,478) | – |
| Loss on disposal of an associate | – | (222) |
| Loss on disposal of AFS financial assets (Note 7(iii)) | – | (3,012) |
| Others | – | 898 |
| | (65,154) | 77,231 |

## 9. FINANCE COSTS

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| **Continuing operations** | | |
| Interest on bank borrowings | **20,100** | 20,858 |
| Interest on guaranteed notes (Note 38) | **14,103** | 18,036 |
| Interest on corporate bonds (Note 39) | **17,197** | 17,962 |
| Interest on long term payable (Note 41) | **11,910** | 3,891 |
| Total borrowing costs | **63,310** | 60,747 |
| Less: amount capitalised under construction in progress | **(6,464)** | – |
| | **56,846** | 60,747 |

During the current year, borrowing cost capitalised of RMB6,464,000 arose from long term payable specifically for the purpose of obtaining qualifying assets with a capitalisation rate of 5.50% per annum to expenditure on qualifying assets.

## 10. IMPAIRMENT LOSSES, NET OF REVERSAL

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| **Continuing operations** | | |
| Impairment losses recognised (reversed) on: | | |
| – Trade receivables | **11,664** | 47,586 |
| – Contract assets | **2,176** | – |
| – Other receivables | **(95)** | 379 |
| – AFS financial assets (Note) | **–** | 3,373 |
| | **13,745** | 51,338 |

Note: The amount represented the ful impairment loss on the 0.25% equity interests in Firebus Systems Inc. during prior year.

Details of impairment assessment for the year ended 31 December 2018 are set out in Note 53.

## 11. INCOME TAX EXPENSE

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| **Continuing operations** | | |
| Current tax: | | |
| PRC enterprise income tax | **47,084** | 28,881 |
| Other jurisdictions | **815** | 11 |
| | **47,899** | 28,892 |
| Deferred tax credit (Note 24) | **(2,323)** | (11,489) |
| | **45,576** | 17,403 |

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision has been made as the Group has no assessable profit for both year.

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

PRC enterprise income tax is calculated at 25% of the estimated assessable profit of the Company's subsidiaries located in the PRC as determined in accordance with relevant tax rules and regulations in the PRC for both years, except for certain subsidiaries which enjoyed tax rate substantially lower than 25% due to relevant incentive policies.

Certain subsidiaries of the Company are qualified as "High and New Tech Enterprises", which are subject to PRC enterprise income tax at the preferential rate of 15% of the estimated assessable profit as determined in accordance with relevant tax rules and regulations in the PRC. This preferential rate could be applied for three years and the subsidiaries are eligible to apply the tax concession again upon expiry of the three-year period.

Taxation arising in the jurisdictions other than the PRC and Hong Kong is calculated at rates prevailing in the relevant jurisdictions.

## 11. INCOME TAX EXPENSE – CONTINUED

The income tax expense from continuing operations for the year can be reconciled to the profit (loss) before taxation from continuing operations per the consolidated statement of profit or loss and other comprehensive income as follows:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Profit (loss) before taxation from continuing operations | **52,864** | (174,852) |
| Tax at the PRC income tax rate of 25% (2017: 25%) | **13,216** | (43,713) |
| Tax effect of: | | |
| Share of results of associates | **2,233** | (43) |
| Dividends received from AFS investments | **–** | (502) |
| Expenses not deductible for tax purpose | **11,758** | 15,190 |
| Income not taxable for tax purpose | **(8,821)** | (2,260) |
| Tax losses not recognised | **24,897** | 50,397 |
| Utilisation of tax losses and temporary differences previously not recognised | **(12,234)** | (8,791) |
| Deductible temporary differences not recognised | **20,387** | 9,352 |
| Different jurisdictions tax rates of subsidiaries | **(690)** | (288) |
| Tax benefit granted to certain PRC subsidiaries | **(8,883)** | (3,839) |
| Withholding tax on undistributed profit of a PRC subsidiary | **3,713** | 1,900 |
| Tax expense for the year from continuing operations | **45,576** | 17,403 |

Under the PRC tax law, withholding tax of 10% is imposed on dividends declared to foreign investors in respect of profit earned by the PRC subsidiaries from 1 January 2008 onward. Starting from 1 January 2011, certain profits generated by the relevant PRC subsidiaries would be distributed to its foreign investor and as such, deferred tax liability in this respect was provided for accordingly in the consolidated financial statements of the Group for the current year to the extent that such earnings are estimated by the directors of the Company to be distributed in the foreseeable future.

蘇州永鼎醫院有限公司(transliterated as Suzhou Yongding Hospital Company Limited, "Yongding Hospital"), a PRC subsidiary acquired by the Group in the prior reporting period, has recognised withholding tax on undistributed profits amounted to RMB3,713,000 (2017: RMB1,900,000). Other than Yongding Hospital, the aggregate amount of temporary differences associated with undistributed earnings of the PRC subsidiaries for which deferred tax liabilities have not been recognised amounted to approximately RMB437,065,000 (2017: RMB511,039,000) because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

## 12. PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS

Profit (loss) for the year from continuing operations has been arrived at after charging:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Depreciation of property, plant and equipment | 66,353 | 45,349 |
| Amortisation of intangible assets included in | | |
| – cost of sales | 19,054 | 9,801 |
| Total depreciation and amortisation | 85,407 | 55,150 |
| Capitalised in inventories | (69,599) | (39,243) |
| | 15,808 | 15,907 |
| Auditors' remuneration | 3,125 | 4,200 |
| Release of prepaid lease payments | 6,001 | 6,293 |
| Trademark license expense | 1,200 | 500 |
| Operating leases payments in respect of rented premises | 16,322 | 18,002 |
| Staff costs (including directors' emoluments in Note 14): | | |
| Salaries and other benefits | 378,523 | 293,153 |
| Retirement benefits scheme contributions | 20,905 | 16,102 |
| Total staff cost | 399,428 | 309,255 |
| Capitalised in inventories | (198,693) | (103,227) |
| | 200,735 | 206,028 |
| Cost of inventories recognised as an expense | 1,251,578 | 999,870 |

## 13. DISCONTINUED OPERATIONS

On 25 January 2017, the Group completed the disposal of Beijing Consen Transportation Technology Company Limited ("Beijing Transportation") at a consideration of RMB11,500,000.

On 11 July 2017, the Group completed the disposal of 100% equity interests of Beijing Consen Process Control Technology Company Limited ("Consen Process Control") at a cash consideration of RMB64,810,000. On 27 September 2017, the Group completed the disposal of 100% equity interests of Beijing Liboyuan Investment Management Company Limited ("Liboyuan Investment") at a cash consideration of RMB14,890,000. Consen Process Control holds 51% equity interest of Nanjing Huashi Electronic Scientific Company Limited ("Nanjing Huashi Electronic") and Liboyuan Investment holds 51% equity interest of Nanjing Huashi Power Equipment Company Limited ("Nanjing Power Equipment"). Nanjing Huashi Electronic and Nanjing Power Equipment engage in the design, production and sale of railway traction control and auxiliary electricity supply systems in the PRC.

## 13. DISCONTINUED OPERATIONS – CONTINUED

The results of the above subsidiaries which comprised the discontinued operations included in losses for the prior year are set out below.

| **Loss for the year from discontinued operations** | **From 1 January 2017 to the respective dates of disposals RMB'000** |
|---|---|
| Revenue | 61,609 |
| Cost of sales | (57,036) |
| Gross profit | 4,573 |
| Other income | 708 |
| Selling and distribution expenses | (6,203) |
| Administrative expenses | (9,567) |
| Research and development expenses | (5,257) |
| Other expenses | (436) |
| Finance costs | (3,045) |
| Loss before taxation | (19,227) |
| Loss for the period | (19,227) |
| Gain on disposal of discontinued operations | 3,932 |
| Loss for the period from discontinued operations | (15,295) |

| **Cash flows from discontinued operations** | **From 1 January 2017 to the respective dates of disposals RMB'000** |
|---|---|
| Net cash outflows from operating activities | (13,169) |
| Net cash outflows from investing activities | (11,507) |
| Net cash inflows from financing activities | 19,956 |
| Net cash outflows | (4,720) |

## 13. DISCONTINUED OPERATIONS – CONTINUED

Loss for the year from discontinued operations has been arrived at after charging:

| | 2017 RMB'000 |
|---|---|
| Depreciation of property, plant and equipment | 11,610 |
| Amortisation of intangible assets included in | |
| – Cost of sales | 4,513 |
| | 4,513 |
| Total depreciation and amortisation | 16,123 |
| Capitalised in inventories | (6,884) |
| | 9,239 |
| Release of prepaid lease payments | 295 |

## 14. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to the directors of the Company and the chief executive were as follows:

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Directors' fees RMB'000 | Salaries and other benefits RMB'000 | Contributions to retirement benefits scheme RMB'000 | Performance related incentive payments RMB'000 | Total emoluments RMB'000 |
| Executive directors | | | | | |
| Mr. Xuan Rui Guo (Note) | – | 1,615 | 55 | 2,003 | 3,673 |
| Mr. Wang Chuen Sheng | – | 856 | – | – | 856 |
| Sub-total | – | 2,471 | 55 | 2,003 | 4,529 |
| Independent non-executive directors | | | | | |
| Mr. Wang Tai Wen | 154 | – | – | – | 154 |
| Mr. Ng Wing Fai | 205 | – | – | – | 205 |
| Mr. Zhang Xin Zhi | 154 | – | – | – | 154 |
| Sub-total | 513 | – | – | – | 513 |
| Total | 513 | 2,471 | 55 | 2,003 | 5,042 |

## 14. DIRECTORS' EMOLUMENTS – CONTINUED

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Directors' fees RMB'000 | Salaries and other benefits RMB'000 | Contributions to retirement benefits scheme RMB'000 | Performance related incentive payments RMB'000 | Total emoluments RMB'000 |
| Executive directors | | | | | |
| Mr. Xuan Rui Guo (Note) | – | 1,664 | 51 | 600 | 2,315 |
| Mr. Wang Chuen Sheng | – | 865 | – | – | 865 |
| Sub-total | – | 2,529 | 51 | 600 | 3,180 |
| Independent non-executive directors | | | | | |
| Mr. Wang Tai Wen | 156 | – | – | – | 156 |
| Mr. Ng Wing Fai | 208 | – | – | – | 208 |
| Mr. Zhang Xin Zhi | 156 | – | – | – | 156 |
| Sub-total | 520 | – | – | – | 520 |
| Total | 520 | 2,529 | 51 | 600 | 3,700 |

Note: Mr. Xuan is also the chief executive of the Company and his emoluments disclosed above include those for services rendered as Chief Executive.

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The performance related incentive payments are determined by the Company's board of directors and should not be more than 5% of the profit attributable to owners of the Company for the relevant financial year. The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

During both years, no emoluments were paid by the Group to any of the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. Neither the chief executive nor any of the directors of the Company waived any emoluments during either reporting periods.

## 15. FIVE HIGHEST PAID EMPLOYEES

The emoluments of the five highest paid employees of the Group during the reporting period included one director (2017: one), details of whose remuneration are set out in Note 14 above. Details of the remuneration for the reporting period of the remaining four (2017: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Salaries and other benefits | 4,568 | 4,919 |
| Contributions to retirement benefits scheme | 234 | 210 |
| Performance related incentive payments | 1,910 | 1,966 |
| | 6,712 | 7,095 |

Their emoluments were within the following bands:

| | Number of employees | |
|---|---|---|
| | 2018 | 2017 |
| HK$1,500,001 to HK$2,000,000 | 2 | 2 |
| HK$2,000,001 to HK$2,500,000 | 2 | 2 |
| | 4 | 4 |

## 16. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during 2018, nor has any dividend been proposed since the end of the reporting period (2017: Nil).

## 17. LOSS PER SHARE

| | 2018<br>RMB cents | 2017<br>RMB cents |
|---|---|---|
| Basic loss per share | | |
| From continuing operations | **(1.80)** | (19.64) |
| From discontinued operations | **–** | (0.65) |
| Total basic loss per share | **(1.80)** | (20.29) |
| Diluted loss per share (Note) | | |
| From continuing operations | **(1.80)** | (20.94) |
| From discontinued operations | **–** | (0.51) |
| Total diluted loss per share | **(1.80)** | (21.45) |

The calculation of the basic and diluted loss per share from continuing operations attributable to the owners of the Company is based on the following data:

**Loss**

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Loss for the year attributable to owners of the Company | **(18,480)** | (208,184) |
| *Less:* | | |
| Loss for the year from discontinued operations | **–** | (6,634) |
| Loss for the purpose of basic loss per share from continuing operations | **(18,480)** | (201,550) |
| Effect of dilutive potential ordinary shares: | | |
| – Fair value gain on convertible bonds (Note) | **N/A** | (71,305) |
| Loss for the purpose of diluted loss per share from continuing operations | **(18,480)** | (272,855) |

## 17. LOSS PER SHARE – CONTINUED

**Number of shares**

| | 2018 '000 | 2017 '000 |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic loss per share | **1,026,264** | 1,026,264 |
| Effect of dilutive potential ordinary shares – Convertible bonds (Note) | **N/A** | 276,595 |
| Weighted average number of ordinary shares for the purpose of diluted loss per share | **1,026,264** | 1,302,859 |

The calculation of the basic and diluted loss per share from continuing and discontinued operations attributable to the owners of the Company based on the following data:

**Loss**

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Loss for the purpose of basic loss per share for the year attribute to owners of the Company | **(18,480)** | (208,184) |
| Effect of dilutive potential ordinary shares: – Fair value gain of convertible bonds (Note) | **N/A** | (71,305) |
| Loss for the purpose of diluted loss per share | **(18,480)** | (279,489) |

The denominators used are the same as those details above for both basic and diluted loss per share from continuing operations.

Note: Diluted loss per share for the year ended 31 December 2018 was calculated without assuming the conversion of the Company's outstanding convertible bonds since their exercise would result in a decrease in loss per share.

## 18. PROPERTY, PLANT AND EQUIPMENT

| | Buildings RMB'000 | Leasehold improvements RMB'000 | Fixtures, medical and electronic equipment RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2017 | 476,824 | 10,902 | 268,191 | 30,265 | 329,435 | 1,115,617 |
| Additions | 38 | 421 | 9,678 | 2,350 | 90,349 | 102,836 |
| Acquired on acquisition of a subsidiary(Note 47) | 142,065 | – | 27,455 | 1,280 | 46,169 | 216,969 |
| Transfers | 268,154 | – | 122,605 | – | (390,759) | – |
| Disposals | – | (33) | (44,234) | (2,337) | – | (46,604) |
| Disposal upon the relocation of operations (Note 42) | (99,079) | – | (138,711) | – | – | (237,790) |
| Disposal of subsidiaries (Note 48) | (112,193) | (4,342) | (40,286) | (3,214) | – | (160,035) |
| At 31 December 2017 | 675,809 | 6,948 | 204,698 | 28,344 | 75,194 | 990,993 |
| Additions | 14,886 | – | 54,053 | 3,690 | 80,405 | 153,034 |
| Transfers | 5,992 | 38 | 44,927 | 1,816 | (52,773) | – |
| Disposals | (842) | – | (9,656) | (975) | – | (11,473) |
| At 31 December 2018 | 695,845 | 6,986 | 294,022 | 32,875 | 102,826 | 1,132,554 |
| DEPRECIATION | | | | | | |
| At 1 January 2017 | 65,298 | 7,876 | 136,051 | 22,474 | – | 231,699 |
| Provided for the year | 22,837 | 551 | 31,532 | 2,039 | – | 56,959 |
| Disposals | – | (33) | (16,475) | (1,662) | – | (18,170) |
| Eliminated on disposal upon the relocation of operations (Note 42) | (53,704) | – | (114,656) | – | – | (168,360) |
| Disposal of subsidiaries (Note 48) | (13,177) | (2,603) | (16,284) | (2,587) | – | (34,651) |
| At 31 December 2017 | 21,254 | 5,791 | 20,168 | 20,264 | – | 67,477 |
| Provided for the year | 17,031 | 312 | 47,627 | 1,383 | – | 66,353 |
| Disposals | (48) | – | (8,341) | (932) | – | (9,321) |
| At 31 December 2018 | 38,237 | 6,103 | 59,454 | 20,715 | – | 124,509 |
| CARRYING VALUES | | | | | | |
| At 31 December 2018 | 657,608 | 883 | 234,568 | 12,160 | 102,826 | 1,008,045 |
| At 31 December 2017 | 654,555 | 1,157 | 184,530 | 8,080 | 75,194 | 923,516 |

## 18. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

Property, plant and equipment except for construction in process are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Buildings | 3.17% |
| Leasehold improvements | 20% |
| Fixtures, medical and electronic equipment | 9.5% – 19% |
| Motor vehicles | 19% |

The buildings of the Group are located on land in the PRC. As of 31 December 2018, a building with a carrying value of RMB200,162,000 is in the process of obtaining property certificates (2017: RMB204,247,000).

Details of property, plant and equipment pledged are set out in Note 49.

## 19. PREPAID LEASE PAYMENTS

Movements in the lease prepayments, which represent land use rights with the lease terms of 40 to 50 years in PRC, during the year are analysed as follows:

| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| CARRYING AMOUNT | | |
| At 1 January | **263,802** | 277,433 |
| Addition | **22,206** | – |
| Acquired on acquisition of a subsidiary (Note 47) | **–** | 34,893 |
| Disposal upon relocation of operations (Note42) | **–** | (24,698) |
| Disposal of subsidiaries (Note 48) | **–** | (17,238) |
| Released to profit or loss | **(6,001)** | (6,588) |
| At 31 December | **280,007** | 263,802 |
| Analysed for reporting purpose as: | | |
| Non-current asset | **272,759** | 256,998 |
| Current asset | **7,248** | 6,804 |
| | **280,007** | 263,802 |

Details of land use rights pledged are set out in Note 49.

## 20. INTANGIBLE ASSETS

| | Trademarks RMB'000 | Development costs RMB'000 (Note) | Operating licenses RMB'000 | Patents RMB'000 | Non-Patented technology RMB'000 | Premium on land use right RMB'000 | Trademark use right RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| COST | | | | | | | | |
| At 1 January 2017 | 23,827 | 73,003 | 101,080 | 22,546 | 35,550 | – | – | 256,006 |
| Additions | – | 20,593 | – | – | – | – | – | 20,593 |
| Acquired on acquisition of a subsidiary (Note 47) | – | – | 98,733 | – | – | 24,307 | 62,300 | 185,340 |
| Disposal of subsidiaries (Note 48) | – | (14,107) | (84,658) | – | – | – | – | (98,765) |
| At 31 December 2017 | 23,827 | 79,489 | 115,155 | 22,546 | 35,550 | 24,307 | 62,300 | 363,174 |
| Additions | – | 27,350 | – | – | – | – | – | 27,350 |
| At 31 December 2018 | 23,827 | 106,839 | 115,155 | 22,546 | 35,550 | 24,307 | 62,300 | 390,524 |
| AMORTISATION AND IMPAIRMENT | | | | | | | | |
| At 1 January 2017 | – | 30,760 | 101,080 | 19,343 | 35,550 | – | – | 186,733 |
| Provided for the year | – | 11,731 | 1,371 | 422 | – | 258 | 532 | 14,314 |
| Eliminated on disposal of subsidiaries (Note 48) | – | (2,351) | (84,658) | – | – | – | – | (87,009) |
| At 31 December 2017 | – | 40,140 | 17,793 | 19,765 | 35,550 | 258 | 532 | 114,038 |
| Provided for the year | – | 13,290 | 3,291 | 551 | – | 644 | 1,278 | 19,054 |
| At 31 December 2018 | – | 53,430 | 21,084 | 20,316 | 35,550 | 902 | 1,810 | 133,092 |
| CARRYING VALUES | | | | | | | | |
| At 31 December 2018 | 23,827 | 53,409 | 94,071 | 2,230 | – | 23,405 | 60,490 | 257,432 |
| At 31 December 2017 | 23,827 | 39,349 | 97,362 | 2,781 | – | 24,049 | 61,768 | 249,136 |

Note: Development costs capitalised are internally generated.

## 20. INTANGIBLE ASSETS – CONTINUED

The intangible assets, other than the trademarks with indefinite useful lives which are stated at cost less impairment, are amortised on a straight-line basis based over the estimated useful lives as follows:

| Category | Estimated useful lives |
|---|---|
| Development costs | 5 years |
| Operating licenses | 30 years |
| Patents | 5 – 15 years |
| Non-patented technologies | 10 years |
| Premium on land use right | 42 years |
| Trademark use right | 46.8 years |

As referred to in Note 47, on 26 July 2017 the Group completed the acquisition of 60% interest in Etern Group Ltd. ("Etern Group"). Etern Healthcare (HK) Limited ("Etern Healthare"), a subsidiary of Etern Group, had been granted the trademark license from 8 May 2014 to 7 May 2064 at a cash consideration of an aggregate amount of US$9,758,000 (equivalent to approximately RMB62,572,000) on 8 May 2014. The trademark license was sub-licensed to and used by Yongding Hospital with the effective from 8 May 2014. As at 26 July 2017, the fair value of the trademark use right was RMB62,300,000 which is RMB3,628,000 higher than the carrying value.

The trademarks with indefinite useful lives have a legal life of 10 years but are renewable every 10 years at minimal cost. The directors of the Company are of the opinion that the Group would renew the trademarks continuously and have the ability to do so. Various studies including product stability and security studies, market and admission policy trends, and brand extension opportunities have been performed by the management of the Group, which supports that the trademarks have no foreseeable limit to the period over which the trademarked products are expected to generate net cash flows for the Group.

As a result, these trademarks are considered by the directors of the Company as having an indefinite useful life. They will be tested for impairment annually and whenever there are indications that they may be impaired. Particulars of the impairment testing are disclosed in Note 22.

## 21. GOODWILL

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| COST LESS IMPAIRMENT | | |
| At 1 January | 445,500 | 8,890 |
| Arising on acquisition of a subsidiary (Note 47) | – | 436,610 |
| At 31 December | 445,500 | 445,500 |

Particulars regarding impairment testing on goodwill are disclosed in Note 22.

## 22. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS

For the purpose of impairment testing, goodwill and trademarks with indefinite useful lives set out in Notes 21 and 20 have been allocated to four individual CGUs, comprising three subsidiaries in the petrochemical segment and one subsidiary in the hospital services segment. The carrying amounts of goodwill and trademarks as at 31 December 2018 allocated to these units are as follow:

| | Goodwill | | Trademarks | |
|---|---|---|---|---|
| | 2018 RMB'000 | 2017 RMB'000 | 2018 RMB'000 | 2017 RMB'000 |
| **Petrochemical** | | | | |
| – Tri-sen Systems Corporation (Unit A) | – | – | 546 | 546 |
| – Beijing Haidian Zhongjing Engineering Design and Software Technology GF Company Limited ("Zhongjing") (Unit B) | 8,890 | 8,890 | – | – |
| – Wuzhong Instrument Company Limited ("Wuzhong Instrument") (Unit C) | – | – | 23,281 | 23,281 |
| **General hospital services** | | | | |
| – Etern Group (Unit D) | 436,610 | 436,610 | – | – |
| **Total** | 445,500 | 445,500 | 23,827 | 23,827 |

The recoverable amounts of the above CGUs have been determined based on fair value less cost of disposal calculations. That calculation uses cash flow projections based on financial forecast approved by the directors of the Company covering a 5 year period. The cash flows of the respective CGUs beyond the five-year period are extrapolated using a steady growth rate of 3% (2017: 3%). The growth rates are based on the relevant industry forecasts and do not exceed the industry average long-term growth rates for the relevant industries.

## 22. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS – CONTINUED

The cash flows of the above CGUs are discounted using the following operating margins and post-tax discount rates:

| | Operating Margins | | Discount rates | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Unit A | **1.2%** | 1.1% | **12.0%** | 12.1% |
| Unit B | **5.4%** | 7.0% | **15.0%** | 15.7% |
| Unit C | **12.5%** | 13.7% | **13.8%** | 15.7% |
| Unit D | **24.2%** | 24.7% | **12.1%** | 13.0% |

Other key assumptions for the calculations related to the estimation of financial forecast which included in the budgeted sales and gross margin.

For Unit A, Unit B, Unit C and Unit D, the directors of the Company believe that any reasonably possible change in any of these assumptions would not cause the carrying amount to exceed its recoverable amount respectively and accordingly, no impairment is recognised for the non-current assets directly related to Unit A, Unit B, Unit C and Unit D.

## 23. INTERESTS IN AN ASSOCIATE

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| Cost of investments in an associate | **25,000** | 25,000 |
| Share of post-acquisition loss and other comprehensive income, net of dividends received | **(14,595)** | (5,664) |
| | **10,405** | 19,336 |

Details of the Group's associates are set out below.

| Name of entity | Date of establishment | Place of establishment and operation | Issued and fully paid up share capital | Equity interest attributable to the Group | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | **2018** | 2017 | |
| 上海金子自動化儀錶有限公司 Shanghai Kaneko Auto-Instrument Company Limited ("Shanghai Kaneko") | 27 May 2004 | PRC | JPY130,000,000 | **N/A** | (Note) | Manufacture of industrial control valves |
| 遼寧汽輪動力有限公司 Liaoning Steam Turbine Power Company Limited ("Liaoning Steam Turbine") | 7 September 2012 | PRC | RMB100,000,000 | **25%** | 25% | Manufacture of industrial steam turbines |

## 23. INTERESTS IN AN ASSOCIATE – CONTINUED

Note: In November 2017, the Group disposed of its interest in Shanghai Kaneko to a third party for a cash consideration of RMB1,200,000. This transaction has resulted in the recognition of a loss in profit or loss, calculated as follows:

| | 2017<br>RMB'000 |
|---|---|
| Proceeds of disposal of an associate | 1,200 |
| Less: carrying amount of the associate on the date of disposal | (1,422) |
| Loss on disposal of an associate | (222) |

All associates are accounted for using the equity method in these consolidated financial statements.

Liaoning Steam Turbine's financial information is set out below which represents amounts shown in the consolidated financial statements prepared in accordance with IFRSs.

| **Liaoning Steam Turbine** | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| Current assets | **62,457** | 75,713 |
| Non-current assets | **81,127** | 82,000 |
| Current liabilities | **101,963** | 80,367 |
| Revenue | **26,699** | 59,713 |
| (Loss) profit for the year | **(35,725)** | 278 |
| Total comprehensive (expenses) income for the year | **(35,725)** | 278 |

Reconciliation of the above financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| Net assets of Liaoning Steam Turbine | **41,621** | 77,346 |
| Proportion of the Group's ownership interest in Liaoning Steam Turbine | **25%** | 25% |
| Carrying amount of the Group's interest in Liaoning Steam Turbine | **10,405** | 19,336 |

## 24. DEFERRED TAX ASSETS/LIABILITIES

The following is the analysis of the deferred tax balances for financial reporting purposes:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Deferred tax assets | **83,989** | 79,689 |
| Deferred tax liabilities | **(68,033)** | (66,056) |
| | **15,956** | 13,633 |

The deferred tax assets (liabilities) recognised by the Group and movements thereon during the year are as follows:

| | Impairment loss/ECL provision on trade and other receivables and contract assets | Deferred income | Impairment losses on AFS financial assets/fair value adjustment of equity instruments at FVTOCI | Fair value adjustment from acquisition assets (Note i) | Undistributed profits of subsidiaries | Other temporary differences (Note ii) | Total |
|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2017 | 30,773 | 30,243 | 3,457 | – | (16,640) | 2,013 | 49,846 |
| Acquisition of a subsidiary (Note 47) | 542 | – | – | (42,825) | (5,419) | – | (47,702) |
| Credited (charged) to profit or loss | 1,004 | 10,937 | – | 728 | (1,900) | 720 | 11,489 |
| At 31 December 2017 | 32,319 | 41,180 | 3,457 | (42,097) | (23,959) | 2,733 | 13,633 |
| (Charged) credited to profit or loss | (1,124) | 4,558 | – | 1,736 | (3,713) | 866 | 2,323 |
| At 31 December 2018 | 31,195 | 45,738 | 3,457 | (40,361) | (27,672) | 3,599 | 15,956 |

Notes:

i. Deferred tax liabilities of fair value adjustment recognised by the Group represented the fair value adjustment on intangible assets arising from the business acquisitions.

ii. Other temporary differences mainly represent the temporary differences arising from the amortisation of intangible assets.

As at 31 December 2018, the Group had unused tax losses of approximately RMB845,102,000 (2017: RMB848,500,000) available to offset against future profits of respective subsidiaries. Included in unused tax losses are losses of RMB243,224,000 (2017: RMB271,418,000) that may be carried forward indefinitely.

## 24. DEFERRED TAX ASSETS/LIABILITIES – CONTINUED

The other tax losses unused for deferred tax assets that will expire in:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| 2018 | – | 36,954 |
| 2019 | 35,527 | 35,527 |
| 2020 | 83,353 | 86,291 |
| 2021 | 236,837 | 237,017 |
| 2022 | 181,210 | 181,293 |
| 2023 | 64,951 | – |
| Total | 601,878 | 577,082 |

No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams of respective subsidiaries.

## 25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Financial assets mandatorily measured at FVTPL: | | |
| Listed securities held for trading | 1,689 | – |

The above listed equity investments represent ordinary shares of 四川瀘天化股份有限公司, an entity listed in the PRC. During the current year, loss from the fair value changes amounting to RMB1,478,000 had been recognised in profit or loss under "other gain and losses" as set out in Note 8.

## 26. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | 2017 RMB'000 |
|---|---|
| Unlisted investments: | |
| – Wealth management products (Note) | 31,000 |
| – Equity investment | 26,953 |
| Total | 57,953 |
| Analysed for reporting purposes as: | |
| Current assets | 31,000 |
| Non-current assets | 26,953 |

## 26. AVAILABLE-FOR-SALE FINANCIAL ASSETS – CONTINUED

Note: During the prior year, the Group purchased unlisted wealth management products from commercial banks, which mainly invested in portfolio of treasury bonds, central bank bills and bond funds. The unlisted wealth management products are principal protected or unprotected with expected annual returns at rates up to 4.68% per annum. They can be redeemed in any working day at different price calculated based on the investment period and the expected rate before its maturity date in 2018. The fair value of the products are approximately RMB31,000,000 as at 31 December 2017.

Upon the adoption of IFRS 9 on 1 January 2018, the investments of unlisted wealth management products were classified as financial assets at FVTPL. During the current year, the Group fully redeemed the investment and gain on the investments amounting to RMB1,855,000 (2017: RMB1,232,000) had been recognised in profit or loss under "other gains and losses" as set out in Note 8.

## 27. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | **2018**<br>**RMB'000** |
|---|---|
| Unlisted investments: | |
| – Equity securities | **27,826** |
| – Others | **200** |
| | **28,026** |

The amount represented 0.84% equity interests in 瀋陽鼓風機集團股份有限公司, a private entity established in the PRC. It was measured at cost less impairment as at 31 December 2017. Upon the adoption of IFRS 9 on 1 January 2018, the directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

## 28. TRADE AND BILLS RECEIVABLES

| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| Trade receivables | **1,012,928** | 1,013,630 |
| Less: Allowance for credit losses/doubtful debts | **(279,766)** | (271,550) |
| | **733,162** | 742,080 |
| Bills receivable | **425,373** | 280,827 |
| | **1,158,535** | 1,022,907 |

As at 31 December 2018 and 1 January 2018, trade and bills receivables from contracts with customers amounted to RMB1,158,535,000 and RMB990,965,000 respectively.

## 28. TRADE AND BILLS RECEIVABLES – CONTINUED

The following is an aged analysis of trade receivables net of allowance for credit losses/doubtful debts presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates:

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| 0 – 90 days | **378,828** | 399,529 |
| 91 – 180 days | **136,439** | 116,214 |
| 181 – 365 days | **120,066** | 102,864 |
| 1 – 2 years | **84,872** | 119,093 |
| Over 2 years | **12,957** | 4,380 |
| | **733,162** | 742,080 |

As at 31 December 2017, trade receivables with a carrying amount of RMB88,602,000 that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past collection history, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Aging of trade receivables which are past due but not impaired:

| | 2017 RMB'000 |
|---|---|
| 1 – 2 years | 88,602 |
| Total | 88,602 |

## 28. TRADE AND BILLS RECEIVABLES – CONTINUED

**Movements in the allowance for doubtful debts**

| | 2017<br>RMB'000 |
|---|---|
| At 1 January | 261,849 |
| Impairment losses recognised on trade receivables | 122,800 |
| Amounts recovered during the year | (75,214) |
| Amounts written off as uncollectible | (833) |
| Exchange realignments | (2,011) |
| Eliminated on disposal of subsidiaries | (35,041) |
| At 31 December | 271,550 |

Details of impairment assessment of trade receivables and bills receivable for the year ended 31 December 2018 are set out in Note 53.

Trade receivables denominated in the currency other than the functional currency of relevant group entities:

| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| US$ | **47,337** | 31,941 |
| Japanese Yen ("JPY") | **813** | 3,153 |
| European Dollar ("EUR") | **8** | 8 |
| | **48,158** | 35,102 |

## 28. TRADE AND BILLS RECEIVABLES – CONTINUED

The following were the Group's financial assets as at 31 December 2018 and 2017 that were transferred by discounting to banks or endorsing to suppliers. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and associated liabilities. These financial assets and liabilities are carried at amortised cost in the Group's consolidated statement of financial position.

**As at 31 December 2018**

| | Bills receivable discounted to banks RMB'000 | Bills receivable endorsed to suppliers RMB'000 | Total RMB'000 |
|---|---|---|---|
| Carrying amount of: | | | |
| Transferred assets | 44,130 | 292,331 | 336,461 |
| Associated liabilities | (44,130) | (292,331) | (336,461) |
| Net position | – | – | – |

As at 31 December 2017

| | Bills receivable discounted to banks RMB'000 | Bills receivable endorsed to suppliers RMB'000 | Total RMB'000 |
|---|---|---|---|
| Carrying amount of: | | | |
| Transferred assets | 4,147 | 149,878 | 154,025 |
| Associated liabilities | (4,147) | (149,878) | (154,025) |
| Net position | – | – | – |

As at 31 December 2018, bills discounted/endorsed by the Group amounted to RMB336,461,000 and the Group continues to recognise their full carrying amounts. All bills received by the Group are with a maturity period of less than one year.

During the reporting period, the Group has discounted bills receivable amounting to RMB64,869,000 (2017: RMB59,954,000) to banks for short term financing. At the end of the reporting period, the associated borrowings amounted to RMB44,130,000 (2017: RMB4,147,000). The relevant cash flows of these borrowings are presented as operating cash flows in the consolidated statement of cash flows as the directors of the Company consider the cash flows are in substance, the receipts from trade customers.

## 29. CONTRACT ASSETS

| | 31 December 2018 RMB'000 | 1 January 2018* RMB'000 |
|---|---|---|
| Retention receivables | **32,290** | 18,828 |
| Installation service (Note) | **14,862** | 13,114 |
| | **47,152** | 31,942 |
| Less: Allowance for credit losses | **(5,370)** | (3,194) |
| | **41,782** | 28,748 |

* The amounts in this column are after the adjustments from the application of IFRS 9 and 15.

Note: The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditional at the reporting date on system and software sales. The contract assets are transferred to trade receivables when the rights become unconditional.

Details of the impairment assessment of contract assets for the year ended 31 December 2018 are set out in Note 53.

## 30. OTHER RECEIVABLES AND PREPAYMENTS

**Other receivables and prepayments**

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Prepayments to suppliers | **103,589** | 80,892 |
| Other receivables | **61,850** | 89,143 |
| Less: Impairment losses on other receivables | **(4,174)** | (4,269) |
| | **161,265** | 165,766 |

Other receivables and prepayments denominated in the currency other than the functional currency of relevant group entities:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| JPY | **5,165** | 24,427 |
| EUR | **–** | 1,228 |
| | **5,165** | 25,655 |

## 30. OTHER RECEIVABLES AND PREPAYMENTS – CONTINUED

**Movements in the allowance for doubtful debts**

| | 2017<br>RMB'000 |
|---|---|
| At 1 January | 4,075 |
| Impairment losses recognised on other receivables | 379 |
| Eliminated on disposal of subsidiaries | (185) |
| At 31 December | 4,269 |

Details of the impairment assessment of other receivables for the year ended 31 December 2018 are set out in Note 53.

## 31. INVENTORIES

| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| Raw materials | **220,674** | 248,322 |
| Work in progress | **122,691** | 99,069 |
| Finished goods | **100,109** | 78,601 |
| | **443,474** | 425,992 |

Details of inventories pledged are set out in Note 49.

## 32. PLEDGED BANK DEPOSITS

The pledged bank deposits represent the bank deposits pledged to secure banking facilities granted to the Group. The bank deposits amounting to RMB53,028,000 (2017: RMB38,284,000) have been pledged to secure short-term banking facilities and are therefore classified as current assets.

The deposits amounting to RMB1,623,000 (2017: RMB119,000) have been pledged to secure long-term banking facilities and are therefore classified as non-current assets. The pledged bank deposits carry market interest rates of 0.3% to 3.20% (2017: 0.3% to 2.25%) per annum as at 31 December 2018.

Details of bank deposits pledged are set out in Note 49.

## 32. PLEDGED BANK DEPOSITS – CONTINUED

Denominated in the currency other than the functional currency of relevant group entities:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| US$ | **4,111** | 3,823 |

## 33. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group, and short-term bank deposits with an original maturity of three months or less which carry interest at prevailing deposit interest rate at 0.3% to 0.35% (2017: 0.3% to 1.82%) per annum.

Denominated in the currency other than the functional currency of relevant group entities:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| US$ | **34,983** | 44,067 |
| JPY | **2,543** | 46 |
| EUR | **314** | 229 |
| HK$ | **77** | 294 |
| Singapore Dollar ("SG$") | **1** | 58 |
| Great Britain Pound ("GBP") | **–** | 2 |
| Australian Dollar | **–** | 16 |
| | **37,918** | 44,712 |

## 34. TRADE AND BILLS PAYABLES

An aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| 0 – 90 days | **341,469** | 265,775 |
| 91 – 180 days | **197,146** | 177,765 |
| 181 – 365 days | **61,373** | 13,984 |
| 1 – 2 years | **31,142** | 11,014 |
| Over 2 years | **20,773** | 23,903 |
| | **651,903** | 492,441 |

The average credit period on purchases is 90 to 180 days.

## 34. TRADE AND BILLS PAYABLES – CONTINUED

Denominated in the currency other than the functional currency of relevant group entities:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| US$ | 9,947 | 11,880 |
| JPY | 561 | 525 |
| EUR | 721 | 727 |
| SG$ | 201 | 196 |
| | 11,430 | 13,328 |

## 35. CONTRACT LIABILITIES

| | 31 December<br>2018<br>RMB'000 | 1 January<br>2018*<br>RMB'000 |
|---|---|---|
| Advance from customers | 120,554 | 62,259 |

* The amounts in this column are after the adjustments from the application of IFRS 15.

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities.

| | Sales of<br>goods<br>RMB'000 |
|---|---|
| Revenue recognised that was included in the contract liability balance at the beginning of the year | 62,259 |

## 36. OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Advance from customers | – | 62,259 |
| Accrued payroll and welfare | 63,488 | 52,493 |
| Interest payable | 8,387 | 6,809 |
| Other deposits, payables and accruals | 89,516 | 105,005 |
| Construction costs payables | 86,034 | 102,862 |
| Other tax payable | 22,870 | 8,086 |
| | 270,295 | 337,514 |

Denominated in the currency other than the functional currency of relevant group entities:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| JPY | 5,181 | 24,267 |

## 37. BANK BORROWINGS

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Secured bank borrowings | 489,131 | 414,947 |
| The bank borrowings are repayable: | | |
| – Within one year | 429,131 | 304,947 |
| – More than one year, but not exceeding two years | 30,000 | 50,000 |
| – More than two years, but not exceeding five years | 30,000 | 60,000 |
| | 489,131 | 414,947 |
| Less: Amounts due within one year shown under current liabilities | (429,131) | (304,947) |
| Amounts due after one year shown under non-current liabilities | 60,000 | 110,000 |

The amounts due are based on scheduled repayment dates set out in the loan agreements. At 31 December 2017 and 2018, no bank borrowings have contained a repayment on demand clause.

The floating interest rate borrowings were charged at the rates ranging from 3.30% to 5.70% per annum for the year ended 31 December 2018 (2017: 4.13% to 5.70%).

Details of pledge of assets for the Group's secured bank borrowings are set out in Note 49.

## 38. GUARANTEED NOTES

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| US$24,000,000 guaranteed notes due 2018 | – | 155,549 |
| US$10,000,000 guaranteed notes due 2019 | 69,418 | – |
| | 69,418 | 155,549 |
| Amounts due within one year shown under current liabilities | 69,418 | 155,549 |

On 11 December 2015, the Company's subsidiary, Tri-control Automation Company Limited ("Tri-control") issued 8.75% guaranteed notes with the aggregate principal amount of US$30,000,000 (equivalent to approximately RMB193,074,000) at an issuance costs of US$540,000 (equivalent to approximately RMB3,475,000) and the maturity date on 11 December 2018 ("the 2018 Guaranteed Notes"). The 2018 Guaranteed Notes are unsecured, unconditionally and irrevocably guaranteed by the Company and certain overseas subsidiaries of the Company.

According to the terms and conditions of the 2018 Guaranteed Notes, at any time or from time to time prior to the maturity date, Tri-control may at its option to redeem the notes at a redemption price set forth below.

| Period | Redemption Price |
|---|---|
| Prior to 11 December 2017 (in whole but not in part of the notes) | 100% of the principal amount, plus the applicable premium (Note) as of, and accrued and unpaid interest if any |
| On 11 December 2017 and thereafter (all or any part of the notes) | 104% of the principal amount, plus accrued and unpaid interest if any |

Note: "Applicable Premium" means the greater of (1) 1.00% of the principal amount of the notes; and (2) the excess of (a) the present value at the redemption date of the redemption price of the notes on 11 December 2017 (i.e. 104% of the principal amount), plus all required remaining scheduled interest payments due, computed using a discount rate equal to the adjusted treasury rate plus 100 basis points, over (b) the principal amount.

As the estimated fair value of the early redemption right is insignificant at initial recognition, the embedded derivative is not separately accounted for. The effective interest rate is approximately 9.45% per annum after deducting the adjustment for transaction costs.

Tri-control undertook a consent solicitation from holders of the 2018 Guaranteed Notes to amend certain sections of the indenture to, among other things, provide the Group with more flexibility in fundraising and operation, and a supplemental indenture was entered into on 21 July 2017. In September 2017, Tri-control repurchased part of the 2018 Guaranteed Notes with principal amount of US$6,000,000 (equivalent to approximately RMB40,393,000) and repaid the attributable accrued and unpaid interest as of US$158,000 (equivalent to approximately RMB1,045,000).

## 38. GUARANTEED NOTES – CONTINUED

During the current year, Tri-control redeemed the 2018 Guaranteed Notes with the aggregate principal amount of US$14,000,000 (equivalent to approximately RMB95,866,000) and repaid the attributable accrued and unpaid interest.

On 23 November 2018, Tri-control entered into an agreement with the debt holder in relation to the remaining principal amount of US$10,000,000 (equivalent to approximately RMB 69,306,000), pursuant to which the interest rate is modified to 11.00% and the maturity date is extended to 22 November 2019 ("the 2019 Guaranteed Notes"). The 2019 Guaranteed Notes are unsecured, unconditionally and irrevocably guaranteed by the Company.

According to the terms and conditions of the 2019 Guaranteed Notes, Tri-control may at its option redeem the 2019 Guaranteed Notes, in whole but not in part, at any time prior to 22 November 2019, at a redemption price equal to 100% of the principal amount of the 2019 Guaranteed Notes redeemed plus the applicable premium as of, and accrued and unpaid interest, if any, to the redemption date.

The applicable premium means at any redemption date, the greater of (1) 1.00% of the principal amount of 2019 Guaranteed Notes; and (2) the excess of (a) the present value at such redemption date of the redemption price on 22 November 2019 plus all required remaining scheduled interest payments due (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the adjusted treasury rate plus 100 basis points, over (b) the principal amount.

As the estimated fair value of the early redemption right is insignificant at initial recognition, the embedded derivative is not separately accounted for.

The movements of the guaranteed notes during the reporting period are as follows:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| At 1 January | 155,549 | 205,567 |
| Redemption of guaranteed notes | (95,866) | (40,393) |
| Interest expense recognised (Note 9) | 14,103 | 18,036 |
| Interest paid | (13,278) | (16,967) |
| Exchange realignments | 8,910 | (10,694) |
| At 31 December | 69,418 | 155,549 |

## 39. CORPORATE BONDS

On 19 September 2016, the Company's subsidiary, Beijing Consen Automation Control Company Limited ("Beijing Consen") obtained approval by Beijing Equity Trading Centre to issue Zhongguancun innovative growth corporate bonds (中關村創新成長企業債券) (the "2019 Corporate Bonds") with the principal amount of RMB200,000,000 and the maturity date on 18 September 2019. The 2019 Corporate Bonds, which carry fixed interest at 6% per annum, are guaranteed by an independent third party ("Guarantor") and secured by the Group's assets set out in Note 49. Annual instalment amounting to RMB4,944,000 will be paid to the Guarantor in subsequent two years. The effective interest rate is 8.69% per annum.

## 39. CORPORATE BONDS – CONTINUED

The movements in the 2019 Corporate Bonds during the reporting period are as follows:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| At 1 January | 196,697 | 195,679 |
| Direct transaction costs | (4,944) | (4,944) |
| Interest expense recognised | 17,197 | 17,962 |
| Interest paid | (12,000) | (12,000) |
| At 31 December | 196,950 | 196,697 |
| Less: Amount due within one year shown under current liabilities | (196,950) | – |
| Amount due within one year shown under non-current liabilities | – | 196,697 |

## 40. CONVERTIBLE BONDS

On 26 July 2017, the Company issued zero-coupon RMB-denominated convertible bonds with the principal amount of RMB675,588,000 as the consideration of the acquisition as set out in Note 47. Each bond will, at the option of the holder, be convertible into the fully paid ordinary shares with a par value of HK$0.01 each in the issued and paid up capital of the Company at an initial conversion price of RMB1.0640 per share. The convertible price is subject to adjustments in the manner set out in the convertible bonds agreement. Conversion may occur at any time on or after 26 July 2017 and up to 26 July 2027. If the convertible bonds have not been converted, they will be redeemed on 26 July 2027 at the principal amount then outstanding.

In accordance with the terms and conditions of the convertible bonds:

i. No conversion of the convertible bonds shall take place if and to the extent that, immediately following such conversion, the Company will be unable to meet the public float requirement under the Listing Rules;

ii. The conversion price shall from time to time be adjusted upon the occurrence of the following events in relation to the Company:

    a. Consolidation, sub-division or re-classification of ordinary shares;

    b. Issuance of ordinary shares by way of capitalisation of profits or reserves of the Company;

    c. Capital distribution: dividend or distribution in specie or other property by the Company;

    d. Rights issues of the shares or options over the shares at a price less than 80% of the current market price (in respect of the ordinary shares on a particular date, the average closing price for each of the ten company trading days immediately preceding such date);

    e. Issues of shares or securities convertible into shares at a price less than 80% of the current market price (new issue other than this convertible bonds conversion);

    f. Issue in case of an acquisition: issue of shares or securities convertible into shares for an acquisition of assets by the Company at a price less than 80% of current market price;

## 40. CONVERTIBLE BONDS – CONTINUED

In accordance with the terms and conditions of the convertible bonds: – continued

iii. The principal amount of the convertible bonds to be converted on each occasion shall not be less than RMB1,000,000 or shall be in integral multiple(s) of RMB1,000,000, unless the outstanding principal amount of the convertible bonds is less than RMB1,000,000 and in such event the entire outstanding principal amount shall be converted;

iv. If and whenever the Company shall make any cash distribution to the shareholders (in their capacity as such), the holder shall be entitled to a cash payment from the Company in respect of the convertible bonds held by such holder on an as-converted basis.

As the conversion feature of the convertible bonds includes certain adjustment in conversion price upon the triggering events which will not be regarded as anti-dilution protection clause. Accordingly, the conversion feature is considered as embedded derivative. The convertible bonds as a whole are designated as a financial liability at FVTPL with changes in fair value recognised in profit or loss and was measured at fair value on the issued date.

The movements in the convertible bonds for the year are set out as below:

| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| At 1 January/issue date | **560,556** | 631,861 |
| Loss (gain) on changes in fair value recognised in profit or loss (Note 8) | **60,406** | (71,305) |
| Gain on changes in fair value due to credit risk recognised in other comprehensive income | **(3,178)** | – |
| At 31 December | **617,784** | 560,556 |

Binomial model is used for valuation of the convertible bonds. The key inputs used in the model are disclosed in Note 53.

## 41. LONG TERM PAYABLES

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Long term payable due 2030 (Note i) | **73,808** | 70,963 |
| Long term payables due 2025 (Note ii) | **499,600** | – |
| | **573,408** | 70,963 |

Notes:

i. On 21 December 2015, Wuzhong Instrument and Beijing Consen entered into a capital contribution agreement (the "Agreement") with 國開發展基金有限公司 (transliterated as CDB Development Fund Limited, "CDB"), a limited liability company incorporated in the PRC and wholly-owned by China Development Bank Corporation, to support the construction of qualifying assets registered with relevant government authority.

Pursuant to the Agreement, CDB made a capital contribution of RMB100,000,000 in cash to Wuzhong Instrument on 29 December 2015. The nominal equity interest of Beijing Consen and the CDB in Wuzhong Instrument becomes 85.71% and 14.29% respectively.

According to the Agreement, CDB will: (1) not appoint directors or management personnel to Wuzhong Instrument to exercise any significant influence on the operational and financial policies; (2) receive an investment income annually on a fixed rate of 1.2%, which is expected to be prepaid quarterly by Beijing Consen and guaranteed by the Company. The investment income is not influenced by the operating results of Wuzhong Instrument and not entitled to share the profit or net assets of Wuzhong Instrument; (3) retrieve the contribution amount of RMB100,000,000 on a scheduled timetable, Wuzhong Instrument will repay evenly of RMB10,000,000 each year from 2021 to 2030, by exploring different approaches of Beijing Consen's purchase of shares, Wuzhong Instrument's registered capital reduction or other financial market exit mechanisms.

Accordingly, the directors of the Company consider that this transaction is a financing arrangement and continue to consolidate Wuzhong Instrument as a wholly-owned subsidiary of the Group.

As the registration of the construction of qualifying assets with the relevant government authority is a pre-requisite for the CDB to initiate the negotiation of the Agreement and the rate of return to the CDB is below market rate, the directors of the Company consider such arrangement constituted a government subsidy from the government. The Group recognised the fair value of long term payable amounting to RMB65,725,000 on initial recognition by discounting the future cash flows at 5.7% per annum by reference to the Group's other long term borrowings and subsequently measured at amortised cost by using effective interest rate method. The difference amounting to RMB34,275,000 between the carrying amount of the long term payable initially recognised and the cash received as deferred income and will be released on the same basis as the deprecation of the qualifying assets.

## 41. LONG TERM PAYABLES – CONTINUED

Notes: – continued

ii. On 18 January 2018, Wuzhong Instrument and Beijing Consen entered into a capital contribution agreement (the "Agreement A") with Ningxia Industrial Guide Fund Management Limited ("Ningxia Industrial"), to support the investment project of Wuzhong Instrument. Pursuant to the Agreement A, Ningxia Industrial agreed to make a capital contribution of RMB150,000,000 in cash to Wuzhong Instrument. The nominal equity interest of Beijing Consen, CDB and Ningxia Industrial in Wuzhong Instrument will be 70.59%, 11.76% and 17.65% respectively.

On 20 December 2018, the Company's subsidiaries, Ningxia Langsheng Foundry Company Limited ("Langsheng Foundry") and Beijing Hengtong Fangda New Materials and Technology Company Limited ("Hengtong Fangda") entered into a capital contribution agreement (the "Agreement B") with Ningxia Industrial to support the investment project of Langsheng Foundry. Pursuant to the Agreement B, Ningxia Industrial agreed to make a capital contribution of RMB350,000,000 in cash to Langsheng Foundry. The nominal equity interest of Hengtong Fangda and Ningxia Industrial in Langsheng Foundry will be 56.25% and 43.75% respectively.

As at 31 December 2018, Langsheng Foundry had received RMB349,600,000 while the remaining RMB400,000 had been received in January 2019.

According to the Agreement A and Agreement B, Ningxia Industrial will: (1) not appoint management personnels to Wuzhong Instrument and Langsheng Foundry to exercise any significant influence on the operational and financial policies; (2) receive an investment income annually on a fixed rate of 5.5%, which is expected to be prepaid semiannually by Beijing Consen and Hengtong Fangda and guaranteed by the Company. The investment income is not influenced by the operating results of Wuzhong Instrument and Langsheng Foundry and not entitled to share the profit or net assets of Wuzhong Instrument and Langsheng Foundry; (3) is entitled to require Beijing Consen to purchase the equity interest in Wuzhong Instrument from 31 July 2023 to 31 January 2025 in 4 installments and Hengtong Fangda to purchase the equity interest in Langsheng Foundry from 25 December 2023 to 25 December 2025 in 3 installments.

Accordingly, the directors of the Company consider that the transactions are financing arrangements and will continue to consolidate Wuzhong Instrument and Langsheng Foundry as wholly-owned subsidiaries of the Company.

## 42. DEFERRED INCOME

Movements in the deferred income are as follows:

| | Government grants related to assets<br>RMB'000<br>(Note a) | Government grants related to income<br>RMB'000<br>(Note b) | Relocation compensation<br>RMB'000<br>(Notes c and d) | Total<br>RMB'000 |
|---|---|---|---|---|
| At 1 January 2017 | 287,252 | 3,700 | 23,115 | 314,067 |
| Addition | 44,875 | 30,816 | 100,000 | 175,691 |
| Released to profit or loss | (10,158) | (27,696) | (123,115) | (160,969) |
| Disposal of subsidiaries | (8,445) | – | – | (8,445) |
| At 31 December 2017 | 313,524 | 6,820 | – | 320,344 |
| Addition | 26,088 | 48,202 | 40,000 | 114,290 |
| Released to profit or loss | (12,168) | (14,123) | – | (26,291) |
| At 31 December 2018 | 327,444 | 40,899 | 40,000 | 408,343 |

## 42. DEFERRED INCOME – CONTINUED

Notes:

a. Deferred income arising from government grant relating to assets represents the government subsidies obtained in relation to the purchase of the land use right and the infrastructure construction, which was included in the consolidated statement of financial position as deferred income and credited to the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the expected useful life of the relevant depreciable assets;

b. Deferred income arising from government grant relating to income represents the government subsidies obtained as compensation for the expenses on technology development when the grants are received and the corresponding research activities have not been accomplished, which was included in deferred income and recognised in profit or loss when the research and development expenses has already been fully incurred;

c. On 21 May 2015, the Company's subsidiary, Wuzhong Instrument entered into an agreement with the municipal government of Wuzhong City of Ningxia Hui Autonomous Region ("Wuzhong Government") in the PRC at a total compensation consideration of approximately RMB200,000,000, out of which RMB123,115,000 is compensation attributable to losses of the land use right, property, plant and unmovable equipment, and RMB76,885,000 is the compensation of related expenses and losses from production suspension, order default and transportation incurred resulting from the relocation.

   During the prior reporting period, the Group disposed of the property, plant and equipment with carrying value of RMB69,430,000 (Note 18) and the land use rights with carrying value of RMB24,698,000 (Note 19) upon reallocation and recognised the difference between the compensation received of RMB123,115,000 and the aggregated carrying amounts of the disposed property, plant and equipment and land use right, amounting to RMB28,987,000 (Note 8) as other gain and loss.

d. On 18 January 2018, Langsheng Foundry entered into an agreement with the Wuzhong Government at a total compensation consideration of approximately RMB81,590,000. The amount of compensation attributable to losses of the land use right, property, plant and unmovable equipment during the relocation. During the current year, the relocation activities have not yet commenced. Accordingly, the compensation income of RMB40,000,000 received in advance is recorded as deferred income and will be recognised as profit or loss based on the relocation progress subsequently.

   As at 31 December 2018, the carrying amount of all relevant property, plant and equipment and land use right amounted to RMB58,332,000 and RMB12,569,000 respectively. The Directors consider the compensation to be received is higher than the carrying amounts of all relevant property, plant and equipment and the land use right, and no impairment is made for these affected assets as at 31 December 2018.

## 43. SHARE CAPITAL

| | 2018 Number of shares '000 shares | 2018 Amount HK'000 | 2017 Number of shares '000 shares | 2017 Amount HK'000 |
|---|---|---|---|---|
| Authorised: | | | | |
| Ordinary shares of HK$0.01 each | **3,000,000** | **30,000** | 3,000,000 | 30,000 |
| Issued and fully paid: | | | | |
| At 1 January and 31 December | **1,026,264** | **10,262** | 1,026,264 | 10,262 |

| | **December 31 2018 and 2017** RMB'000 |
|---|---|
| Shown in the consolidated statement of financial position | 9,548 |

## 44. SHARE PREMIUM AND RESERVES

### i. Share premium

The share premium mainly comprises of (a) share premium arising from the initial public offerings of shares; and (b) contribution and distribution from/to the owners arising from the issuance and repurchase of the shares.

### ii. Other reserve

| | **2018 and 2017** RMB'000 |
|---|---|
| Capital reserve arising from conversion of convertible bonds issued by a subsidiary | 47,842 |
| Acquisition of additional interest in a subsidiary | 5,159 |
| Special reserves on group re-organisation | (18,335) |
| | 34,666 |

### iii. Statutory surplus reserves

As stipulated by the relevant PRC laws and regulations, before distribution of profit each year, the subsidiaries established in the PRC shall set aside 10% of their profit derived from the relevant PRC accounting standards to the statutory surplus reserves. The statutory surplus reserves can only be used, upon approval by the board of directors of the relevant subsidiaries and by the relevant authority, to offset accumulated losses or increase capital.

## 45. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 29 May 2018 for the primary purpose of providing the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the following participants: (i) any executive or non-executive directors including independent non-executive directors or any employees (whether full-time or part-time) of each member of the Group; (ii) any discretionary objects of a discretionary trust established by any employees, executive or non-executive directors of each member of the Group; (iii) any consultants, professional and other advisers to each member of the Group (or persons, firms or companies proposed to be appointed for providing such services); (iv) any chief executives of the Company or substantial shareholders of the Company; (v) any associates of directors, chief executive or substantial shareholder of the Company; and (vi) any employees (whether full-time or part-time) of substantial shareholders of the Company. The Scheme will remain valid for a period of ten years commencing on 29 May 2018.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted to substantial shareholders or independent non-executive directors in any 12-month period in excess of 0.1% of the Company's share capital in issue and with an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

An amount of HK$1 is payable by participants on acceptance of the option as consideration for the grant within 28 days from the date upon which the offer is made. Options may be exercised at any time from twelve months from the date of grant of the share option to the fifth anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

As at 31 December 2018, no options were granted.

## 46. RETIREMENT BENEFITS SCHEME

The employees of the Company's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their employees' payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme which are calculated based on 20% of the employee's basic salaries during both years.

In accordance with the relevant mandatory provident fund laws and regulations of Hong Kong, the Group operates a mandatory provident fund ("MPF") Scheme for all qualifying Hong Kong employees. The assets of the scheme are held separately from those of the Group and under the control of an independent MPF service provider. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group in respect of the MPF Scheme is to make the required contributions under the scheme.

## 47. ACQUISITION OF SUBSIDIARIES

On 30 March 2017, the Company entered into a sale and purchase agreement (amended by the supplement agreement dated 23 June 2017) with Ascendent Healthcare (Cayman) Limited ("Ascendent Healthcare") to acquire 60% equity interest of Etern Group by way of issuance of the convertible bonds of the Company in the principal amount equal to the consideration of RMB675,588,000 (Note 40).

The acquisition was completed on 26 July 2017 (the "Acquisition Date") and has been accounted for using acquisition method. The fair value of the consideration of the convertible bonds as disclosed in Note 40, determined using Binomial model, amounted to RMB631,861,000 at the Acquisition Date.

Etern Group is an investment holding company holding 98% equity interest in Yongding Hospital, which is principally engaged in hospital business in Suzhou, PRC.

Acquisition-related costs amounting to RMB4,719,000 have been excluded from the consideration transferred and have been recognised as an expense in the prior year, in the consolidated statement of profit or loss and other comprehensive income.

### i. Assets acquired and liabilities recognised at the Acquisition Date are as follows:

| | RMB'000 |
|---|---|
| Property, plant and equipment | 216,969 |
| Prepaid lease payments | 34,893 |
| Intangible assets (including operating license of RMB98,733,000) | 185,340 |
| Inventories | 13,626 |
| Trade receivables | 16,927 |
| Other receivables and prepayments | 19,626 |
| Deposits paid for property, plant and equipment | 2,049 |
| AFS financial assets | 59,000 |
| Bank balances and cash | 12,379 |
| Trade and bills payables | (45,120) |
| Income tax payable | (12,662) |
| Other payables, deposits received and accruals | (29,157) |
| Bank borrowings | (95,000) |
| Deferred tax liabilities | (47,702) |
| Net assets acquired | 331,168 |

The fair value of trade and other receivables at the date of acquisition amounted to RMB36,553,000 which approximately to the gross contractual amount of those trade and other receivables at the date of acquisition.

The purchase method of accounting for business combinations requires the Group to identify separate assets acquired and liabilities assumed and estimate their fair values. The directors of the Company identified the operating license of the hospital held by Etern Group, and estimated the fair value of RMB98,733,000, for the intangible asset as set out in Note 20. Determination of the fair value of the intangible asset requires the use of significant judgements and assumptions on estimating the discount rate and financial forecast for intangible asset valuation by the directors of the Company.

## 47. ACQUISITION OF SUBSIDIARIES – CONTINUED

### ii. Goodwill arising on acquisition

| | RMB'000 |
|---|---|
| Consideration transferred | 631,861 |
| Plus: Non-controlling interests | 135,917 |
| Less: Net assets acquired | (331,168) |
| Goodwill arising on acquisition | 436,610 |

Goodwill arose in the acquisition of Etern Group because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of revenue growth and future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

### iii. Net cash flow on the acquisition

| | RMB'000 |
|---|---|
| Cash and cash equivalents | 12,379 |

### iv. Impact of acquisitions on the results of the Group

Included in the loss for the year is profit of RMB22,033,000 attributable to the additional business generated by Etern Group. Revenue for the year includes RMB191,211,000 generated from Etern Group.

Had the acquisition been completed on 1 January 2017, the Group's revenue for the year would have been RMB1,465,571,000 and loss for the year would have been RMB165,456,000. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is it intended to be a projection of future results.

In determining the "pro-forma" revenue and profit of the Group had Etern Group been acquired at the beginning of the current year, the directors of the Company have:

a. calculated depreciation and amortisation of property, plant and equipment and intangible assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements; and

b. determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the business combination.

## 48. DISPOSAL OF SUBSIDIARIES

As referred to Note 13, on 11 July 2017 and 27 September 2017, the Group discontinued its railway operations at the time of disposal of its subsidiaries, Consen Process Control and Liboyuan Investment. The details of the net assets of Consen Process Control and Liboyuan Investment at the respective dates of disposals were as follows:

| | Consen Proces Control RMB'000 | Liboyuan Investment RMB'000 |
|---|---|---|
| **Net assets disposed of:** | | |
| Property, plant and equipment | 21,466 | 103,918 |
| Intangible assets | 11,756 | – |
| Prepaid lease payments | – | 17,238 |
| Inventories | 43,148 | – |
| Trade and bills receivables | 127,132 | – |
| Other receivables and prepayments | 23,448 | 7,105 |
| Pledged bank deposits | 33,324 | – |
| Bank balances and cash | 11,403 | 420 |
| Trade and bills payables | (72,597) | – |
| Other payables, deposits received and accruals | (21,623) | (34,387) |
| Bank and other borrowings | (59,145) | (59,000) |
| Deferred Income | (1,133) | (7,312) |
| Net assets disposed of | 117,179 | 27,982 |
| **Gain on disposal of the subsidiaries** | | |
| Consideration received | 64,810 | 14,890 |
| Net assets disposed of | (117,179) | (27,982) |
| Non-controlling interests | 57,130 | 15,073 |
| Transaction cost of the disposals | (2,000) | (1,000) |
| Gain on the disposal | 2,761 | 981 |

**Net cash inflow arising on disposals**

| | Consen Proces Control at disposal date RMB'000 | Liboyuan Investment at disposal date RMB'000 |
|---|---|---|
| Cash consideration | 64,810 | 14,890 |
| Less: bank balances and cash disposed of | (11,403) | (420) |
| | 53,407 | 14,470 |

The impacts of Consen Process Control and Liboyuan Investment on the Group's results and cash flows in the prior reporting periods is disclosed in Note 13.

## 49. PLEDGE OF ASSETS

At the end of the reporting period, in addition to the bill discounted as disclosed in Note 28, certain Group's assets were pledged to secure banking facilities granted to the Group. The aggregate carrying amounts of the Group's assets pledged at the end of the reporting period are as follows:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Buildings | **443,321** | 468,747 |
| Land use rights | **51,098** | 58,462 |
| Inventories | **109,248** | 71,741 |
| Bills receivables | **5,850** | – |
| Pledged bank deposits | **54,651** | 38,403 |
| | **664,168** | 637,353 |

The amounts disclosed above includes the assets of the Group pledged at 31 December 2018 to obtain corporate guarantee from the Guarantor for corporate bonds of RMB200,000,000 (2017: RMB200,000,000) and available banking facilities RMB100,000,000 (2017: Nil) granted to the Group. The aggregate carrying amount of these assets pledged to the Guarantor are buildings amounting to approximately RMB107,591,000 (2017: RMB87,781,000) and land use rights amounting to approximately RMB20,141,000,000 (2017: RMB13,779,000). In addition to the fees paid to the Guarantor for the guarantee of corporate bonds as disclosed in Note 39, the Group paid to the Guarantor approximately RMB1,039,000 for the guarantee of the banking facilities during the current year.

## 50. OPERATING LEASES

**The Group as lessee**

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Within one year | **8,614** | 12,965 |
| In the second to fifth year inclusive | **21,569** | 28,377 |
| | **30,183** | 41,342 |

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for a lease term ranging from one to five years and rentals are fixed at the date of signing of lease agreements.

## 51. CAPITAL COMMITMENTS

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment | **834,186** | 101,716 |

## 52. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in 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 Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of debt, which includes the bank borrowings, guaranteed notes, corporate bonds, convertible bonds as well as long term payable disclosed in Notes 37, 38, 39, 40 and 41 respectively, and total equity of the Group.

The directors of the Company review the capital structure on an annual basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on the results of the review of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, raising new share capital as well as the issue of new debt or the redemption of existing debt.

## 53. FINANCIAL INSTRUMENTS

### i. Categories of financial instruments

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| **Financial assets** | | |
| Financial assets at FVTPL | **1,689** | – |
| Equity instruments at FVTOCI | **28,026** | – |
| Financial assets at amortised cost | **2,064,337** | – |
| Loans and receivables (including cash and cash equivalents) | **–** | 1,455,116 |
| AFS financial assets, at cost less impairment | **–** | 26,953 |
| AFS financial assets | **–** | 31,000 |
| **Financial liabilities** | | |
| Convertible bonds (Note 40) | **617,784** | 560,556 |
| Amortised cost | **2,167,553** | 1,547,578 |
| ***Financial liabilities designated as at FVTPL*** | | |
| Cumulative gain in fair value changes attributable to changes in own credit risk (Note) | **(3,496)** | – |
| Difference between carrying amount and maturity amount | | |
| At fair value | **617,784** | 560,556 |
| Amount payable at maturity | **675,588** | 675,588 |
| | **(57,804)** | (115,032) |

Note: The change in fair value attributable to change in credit risk amounting to RMB3,178,000 is calculated as the difference between total change in fair value of convertible bonds of RMB60,406,000 and the change in fair value of convertible bonds due to change in market risk factors alone. Upon the adoption of IFRS 9 on 1 January 2018, fair value gains attributable to changes in the credit risk amounting to RMB 318,000 were transferred from the retained profits to convertible bonds reserve. The change in fair value due to market risk factors was calculated using benchmark interest yield curves as at the end of the reporting period holding credit risk margin constant. The fair value of convertible bonds was estimated by discounting future cash flows using quoted benchmark interest yield curve as at the end of the reporting period and by obtaining lender quotes for borrowing of similar maturity to estimate credit risk margin.

## 53. FINANCIAL INSTRUMENTS – CONTINUED

### ii. Financial risk management objectives and policies

The Group's major financial instruments include financial assets at FVTPL, trade and bills receivables, other receivables, pledged bank deposits, bank balances and cash, trade and bills payables, other payables, dividend payable, bank borrowings, guaranteed notes, corporate bonds, convertible bonds and long term payable. Details of these financial instruments are set out in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

***Market risk***

*Currency risk*

Several subsidiaries of the Company have foreign currency sales and purchases which expose the Group to foreign currency risk.

The carrying amounts of the Groups' foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | **2018 RMB'000** | 2017 RMB'000 | **2018 RMB'000** | 2017 RMB'000 |
| US$ | **79,365** | 167,445 | **86,431** | 79,831 |
| JPY | **5,742** | 24,792 | **8,521** | 27,809 |
| EUR | **721** | 727 | **322** | 1,530 |
| HK$ | **–** | – | **77** | 46 |
| SG$ | **201** | 196 | **1** | 58 |
| GBP | **–** | – | **–** | 2 |
| TOTAL | **86,029** | 193,160 | **95,352** | 109,276 |

The Group currently does not have a formal foreign currency hedging policy. The Group reviewed and monitored the currency risk exposure regularly.

## 53. FINANCIAL INSTRUMENTS – CONTINUED

### ii. Financial risk management objectives and policies – continued

***Market risk – continued***

*Currency risk – continued*

The following table details the Group's sensitivity to a 5% (2017: 5%) increase and decrease in RMB against the major foreign currencies. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of reporting period for a 5% (2017: 5%) change in foreign currency rates. A negative number below indicates an increase in loss and a positive number indicates a decrease in loss for the year where RMB weakens 5% (2017: 5%) against foreign currencies. For a 5% (2017: 5%) strengthening of RMB against foreign currencies, there would be an equal and opposite impact on the loss.

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| US$ | 294 | (3,658) |
| JPY | 116 | 126 |
| EUR | (17) | 34 |

*Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to fixed-rate guaranteed notes, corporate bonds and long term payables disclosed in Notes 38, 39 and 41 respectively. The Group is also exposed to cash flow interest rate risk in relation to variable rate bank balances (see Note 33 for details), variable-rate bank borrowings (see Note 37 for details). The Group aims at keeping borrowings at variable rates. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

The Group's sensitivity to cash flow interest rate risk is prepared assuming the amount of variable-rate borrowings at the end of the reporting period was outstanding for the whole year. A 50 (2017: 50) basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. Bank balances are excluded from sensitivity analysis as the directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant.

| | 2018 | 2017 |
|---|---|---|
| Reasonably possible change in interest rate | 50 basis points | 50 basis points |

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| (Increase) decrease in post-tax profit for the year | | |
| as a result of increase in interest rate | (790) | (630) |
| as a result of decrease in interest rate | 790 | 630 |

The sensitivity analysis in interest rate does not affect other components of equity.

## 53. FINANCIAL INSTRUMENTS – CONTINUED

### ii. Financial risk management objectives and policies – continued

***Credit risk and impairment assessment***

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year and customers are grouped into three level of grading from A to C, with credit risk increases gradually. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's internal credit risk grading assessment comprises the following categories:

| Internal credit rating | Description | Trade receivables/contract assets |
|---|---|---|
| Grade A | The counterparties, backed by reputable group companies, maintain long-term relationships with the Group and have low risks of default. | Lifetime ECL – not credit-impaired |
| Grade B | Debtors with limited company size, frequently repays after due dates but usually settle after due date. | Lifetime ECL – not credit-impaired |
| Grade C | Debtors, with limited company size and limited cooperation experience with the Group, have considerable past-due amounts. | Lifetime ECL – not credit-impaired |
| Credit-impaired | There are one or more events of default indicating the debtors are in severe financial difficulty and the Group has no realistic prospect of full recovery. | Lifetime ECL – credit-impaired |

For all other financial assets including pledged bank deposits, bank balances and cash and bills receivable, the Group measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised based on significant increases in the likelihood or risk of a default occurring since initial recognition. The Group has assessed and concluded that the risk of default rate for the aforementioned other financial assets are steady based on the Group's assessment of the financial health of the counterparties. Thus, the Directors considered that the ECL for the aforementioned other financial assets of the Group is insignificant as at December 31 2018.

## 53. FINANCIAL INSTRUMENTS – CONTINUED

### ii. Financial risk management objectives and policies – continued

***Credit risk and impairment assessment – continued***

The tables below detail the credit risk exposures of the Group's financial assets and contract assets, which are subject to ECL assessment:

| 2018 | Notes | 12-month or lifetime ECL | Gross carrying amount RMB'000 | RMB'000 |
|---|---|---|---|---|
| **Financial assets at amortised costs** | | | | |
| Trade receivables (Note ii) | 28 | Lifetime ECL (provision matrix) | 821,996 | |
| | | Credit-impaired | 190,932 | 1,012,928 |
| Other receivables (Note i) | 30 | 12-month ECL | 57,676 | |
| | | Credit-impaired | 4,174 | 61,850 |
| **Other items** | | | | |
| Contract assets (Note ii) | 29 | Lifetime ECL (provision matrix) | 47,152 | 47,152 |

Notes:

(i) For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

| | Past due RMB'000 | Not past due/ no fixed repayment terms RMB'000 | Total RMB'000 |
|---|---|---|---|
| Other receivables | 4,174 | 57,676 | 61,850 |

(ii) For trade receivables and contract assets, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for credit-impaired debtors, the Group determines the expected credit losses on these items by using a provision matrix, grouped by internal credit rating.

*Provision matrix*

As part of the Group's credit risk management, the Group applies internal credit rating and debtor's ageing to assess the impairment for its customers. The following table provides information about the exposure to credit risk for trade receivables and contract assets which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit impaired). Credit-impaired debtors with gross carrying amounts of RMB190,932,000 as at 31 December 2018 were assessed individually.

## 53. FINANCIAL INSTRUMENTS – CONTINUED

### ii. Financial risk management objectives and policies – continued

***Credit risk and impairment assessment – continued***

*Provision matrix – continued*

Gross carrying amount

| | Provision rate | | | Trade receivables and contract assets | | |
|---|---|---|---|---|---|---|
| **Internal credit rating** | **Not past due** | **Past due within 1 year** | **Past due 1 to 2 years** | **Not past due** RMB'000 | **Past due within 1 year** RMB'000 | **Past due 1 to 2 years** RMB'000 |
| Grade A | 2.2% | 9.7% | N/A | 373,290 | 35,628 | – |
| Grade B | 8.0% | 15.3% | 21.7% | 95,680 | 27,119 | 36,495 |
| Grade C | 13.7% | 21.7% | 34.9% | 174,281 | 38,796 | 87,859 |
| | | | | 643,251 | 101,543 | 124,354 |

The estimated loss rates are based on the Group's historical credit loss experience supported by ageing analysis and adjusted for factors that are specific to the debtors and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

As at 31 December 2018, included in the provision matrix the past due amount are not considered as in default, because the debtors are not in significant financial difficulty and still have transactions or payments with the Group. Based on past collection history, the directors of the Company are of the opinion that the debtors are able and likely to pay for the debts.

## 53. FINANCIAL INSTRUMENTS – CONTINUED

### ii. Financial risk management objectives and policies – continued

***Credit risk and impairment assessment – continued***

The following table shows the movement in lifetime ECL that has been recognised for trade receivables and contract assets under the simplified approach.

| | Lifetime ECL (not credit-impaired) RMB'000 | Lifetime ECL (credit-impaired) RMB'000 | Total RMB'000 |
|---|---|---|---|
| **As at 31 December 2017 and 1 January 2018** | **–** | **271,550** | **271,550** |
| – Transfer | 79,401 | (79,401) | – |
| – New financial assets originated or purchased | 34,696 | – | 34,696 |
| – Impairment losses recognised | – | 7,424 | 7,424 |
| – Impairment losses reversed | (19,893) | (8,387) | (28,280) |
| – Write-offs | – | (1,630) | (1,630) |
| Exchange realignments | – | 1,376 | 1,376 |
| **As at 31 December 2018** | **94,204** | **190,932** | **285,136** |

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. None of the trade receivables that have been written off is subject to enforcement activities.

The following tables show reconciliation of loss allowances that has been recognised for other receivables.

| | Lifetime ECL (credit-impaired) RMB'000 |
|---|---|
| **As at 31 December 2017 and 1 January 2018** | **4,269** |
| Changes due to financial instruments recognised as at 1 January: | |
| – Impairment losses reversed | (95) |
| **As at 31 December 2018** | **4,174** |

## 53. FINANCIAL INSTRUMENTS – CONTINUED

### ii. Financial risk management objectives and policies – continued

***Liquidity risk***

Ultimate responsibility for liquidity risk management rests with the directors of the Company, which had built an appropriate liquidity risk management framework. The Group manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows. As at 31 December 2018, the Group has available unutilised banking facilities of approximately RMB83,575,000 (2017: RMB128,683,000).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived based on the interest rate at the end of each reporting period.

| At 31 December 2018 | Weighted average effective interest rate % | On demand and within 3 months RMB'000 | 3 months to 6 months RMB'000 | 6 months to 1 year RMB'000 | 1 years to 2 years RMB'000 | 2 years to 3 years RMB'000 | 3 years to 4 years RMB'000 | 4 years to 5 years RMB'000 | More than 5 years RMB'000 | Total undiscounted cash flow RMB'000 | Carrying amount RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Trade and bills payables | – | 148,151 | 194,362 | 309,390 | – | – | – | – | – | 651,903 | 651,903 |
| Bank borrowings | 4.88 | 228,465 | 32,876 | 237,524 | – | – | – | – | – | 498,865 | 489,131 |
| Other payables | – | 80,805 | 31,198 | 71,934 | – | – | – | – | – | 183,937 | 183,937 |
| Dividend payable | – | 2,806 | – | – | – | – | – | – | – | 2,806 | 2,806 |
| 2019 Guaranteed Notes | 11.00 | – | 3,775 | 71,149 | – | – | – | – | – | 74,924 | 69,418 |
| 2019 Corporate Bonds | 8.69 | – | – | 228,943 | – | – | – | – | – | 228,943 | 196,950 |
| Long term payable 2030 | 5.70 | 300 | 300 | 600 | 1,200 | 11,200 | 11,080 | 10,960 | 76,960 | 112,600 | 73,808 |
| Long term payable 2025 | 5.50 | – | 13,739 | 13,739 | 27,478 | 27,478 | 27,478 | 47,478 | 529,112 | 686,502 | 499,600 |
| Convertible bonds | – | – | – | – | – | – | – | – | 675,588 | 675,588 | 617,784 |
| | | 460,527 | 276,250 | 933,279 | 28,678 | 38,678 | 38,558 | 58,438 | 1,281,660 | 3,116,068 | 2,785,337 |

| At 31 December 2017 | Weighted average effective interest rate % | On demand and within 3 months RMB'000 | 3 months to 6 months RMB'000 | 6 months to 1 year RMB'000 | 1 years to 2 years RMB'000 | 2 years to 3 years RMB'000 | 3 years to 4 years RMB'000 | 4 years to 5 years RMB'000 | More than 5 years RMB'000 | Total undiscounted cash flow RMB'000 | Carrying amount RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Trade and bills payables | – | 102,000 | 139,903 | 250,538 | – | – | – | – | – | 492,441 | 492,441 |
| Bank borrowings | 4.88 | 125,728 | 6,031 | 187,569 | 59,120 | 67,600 | – | – | – | 446,048 | 414,947 |
| Other payables | – | 84,920 | 39,673 | 90,083 | – | – | – | – | – | 214,676 | 214,676 |
| Dividend payable | – | 2,305 | – | – | – | – | – | – | – | 2,305 | 2,305 |
| 2018 Guaranteed Notes | 9.45 | – | 6,861 | 163,682 | – | – | – | – | – | 170,543 | 155,549 |
| 2019 Corporate Bonds | 8.69 | – | – | 16,943 | 212,000 | – | – | – | – | 228,943 | 196,697 |
| Long term payable 2030 | 5.70 | 300 | 300 | 600 | 1,200 | 1,200 | 11,200 | 11,080 | 86,720 | 112,600 | 70,963 |
| Convertible bonds | – | – | – | – | – | – | – | – | 675,588 | 675,588 | 560,556 |
| | | 315,253 | 192,768 | 709,415 | 272,320 | 68,800 | 11,200 | 11,080 | 762,308 | 2,343,144 | 2,108,134 |

## 53. FINANCIAL INSTRUMENTS – CONTINUED

### ii. Financial risk management objectives and policies – continued

***Liquidity risk – continued***

The above amount for the convertible bonds is the payment made by the Group assuming the convertible bonds to be redeemed at the maturity date.

The above amounts for variable interest rate instruments for non-derivative financial liabilities excluding the convertible bonds are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

### iii. Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

***a. Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis.***

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used).

| | Fair value as at 31 December | | Fair value hierarchy | Valuation technique(s) and key input(s) |
|---|---|---|---|---|
| | 2018 | 2017 | | |
| **Financial assets** | | | | |
| Listed securities held for trading | 1,689 | – | Level 1 | Quoted bid prices in an active market. |
| Unlisted wealth management products | N/A | 3,100 | Level 2 | The fair value of the unlisted wealth management products is calculated based on discounted cash flows. Future cash flows are estimated based on the recoverable amount expected, discounted at a rate that reflects the credit risk of the counterparty. |
| Private equity investments at FVTOCI (2017: classified as AFS financial assets) | 28,026 | – | Level 3 | Income approach – in this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of this investee, based on an appropriate discount rate. |

## 53. FINANCIAL INSTRUMENTS – CONTINUED

### iii. Fair value measurements of financial instruments – continued

#### a. *Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis. – continued*

| | Fair value as at 31 December 2018 | Fair value as at 31 December 2017 | Fair value hierarchy | Valuation technique(s) and key input(s) |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Early redemption right of the guaranteed notes insignificant at initial recognition, therefore not separately accounted for. | – | – | Level 3 | The fair value of the early redemption right is calculated based on option pricing model with key inputs which are the difference of the quoted price in an over-the-counter-market of the guaranteed notes and the fair value of liability component of the notes which was based on discounted cash flows using a discount rate of USD Swap + |
| **Financial liabilities** | | | | |
| Convertible bonds | 617,784 | 560,556 | Level 3 | The fair value of the convertible bonds, which includes two key components, namely the conversion options and the straight bonds, are calculated based on binomial option pricing model using the expected volatility of 45% (2017: 45%) calculated as the annualised volatility of the Company's stock price (Note). The fair value of the straight bonds is calculated based on the discounted cash flow method using a discount rate of 11.0% as at 31 December 2018 (31 December 2017: 12.5%). |

Note: An increase in the expected volatility used in isolation would result in an increase in the fair value measurement of the convertible bonds, and vice versa. A 5% increase in the volatility holding all other variables constant would increase the carrying amount of the convertible bonds by RMB17,851,000.

## 53. FINANCIAL INSTRUMENTS – CONTINUED

### iii. Fair value measurements of financial instruments – continued

#### *b. Reconciliation of Level 3 fair value measurements*

| | Financial assets at FVTOCI RMB'000 | Wealth management products RMB'000 | Total RMB'000 |
|---|---|---|---|
| At January 1, 2017 – IAS 39 | – | – | – |
| Acquisition of a subsidiary | – | 59,000 | 59,000 |
| Total gains in profit or loss | – | 1,232 | 1,232 |
| Purchases | – | 800,780 | 800,780 |
| Disposals | – | (830,012) | (830,012) |
| At December 31, 2017 – IAS 39 | – | 31,000 | 31,000 |
| Effect arising from initial application of IFRS 9 | 26,953 | – | 26,953 |
| At January 1, 2018 – IFRS 9 | 26,953 | 31,000 | 57,953 |
| Total gains: | | | |
| – in profit or loss | – | 1,855 | 1,855 |
| – in other comprehensive income | 873 | – | 873 |
| Purchases | 200 | 854,940 | 855,140 |
| Disposals | – | (887,795) | (887,795) |
| At December 31, 2018 – IFRS 9 | 28,026 | – | 28,026 |

#### *c. Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)*

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

## 54. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated financial statements of cash flows as cash flows from financing activities.

| | Bank borrowings RMB'000 | Guaranteed notes RMB'000 | Long term payables RMB'000 | Corporate bonds RMB'000 | Dividend paid to non-controlling intetest RMB'000 | Interest payable RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2018 | **414,947** | **155,549** | **70,963** | **196,697** | **–** | **6,809** |
| Net financing cash inflows (outflows) | **34,201** | **(95,866)** | **499,600** | **(4,944)** | **(7,879)** | **(52,057)** |
| Influence of discounted bills receivables | **39,983** | **–** | **–** | **–** | **–** | **–** |
| Foreign exchange translation | **–** | **8,910** | **–** | **–** | **–** | **–** |
| Dividend payable | **–** | **–** | **–** | **–** | **–** | **–** |
| Interest paid | **–** | **(13,278)** | **(9,065)** | **(12,000)** | **7,879** | **33,535** |
| Interest expenses | **–** | **14,103** | **11,910** | **17,197** | **–** | **20,100** |
| At 31 December 2018 | **489,131** | **69,418** | **573,408** | **196,950** | **–** | **8,387** |

| | Bank borrowings RMB'000 | Guaranteed notes RMB'000 | Long term payables RMB'000 | Corporate bonds RMB'000 | Dividend paid to non-controlling intetest RMB'000 | Interest payable RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2017 | 533,803 | 205,567 | 68,272 | 195,679 | – | 5,620 |
| Net financing cash outflows | (8,631) | (40,393) | – | (4,944) | (1,200) | (52,870) |
| Acquisition of subsidiary (Note 47) | 95,000 | – | – | – | – | – |
| Disposal of subsidiaries | (118,145) | – | – | – | – | (327) |
| Influences of discounted bills receivables | (86,740) | – | – | – | – | – |
| Foreign exchange translation | (340) | (10,694) | – | – | – | 316 |
| Dividend payable | – | – | – | – | 1,200 | – |
| Interest paid | – | (16,967) | (1,200) | (12,000) | – | 30,167 |
| Interest expenses | – | 18,036 | 3,891 | 17,962 | – | 23,903 |
| At 31 December 2017 | 414,947 | 155,549 | 70,963 | 196,697 | – | 6,809 |

## 55. RELATED PARTY TRANSACTIONS

The remuneration of key management personnel during the year were as follows:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Salaries and other benefits | 21,540 | 16,513 |
| Retirement benefits scheme contributions | 660 | 489 |
| | 22,200 | 17,002 |

## 56. PARTICULAR OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries as at 31 December 2018 and 2017 are as follows:

| Name of subsidiary | Place of incorporation/ establishment | Issued and fully paid up share capital/registered capital | Equity interest attributable to the Group as at 31 December 2018 % | 2017 % | Principal activities |
|---|---|---|---|---|---|
| Tricon International Group Inc. ("Tricon") | BVI | Ordinary share US$1 | 100 | 100 | Investment holding |
| Trisen International Limited | BVI | Ordinary shares US$5,000 | 100 | 100 | Investment holding |
| Cowin Global Investments China Limited | BVI | Ordinary shares US$1 | 100 | 100 | Investment holding |
| Inovex Corporation | USA | Ordinary shares US$7,300,001 | 100 | 100 | Business development and provision of engineering services in overseas markets |
| Tri-sen Systems Corporation | USA | Ordinary shares US$7,003,487 | 100 | 100 | Business development and provision of industrial turbo machinery process controls |
| 日本イノベツクス株式會社 Tri-sen Systems Japan Corporation | Japan | Ordinary shares JPY100,000,000 | 100 | 100 | Business development and provision of control equipment |
| Consen Automation (Singapore) Pte. Limited | Singapore | Ordinary shares SG$1,000,000 | 100 | 100 | Overseas business development and provision of engineering services |
| Trisen Asia Control Pte. Limited (Note ix) | Singapore | Ordinary shares SG$1,500,000 | 100 | 70 | Distribution, training and engineering of instrumentation and control products |
| 北京康吉森自動化設備技術有限責任公司 Beijing Consen (Notes i and ii) | PRC | Registered capital RMB230,000,000 | 100 | 100 | Provision of systems design and development, trading of equipment safety and critical control systems |

## 56. PARTICULAR OF SUBSIDIARIES OF THE COMPANY – CONTINUED

| Name of subsidiary | Place of incorporation/ establishment | Issued and fully paid up share capital/registered capital | Equity interest attributable to the Group as at 31 December 2018 % | 2017 % | Principal activities |
|---|---|---|---|---|---|
| 北京創康自動化工程有限公司 Beijing Tri-control Automation Company Limited (Notes i and ii) | PRC | Registered capital US$1,000,000 | 100 | 100 | Provision of systems design and development, trading of equipment and engineering and maintenance services of safety and critical control systems |
| 北京天竺興業軟件技術有限公司 Beijing Sindhu Software Company Limited (Note i and ii) | PRC | Registered capital US$40,000,000 | 100 | 100 | Research and development as well as software programming and licensing |
| 北京恒通方大新材料技術有限公司 Hengtong Fangda (Note i) | PRC | Registered capital RMB10,000,000 | 100 | 100 | Design, development and sales of construction material for railway and highroad, as well as technology services |
| 北京康吉森油氣工程技術有限公司 Beijing Consen Oil and Gas Engineering | PRC | Registered capital RMB50,000,000 | 100 | 100 | Trading of equipment of safety and critical control systems as well as technology services |
| 北京中自化物資裝備技術有限公司 Beijing CAG Materials and Equipment Technology Company Limited (Note i) | PRC | Registered capital RMB50,000,000 | 100 | 100 | Trading of equipment of safety and critical control systems |
| 北京康吉森儀器儀錶有限公司 Beijing Consen Instrument Company Limited (Note i) | PRC | Registered capital RMB1,000,000 | 100 | 100 | Development and trading of instrument |
| 北京康吉森技術有限公司 Beijing Consen Technology Company Limited (Note i) | PRC | Registered capital RMB10,000,000 | 100 | 100 | Software development and integrated circuit design, as well as technology services |
| 北京恒泰日新軟件技術有限公司 Beijing Hengtai Rixin Software Technology Company Limited (Note i) | PRC | Registered capital RMB10,000,000 | 100 | 100 | Software development and integrated circuit design |
| 北京康吉森節能環保技術有限公司 Beijing Consen Energy and Environmental Technology Company Limited (Note i) | PRC | Registered capital RMB20,000,000 | 100 | 100 | Provision of energy-saving and environmental technology services |
| 北京海澱中京工程設計軟件技術有限公司 Zhongjing (Note i) | PRC | Registered capital RMB50,000,000 | 70 | 70 | Engineering design and consulting services |
| 吳忠儀錶有限責任公司 Wuzhong Instrument (Note i) | PRC | Registered capital RMB850,000,000 | 100 | 100 | Manufacture of industrial control valves |
| 寧夏朗盛精密製造技術有限公司 Langsheng Foundry (Note i) | PRC | Registered capital RMB800,000,000 | 100 | 100 | Manufacture of steel-casting |

## 56. PARTICULAR OF SUBSIDIARIES OF THE COMPANY – CONTINUED

| Name of subsidiary | Place of incorporation/ establishment | Issued and fully paid up share capital/registered capital | Equity interest attributable to the Group as at 31 December 2018 % | 2017 % | Principal activities |
|---|---|---|---|---|---|
| 寧夏吳忠儀錶上海有限公司 Wuzhong Instrument (Shanghai) Company Limited (Note i) | PRC | Registered capital RMB10,000,000 | 100 | 100 | Manufacture of industrial control valves |
| 北京吳忠儀錶銷售有限公司 Wuzhong Sales (Beijing) Company Limited (Note i) | PRC | Registered capital RMB10,000,000 | 100 | 100 | Sales of industrial control valves |
| 寧夏菲麥森流程控制技術有限公司 Ningxia Fei Mai Sen (Note i) | PRC | Registered capital RMB5,000,000 | 100 | 100 | Software development and design of process control products |
| 吳忠儀錶(銀川)工程技術服務有限公司 Wuzhong Engineering Services (Yinchuan) Company Limited (Note i) | PRC | Registered capital RMB20,000,000 | 100 | 100 | Provision of engineering services |
| 吳忠儀錶產業基地開發有限公司 Wuzhong Instrument Industrial Base Development Company Limited (Note i) | PRC | Registered capital RMB100,000,000 | 100 | 100 | Manufacture of industrial control valves, infrastructure activities as well as of development and sale of real estate |
| 北京中京實華新能源科技有限公司 Beijing Zhongjing Shihua New Energy Technology Company Limited (Note i) ("Zhongjing Shihua") | PRC | Registered capital RMB72,550,000 | 51 | 51 | Production of biodiesel fuel and related technology services |
| 北京中京征和環保服務有限公司 Beijing Zhongjing Zhenghe Environmental Services Company Limited (Notes i and iii) ("Zhongjing Zhenghe") | PRC | Registered capital RMB10,000,000 | 49.5 | 49.5 | Collection and transportation of biodiesel base-oil materials |
| 拉薩經濟技術開發區康吉森投資有限公司 Lhasa Consen Investment Company Limited (Note i) | PRC | Registered capital RMB1,000,000 | 100 | 100 | Investment management and trading, as well as technology services |
| 西藏康吉森電子科技有限公司 Tibet Consen Electronic Technology Company Limited (Note i) | PRC | Registered capital RMB282,000,000 | 100 | 100 | Design, development and sales of instrumentation and control products, as well as technology services |
| 寧夏中自新能源有限公司 Ningxia Zhongzi New Energy Company Limited (Notes i and viii) ("Zhongzi New Energy") | PRC | Registered capital RMB10,000,000 | – | 100 | Development of new energy and sales of power generation equipment, as well as technology services |

## 56. PARTICULAR OF SUBSIDIARIES OF THE COMPANY – CONTINUED

| Name of subsidiary | Place of incorporation/ establishment | Issued and fully paid up share capital/registered capital | Equity interest attributable to the Group as at 31 December 2018 % | 2017 % | Principal activities |
|---|---|---|---|---|---|
| 寧夏中自清潔能源有限公司 Ningxia Zhongzi Clean Energy Company Limited (Notes i and viii) ("Zhongzi Clean Energy") | PRC | Registered capital RMB2,000,000 | – | 100 | Development of new energy and sales of power generation equipment, as well as technology services |
| Tri-control | Hong Kong | Ordinary shares HK$10,000,000 | 100 | 100 | Trading of automation products |
| 康吉森國際(香港)有限公司 Consen International (Hong Kong) Limited | Hong Kong | Ordinary shares HK$20,000,000 | 100 | 100 | Trading of automation products |
| 冠東資源有限公司 Crown East Resources Limited | Hong Kong | Ordinary shares US$49,200,000 | 100 | 100 | Trading of automation products |
| Zhongjing Engineering SDN BHD ("Zhongjing Engineering") (Note iv) | Brunei | N/A | 70 | 70 | Engineering design and consulting services |
| Etern Group | BVI | Ordinary shares US$1,001 | 60 | 60 | Investment holding |
| Etern Healthcare (Note v) | Hong Kong | One ordinary share HK$1 | 60 | 60 | Investment holding |
| 蘇州永鼎醫療管理服務有限公司 Suzhou Yongding Healthcare Management Company Limited ("Yongding Healthcare") (Note vi) | the PRC | Registered Capital RMB80,000,000 | 60 | 60 | Medical healthcare management and investment holding |
| 蘇州永鼎醫院有限公司 Yongding Hospital (Note vii) | the PRC | Registered Capital RMB75,000,000 | 58.8 | 58.8 | Provision of general hospital services and sales of pharmaceutical |
| FireBus Systems, Inc. | USA | Registered Capital USD800,000 | 100 | 100 | Business development and provision of engineering services in overseas markets |
| 西安富邦智控工程有限公司 Xi'an Fubang Intellegent Control Engineering Company Limited (Note i) | the PRC | Registered Capital RMB25,000,000 | 100 | N/A | Provision of systems design and development, as well as technology services |

## 56. PARTICULAR OF SUBSIDIARIES OF THE COMPANY – CONTINUED

Notes:

i. The English names of these PRC companies are for reference only and not registered.

ii. These subsidiaries are registered as wholly foreign-owned enterprise under PRC law.

iii. 97.06% of the registered capital of Zhongjing Zhenghe is directly held and controlled by Zhongjing Shihua.

iv. 100% of the registered capital of Zhongjing Engineering is directly held and controlled by Zhongjing.

v. 100% of the issued and ordinary shares capital of Etern Healthcare is held and controlled by Etern Group.

vi. 100% of the registered capital of Yongding Healthcare is held and controlled by Etern Healthcare.

vii. 98% of the registered capital of Yongding Hospital is directly held and controlled by Yongding Healthcare.

viii. On 29 March 2018, the Group completed, at no consideration, the disposal of Zhongzi New Energy and Zhongzi Clean Energy, which had not yet operated any business since set up. Gain on the disposal amounting to RMB150,000 had been recognised in "other gain and losses" as set out in Note 8.

ix. On 22 August 2018, the Group purchased the 30% shares from non-controlling shareholders at the consideration of RMB 380,000, equivalent to the carrying amount of non-controlling balances as at the purchase date.

All of the above subsidiaries, except for Tricon and Etern Group, are indirectly held by the Company.

The table below shows details of non-wholly owned subsidiaries of the Company that have material non-controlling interests

| Name of subsidiary | Place of incorporation and principal place of business | Proportion of ownership interests and voting rights held by non-controlling interests | | Profit allocated to non-controlling interests | Accumulated non-controlling interests |
|---|---|---|---|---|---|
| | | **2018** | 2017 | | |
| Etern Group | BVI | **40%** | 40% | 31,156 | 168,137 |
| Individually immaterial subsidiaries with non-controlling interests | | | | | 37,551 |
| | | | | | 205,688 |

Summarised financial information in respect of each of the Company's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

## 56. PARTICULAR OF SUBSIDIARIES OF THE COMPANY – CONTINUED

**Etern Group**

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Current assets | **195,590** | 167,334 |
| Non-current assets | **478,150** | 457,809 |
| Current liabilities | **(197,134)** | (223,314) |
| Non-current liabilities | **(51,728)** | (49,828) |
| Total equity | **424,878** | 352,001 |

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Total equity attributable to: | | |
| – Owners of the Company | **256,741** | 212,369 |
| – Non-controlling interests | **168,137** | 139,632 |

| | 2018<br>RMB'000 | From date of acquisition to 31 December 2017<br>RMB'000 |
|---|---|---|
| Revenue | **467,845** | 191,211 |
| Expenses | **(392,378)** | (169,178) |
| Profit and other comprehensive income for the year | **75,467** | 22,033 |
| Profit and other comprehensive income for the year attributable to: | | |
| – Owners of the Company | **44,311** | 13,426 |
| – Non-controlling interests | **31,156** | 8,607 |

| | 2018<br>RMB'000 | From date of acquisition to 31 December 2017<br>RMB'000 |
|---|---|---|
| Dividends declared to non-controlling interests | **7,879** | 1,200 |
| Net cash inflow from operating activities | **120,434** | 57,168 |
| Net cash (outflow) inflow from investing activities | **(30,990)** | 35,443 |
| Net cash (outflow) inflow from financing activities | **(39,543)** | 6,660 |
| Net cash inflow | **49,901** | 99,271 |

## 57. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| **Non-current assets** | | |
| Investment in subsidiaries | 942,805 | 942,805 |
| Amounts due from subsidiaries | 341,996 | 313,759 |
| Property, plant and equipment | 2 | 2 |
| | 1,284,803 | 1,256,566 |
| **Current assets** | | |
| Other receivables and prepayments | 367 | 404 |
| Dividends receivable | 9,608 | 9,608 |
| Amounts due from subsidiaries | 73,774 | 71,157 |
| Bank balances and cash | 2,959 | 1,093 |
| | 86,708 | 82,262 |
| **Current liabilities** | | |
| Other payables and accruals | 916 | 2,184 |
| Amounts due to subsidiaries | 18,314 | 15,762 |
| Dividend payable | 6 | 6 |
| | 19,236 | 17,952 |
| **Net current assets** | 67,472 | 64,310 |
| **Total assets less current liabilities** | 1,352,275 | 1,320,876 |
| **Capital and reserves** | | |
| Share capital | 9,548 | 9,548 |
| Share premium and reserves | 724,943 | 750,772 |
| **Total equity** | 734,491 | 760,320 |
| **Non-current liabilities** | | |
| Convertible bonds | 617,784 | 560,556 |
| **Total equity and non-current liabilities** | 1,352,275 | 1,320,876 |

## 57. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY – CONTINUED

**Movements in reserves**

| | Share premium RMB'000 | Contribution from owners RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2017 | 648,367 | 884 | 66,228 | 715,479 |
| Profit and other comprehensive income for the year | – | – | 35,293 | 35,293 |
| At 31 December 2017 | 648,367 | 884 | 101,521 | 750,772 |
| Loss and other comprehensive expense for the year | – | – | (25,829) | (25,829) |
| At 31 December 2018 | 648,367 | 884 | 75,692 | 724,943 |

# FINANCIAL SUMMARY

## RESULTS

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 (Note) | 2016 (Note) | 2017 (Note) | **2018 (Note)** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | **RMB'000** |
| Revenue | 1,918,510 | 1,640,983 | 1,062,132 | 1,223,022 | **1,891,094** |
| Profit (Loss) before tax | 38,662 | (351,316) | (355,513) | (174,852) | **52,864** |
| Income tax expense/(credit) | 27,850 | 12,203 | (8,701) | 17,403 | **45,576** |
| Profit (Loss) attributable to equity holder of the parent | 7,711 | (318,804) | (390,757) | (201,550) | **(18,480)** |

Note: excluding the discontinued operations

## ASSETS AND LIABILITIESRESULTS

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | **2018** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | **RMB'000** |
| Non-current assets | 1,376,825 | 995,343 | 1,402,149 | 2,032,184 | **2,222,698** |
| Current assets | 3,322,379 | 3,092,894 | 2,334,648 | 1,999,685 | **2,660,496** |
| Current liabilities | (1,214,177) | (1,526,308) | (1,223,901) | (1,338,654) | **(1,783,846)** |
| Net current assets | 2,108,202 | 1,566,586 | 1,110,747 | 661,031 | **876,650** |
| Total assets less current liabilities | 3,485,027 | 2,561,929 | 2,512,896 | 2,693,215 | **3,099,348** |

# CORPORATE INFORMATION

## DIRECTORS

### EXECUTIVE DIRECTORS:

Mr. Xuan Rui Guo *(Chairman)*
Mr. Wang Chuen Sheng

### INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Wang Tai Wen
Mr. Zhang Xin Zhi
Mr. Ng Wing Fai

## AUTHORIZED REPRESENTATIVES

Mr. Xuan Rui Guo
Mr. Chow Chiu Chi

## AUDIT COMMITTEE

Mr. Ng Wing Fai *(Chairman)*
Mr. Wang Tai Wen
Mr. Zhang Xin Zhi

## REMUNERATION COMMITTEE

Mr. Wang Tai Wen *(Chairman)*
Mr. Zhang Xin Zhi
Mr. Ng Wing Fai
Mr. Xuan Rui Guo

## NOMINATION COMMITTEE

Mr. Zhang Xin Zhi *(Chairman)*
Mr. Wang Tai Wen
Mr. Ng Wing Fai
Mr. Xuan Rui Guo

## SENIOR MANAGEMENT

Mr. Zhou Zheng Qiang
Mr. Ma Yu Shan
Ms. Dong Yan
Ms. Wang Qiu Ping
Mr. Chen Yong
Mr. Duan Min
Mr. Ji Jun
Mr. Yang Zhan Fu
Ms. Han Chi Biao
Mr. William Erik Barkovitz
Mr. Wen Yi Ming
Mr. Chow Chiu Chi

## STOCK CODE

Hong Kong Stock Exchange 569

## COMPANY SECRETARY

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Ms. Chen Peng
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## WEBSITE ADDRESS

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# CORPORATE INFORMATION

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## PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN CHINA

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Beijing
PRC

## HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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Hong Kong

## PRINCIPAL BANKERS

*Hong Kong:*
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
*PRC:*
Agricultural Bank of China
Bank of Beijing
Bank of China Limited
Bank of Communications
China Construction Bank
Hua Xia Bank
Industrial and Commercial Bank of China
Ping An Bank
Shanghai Pudong Development Bank

## AUDITORS

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## LEGAL ADVISERS

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