联想控股
LEGEND HOLDINGS

BUILDING GREAT COMPANIES

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

Stock Code: 3396

2018 ANNUAL REPORT

CONTENTS

Definitions

In this report, unless the context otherwise requires, the following terms shall have the meanings set forth below:

"ABS"	asset-backed securitization, a kind of tradable security based on basic assets (specific asset portfolio or cash flows), which is issued in the form of similar bonds
"associate(s)"	for the purpose of this report, all entities over which the Group has significant influence. Significant influence represents the power to participate in the financial and operational policy decision of the investees, but without control or joint control rights over these policies
"Audit Committee"	Audit Committee under the Board
"B2B"	business-to-business
"Better Education"	Better Education Group Corporation (三育教育集團股份有限公司), an exempted limited liability company incorporated under the laws of Cayman Islands, and our subsidiary
"BIL"	Banque Internationale à Luxembourg S.A., a credit institution in the form of a Luxembourg limited liability company (société anonyme) and our subsidiary
"Board"	board of directors of the Company
"Bybo Dental"	Bybo Dental Group Co., Ltd. (拜博醫療集團有限公司) (formerly known as Guangdong Bybo Dental Investment Management Co., Ltd. (廣東拜博口腔醫療投資管理有限公司), a limited liability company incorporated under the laws of the PRC, and our associate
"CAR"	CAR Inc., an exempted company incorporated in the Cayman Islands with limited liability and listed on the Main Board of the Hong Kong Stock Exchange (Stock Code:699), and our associate
"CAS Holdings"	Chinese Academy of Sciences Holdings Co, Ltd., (formerly known as Chinese Academy of Sciences Holdings Co., Ltd. (中國科學院國有資產經營有限責任公司)), a substantial Shareholder
"CHF"	Swiss Franc, the lawful currency of Switzerland
"China Oceanwide"	China Oceanwide Holdings Group Co., Ltd. (中國泛海控股集團有限公司), a substantial Shareholder
"Company", "our Company" or "Legend Holdings"	Legend Holdings Corporation (聯想控股股份有限公司) (formerly known as "Chinese Academy of Sciences Computer Technology Research Institute New Technology Development Company" (中國科學院計算技術研究所新技術發展公司),"Beijing Legend Computer New Technology Development Company" (北京聯想計算機新技術發展公司),"Legend Group Holdings Company" (聯想集團控股公司) and "Legend Holdings Limited" (聯想控股有限公司), a joint stock limited liability company incorporated under the laws of PRC and its overseas listed shares are listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 3396)
"CSRC"	China Securities Regulatory Commission
"Director(s)"	the director(s) of the Company

"DMTO"	the technique for using coal or natural gas instead of oil for production of ethylene and propene
"Domestic Shares"	domestic share(s) in the ordinary share capital of the Company with the nominal value of RMB1.00 each
"EAL"	Eastern Air Logistics Co., Ltd. (東方航空物流股份有限公司), a limited liability company incorporated under the laws of the PRC, and our associate
"EOD"	ethylene oxide derivatives
"ESG Report"	Environmental, Social and Governance Report set out in this annual report
"EUR"	Euro, the official currency of the Eurozone which consists of certain state members of the European Union
"EVA"	ethylene-vinylacetate copolymer
"Executive Committee"	Executive Committee of the Company
"Funglian Group"	Funglian Holdings Co., Ltd. (豐聯酒業控股集團有限公司), a limited liability company incorporated under the laws of the PRC
"Golden Wing Mau"	Golden Wing Mau Agricultural Produce Corporation (深圳市鑫榮懋農產品股份有限公司), a large fruit supply chain enterprise in China. It is a joint stock limited liability company incorporated under the laws of the PRC, and a subsidiary of Joyvio Group
"Group", "our", "we" or "us"	our Company and all of its subsidiaries, or any one of them as the context may require or, where the context refers to any time prior to its incorporation, the business which its predecessors or the predecessors of its present subsidiaries, or any one of them as the context may require, were or was engaged in and which were subsequently assumed by it
"H Share(s)"	overseas listed share(s) in the ordinary share capital of the Company with a nominal value of RMB1.00 each, listed on the main board of the Hong Kong Stock Exchange and trade in HKD
"Hankou Bank"	Hankou Bank Co., Ltd. (漢口銀行股份有限公司), a joint stock limited liability company incorporated under the laws of the PRC, and our associate
"Hebei Hengshui Laobaigan"	Hebei Hengshui Laobaigan Liquor Co., Ltd. (河北衡水老白干酒業股份有限公司), a joint stock limited liability company incorporated under the laws of the PRC and listed on the Shanghai Stock Exchange (A Share Stock Code: 600559)
"HKD"	Hong Kong dollar, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hony Capital"or "Hony"	a series of private equity investment funds, together with their respective management companies/general partner

"Hortifrut"	Hortifrut S.A., a limited liability company incorporated under the laws of Chile
"Hospital Corporation"	Hospital Corporation of China Limited (弘和仁愛醫療集團有限公司), its shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 3869)
"Huawen Food"	Huawen Food Co., Ltd. (華文食品股份有限公司), a joint stock limited liability company incorporated under the laws of the PRC and our associate
"Internet"	a global network of interconnected, separately administered public and private computer networks that uses the Transmission Control Protocol/Internet Protocol for communications
"IPO"	Initial Public Offering
"IT"	information technology
"JC Finance & Leasing"	JC International Finance & Leasing Company Limited (君創國際融資租賃有限公司), a limited liability company incorporated under the laws of the PRC, and our wholly-owned subsidiary
"Joyvio Agriculture"	Joyvio Agriculture Development Co., Ltd. (佳沃農業開發股份有限公司) (formerly known as Wanfu Shengke (Hunan) Agriculture Development Co., Ltd. 萬福生科 (湖南)農業開發股份有限公司) a joint stock limited liability company incorporated under the laws of the PRC, the shares of which are listed on the ChiNext board on Shenzhen Stock Exchange (A Share Stock Code: 300268), and a subsidiary of Joyvio Group
"Joyvio Group" or "Joyvio"	Joyvio Group Co., Ltd. (佳沃集團有限公司), a limited liability company incorporated under the laws of the PRC, and our wholly-owned subsidiary
"Joyvio Zhencheng"	Beijing Joyvio Zhencheng Technology Co., Ltd. (北京佳沃臻誠科技有限公司), a subsidiary of the Company and Joyvio Agriculture
"JPY"	Japanese Yen, the lawful currency of Japan
"Kaola Technology"	Tibet Kaola Science & Technology Development Co., Ltd. (西藏考拉科技發展有限公司), a limited liability company incorporated under the laws of the PRC, and our subsidiary
"KB Food"	KB Food International Holding (Pte.) Limited, a limited liability company established under the laws of Singapore, and our subsidiary
"Lakala Payment"	Lakala Payment Corporation (拉卡拉支付股份有限公司) (formerly known as Lakala Payment Co., Ltd. (拉卡拉支付有限公司), a joint stock limited liability company incorporated under the laws of the PRC, and our associate
"Leap Wave"	Leap Wave Limited, a wholly-owned subsidiary of the Company
"Legend Capital"	a series of venture capital funds, together with their respective management companies/partners
"Legend Star"	a series of angel investment funds, together with their respective management companies/partners

"Lenovo"	Lenovo Group Limited (聯想集團有限公司), a limited liability company incorporated under the laws of Hong Kong and listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 992), and our subsidiary
"Lenovo Finance"	Beijing Lenovo Finance Co., Ltd. (北京聯想金服科技有限公司), a limited liability company incorporated under the law of the PRC, and our subsidiary
"Levima Group"	Levima Group Limited (聯泓集團有限公司), a limited liability company incorporated under the laws of the PRC, and our subsidiary
"Levima New Materials" or "Levima Advanced Materials"	Levima Advanced Materials Corporation (聯泓新材料科技股份有限公司) (formerly known as Levima New Materials Limited (聯泓新材料有限公司)), a joint stock limited liability company incorporated under the laws of the PRC, a subsidiary of Levima Group and our subsidiary
"Liquor Easy"	Henan Liquor Easy Commercial Corporation (河南酒便利商業股份有限公司), a joint stock limited liability company incorporated under the laws of the PRC, our associate, and listed on the NEEQS in 2016
"Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time
"Longguan Company"	Hangzhou Longguan Industrial Co., Ltd. (杭州龍冠實業有限公司), a limited liability company incorporated under the laws of the PRC and a subsidiary of Joyvio Group, which was listed on the NEEQS in 2016
"Motorola"	Motorola Mobility Holdings LLC, a limited company incorporated in the State of Delaware, USA and a wholly-owned subsidiary of Lenovo and, where the context requires, its relevant subsidiaries or affiliates or the brand name under which their products are marketed
"N/A"	not applicable
"NEEQS"	National Equities Exchange and Quotations System (全國中小企業股份轉讓系統), a platform established for the sale of existing shares or private placing of new shares by SMEs
"neurology specialist"	the collective term of the clinical discipline studying organic and functional diseases of central nervous system (brain, spinal cord). Clinically, the correspondent branch is neurosurgery and neurology depending on the types of disease and treatment methods
"Nine Masters"	Nine Masters (Shanghai) Catering Service Co., Ltd. (九橙(上海)餐飲服務有限公司), a limited liability company incorporated under the laws of the PRC and a subsidiary of Joyvio Group
"Nomination Committee"	Nomination Committee under the Board
"Oceanwide Group"	Oceanwide Group Co., Ltd. (泛海集團有限公司), a substantial Shareholder
"Ordinary Shares" or "Shares"	ordinary shares issued by the Company
"PE"	private equity

"Phylion Battery"	Phylion Battery Co., Ltd. (星恒電源股份有限公司), a joint stock limited liability company incorporated under the laws of the PRC
"PIC"	Pension Insurance Corporation
"PIPE"	Private Investment in Public Equity
"PP"	polypropylene
"PRC" or "China"	the People's Republic of China excluding, for the purpose of this report, Hong Kong, Macau and Taiwan
"Prospectus"	the prospectus dated June 16, 2015 being issued in connection with first listing of the H Shares on the Hong Kong Stock Exchange
"Qingdao Starfish"	China Starfish Co., Ltd. (青島國星食品股份有限公司), a joint stock limited liability company incorporated under the laws of the PRC, and a subsidiary of Joyvio Agriculture
"Raycom Property"	Raycom Property Investment Co., Ltd. (融科物業投資有限公司), a limited liability company incorporated under the laws of the PRC, and our wholly-owned subsidiary
"Raycom Real Estate"	Raycom Real Estate Development Co., Ltd. (融科智地房地產股份有限公司), a joint stock limited liability company incorporated under the laws of the PRC, and our subsidiary
"Remuneration Committee"	Remuneration Committee under the Board
"Reporting Period"	for the twelve months ended December 31, 2018
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Shanghai Neuromedical Center"	Shanghai Neuromedical Center Co., Ltd. (上海德濟醫院有限公司), a limited liability company incorporated under the laws of the PRC, and our subsidiary
"Shanghai Stock Exchange"	Shanghai Stock Exchange
"Shareholders"	holders of the shares of the Company
"Shenzhen Stock Exchange"	Shenzhen Stock Exchange
"SME(s)"	small and medium-sized enterprise(s)
"SOE"	State-owned enterprise
"subsidiary"	has the meaning ascribed thereto under the Listing Rules

"Supervisor(s)"	the supervisor(s) of the Company
"Taikang Life Insurance"	Taikang Life Insurance Co.,Ltd.
"TMT"	technology, media and telecom
"Tohigh"	Tohigh Holdings Co., Ltd. (通海控股有限公司), a substantial Shareholder
"UCAR"	UCAR Inc (神州優車股份有限公司), a joint stock limited liability company incorporated under the PRC law and listed on the NEEQS in 2016
"Union Insurance"	Union Insurance Broker Group Co., Ltd. (聯保投資集團有限公司), a limited liability company incorporated under the laws of the PRC, and our associate
"USA"	The United States of America
"USD"	United States dollar, the lawful currency of the United States of America
"VA"	vinyl acetate
"Xinguojiayuan"	Shenzhen Xinguojiayuan Modern Agriculture Co., Ltd. (深圳市鑫果佳源現代農業有限公司), a limited liability company incorporated under the laws of the PRC and a subsidiary of Joyvio Group
"Zeny Supply Chain"	Zeny Supply Chain Co., Ltd. (增益供應鏈有限公司), a limited liability company incorporated under the laws of the PRC, and our subsidiary
"Zhengqi Financial"	Zhengqi Financial Holdings Corporation (正奇金融控股股份有限公司) (formerly known as Zhengqi Anhui Financial Holdings Co., Ltd. (正奇安徽金融控股有限公司)), a joint stock limited liability company incorporated under the laws of the PRC, and our subsidiary
"%"	percentage

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. LIU Chuanzhi
Mr. ZHU Linan
Mr. ZHAO John Huan
Mr. NING Min

Non-executive Directors

Mr. WU Lebin
Mr. SUO Jishuan

Independent Non-executive Directors

Mr. MA Weihua
Mr. ZHANG Xuebing
Ms. HAO Quan

BOARD OF SUPERVISORS

Supervisors

Mr. LI Qin *(Chairman)*
Mr. LUO Cheng
Ms. FENG Ling

NOMINATION COMMITTEE

Mr. LIU Chuanzhi *(Chairman)*
Mr. MA Weihua
Mr. ZHANG Xuebing

AUDIT COMMITTEE

Ms. HAO Quan *(Chairperson)*
Mr. ZHANG Xuebing
Mr. SUO Jishuan

REMUNERATION COMMITTEE

Mr. MA Weihua *(Chairman)*
Mr. NING Min
Ms. HAO Quan

JOINT COMPANY SECRETARIES

Mr. NING Min
Ms. YEUNG Yee Har

H SHARE REGISTRAR

Computershare Hong Kong Investor
Services Limited
17M Floor
Hopewell Centre, 183 Queen's Road East
Wanchai, Hong Kong

AUDITOR

PricewaterhouseCoopers

COMPLIANCE ADVISOR

Somerley Capital Limited

REGISTERED OFFICE

Room 1701, 17/F, Block 1
Court No. 2, Ke Xue Yuan Nanlu
Haidian District
Beijing
PRC

HEAD OFFICE IN THE PRC

Room 1701, 17/F, Block 1
Court No. 2, Ke Xue Yuan Nanlu
Haidian District
Beijing
PRC

PRINCIPAL BANKS

China Construction Bank, Beijing Zhongguancun Branch
Bank of China, Beijing Branch
Agricultural Bank of China, Head Office
Industrial and Commercial Bank of China,
Beijing Branch

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

27/F, One Exchange Square, Central, Hong Kong

COMPANY'S WEBSITE

www.legendholdings.com.cn

STOCK CODE

3396

Dear Shareholders of Legend Holdings,

This year, Legend Holdings will embrace the 35th anniversary of its establishment. During the past 35 years, we have kept abreast of the era's developments and formed the current business landscape of "strategic investment + financial investment" through proactive strategic reforms. The strategy of the Company is explicit, in which two key points are included: one is the two-wheel-drive business model, namely financial investment and strategic investment, to create unique value with strong synergies; the other is the construction of pillar assets to lay a solid foundation for the vision of "building great companies". We believe that the strategy can guide Legend Holdings towards a steady growth in the long term, while we are able to seize new opportunities in China's high-quality development stage and devote ourselves to the future business layout in advance. Effective implementation of strategies is underpinned by numerous important factors. I am pleased to witness the learning capability and sense of commitment of the Company's core management, who have been steering the Company and pressing ahead with various tasks in a pragmatic and proactive spirit. Meanwhile, the Company has provided strong protection to the implementation of strategies with sound corporate governance structure, relatively comprehensive talent cultivation and incentives system, as well as the management expertise and corporate culture developed from industry and investment for over 30 years.

The Board and I recognize that the management have been advancing the achievement of strategic targets with breakthroughs while safeguarding the health of the Company in 2018, despite challenges from the external environment. With the successful acquisition of BIL, the Company has built new pillar assets, leading to an enlarged and optimized investment portfolio. Furthermore, being the first company to carry out the H Share "full circulation" pilot project has allowed the Company to solve liquidity-related problems, to align the interests of all shareholders, and to have greater dedication of the employees. The two-wheel-drive business model continued to leverage advantages, shielding the overall operation of Legend Holdings from the adverse impacts of the capital market. The Company certainly has much more to do to enhance the post-investment management and services and to release the value of portfolio companies. In this regard, the Board has laid down new requirements and offered suggestions to the management, with detailed arrangement to be made in the coming strategic guideline.

The uncertainty of the external environment will become a normal. To withstand risks, seize opportunities and achieve sustainable development, it is essential for us to build up strength from within. On one hand, Legend Holdings will keep consolidating the two-wheel-drive advantages to gain more precise and robust capabilities in our business. On the other hand, we must stay acute to the changing environment. The economic development of China has led to upgrading consumption demands as well as diversity and prevalence of financial services, and our strategic investment segment will closely follow and take deep roots in these areas. In the future, while strengthening the operation, we will build business groups based on industry chains and platforms, and I hope that there will be new flagships in the industries. Meanwhile, disruptive changes incurred by technological innovation and business model innovation will open up tremendous room for imagination. For brilliant startups, the business model of Legend Holdings can empower them to realize a growth throughout the lifecycle. The Board and I are expecting Legend Holdings to bring out more excellent technology companies by connecting the "capital + experience" with them.

While pursuing economic value, Legend Holdings also places importance to the social value. Adhering to the spirit of "good people, good deeds, and good examples for society", we include public welfare into the overall strategies and focus on the three areas of "supporting education", "assisting start-ups" and "advocating social justice" in the long run.

The vision of Legend Holdings is to become a trustworthy and respectable enterprise, to build leading companies in multiple industries, and to develop world-wide influence. It will be a relay race for us to reach this vision, which requires us to aim high but work in a down-to-earth manner, and to make continuous self-reforms fearless of any hardship. We hope that Legend Holdings will live up to this era, and take advantage of the crucial period of strategic opportunities to march forward unswervingly to open a new chapter with remarkable results.

I would like to extend my gratitude to all Shareholders for your long-term support, and to the management and employees for your unrelenting efforts!

Legend Holdings Corporation
LIU Chuanzhi
Chairman

President's Report

The external environment we are in is undergoing profound changes. In 2018, China's economic growth was confronted with a downward pressure, the prevention and mitigation of financial risks became an imperative task, and Sino-US trade frictions remained unresolved. As China is now in a critical period of strategic opportunity, the economic restructuring has brought both challenges and opportunities to the enterprises. Legend Holdings is privileged to be among those that have accompanied China's market-oriented reforms ever since the 1980s. It is the historic opportunity endowed by the Reform and Opening-up that has enabled us to create the world-renowned brand of Legend. Therefore, we are fully aware that a favorable climate is indispensable for enterprises' development. In the current complex situation, Legend Holdings maintains continuous tracking and research on the macro-economic environment and duly adjusts the tactics in accordance with environmental changes during the implementation of its strategy to ensure healthy business development. In 2018, we paid more attention to our financial security. For strategic investments, we strengthened the risk resistance through post-investment management and services, optimized the asset portfolio by means of resource allocation and capital operation, and achieved breakthroughs for the strategic objective of building pillar assets. Besides, pre-emptive measures have been adopted against potential risks in financial investments to ensure favorable and long-term fundamentals.

Despite the uncertainties of business environment, the Company has gained even more recognition from the financial market for the consistency in business stability, compliant operation and excellent corporate governance, thus ensuring the funding support required for steady business development. Moreover, the Company always attaches great importance to cash flow management, further securing the overall financial conditions.

During the Reporting Period, the business operation of Legend Holdings' strategic investments registered overall improvement. Despite the significant impact of capital market on profit contributions, financial investments still presented healthy fundamentals. For the year, the Legend Holdings' revenue increased by 13% to RMB358.92 billion, and the net profit attributable to equity holders of the Company fell by 14% to RMB4.362 billion.

The five segments of strategic investments all recorded profits, contributing to a substantial growth of overall profits. Our post-investment management and services for strategic investment portfolio have promoted business development and value growth by enhancement of both business and capital operations. In 2018, all the five segments of strategic investments witnessed organic growth. The overall income of strategic investment rose by 14% to RMB358.301 billion, and the net profit attributable to equity holders of the Company increased by 186% to RMB5.223 billion.

- In IT segment, Lenovo's intelligent transformation has achieved initial results, and the profits of main businesses have been improved. PC business reached a record high market share of 24.6%, ranking 1st in the global market. Mobile business recorded profit for the first time in the fourth quarter of 2018, and Data Center business maintained a high revenue growth and further narrowed the loss. The revenue of the IT segment increased by 10% year-on-year to RMB330.78 billion, and the net profit attributable to equity holders of the Company amounted to RMB1.085 billion.

- The financial services segment maintained steady growth in the context of tightened regulations and interest rate volatility, with increasing revenues from subsidiaries including BIL, Zhengqi Financial, JC Finance & Leasing and Kaola Technology. During the Reporting Period, Zhengqi Financial submitted its application for H-share listing, and we signed an agreement to sell all the equity interests we held in Suzhou Trust. The annual revenue of the financial services segment during the Reporting Period increased by 91% to RMB6.962 billion, and the net profit attributable to equity holders of the Company grew by 56% to RMB2.567 billion.

- With respect to the innovative consumption and services segment, we concentrated on strengthening the post-investment management and operational improvement of the portfolio companies during the Reporting Period, and our work has been fruitful. The fundamentals of Shanghai Neuromedical Center and Better Education remained stable, and CAR witnessed revenue growth in its car rental business. Bybo Dental introduced Taikang Life Insurance as its controlling shareholder and achieved operational improvement through the enhanced system building and operation management. For the year, the net profit of the segment attributable to equity holders of the Company stood at RMB1.099 billion, reversing the previous losses, while the revenue of the segment dropped by 30% to RMB1.288 billion due to the transformation of Bybo Dental to an associated company.

- The agriculture and food segment followed the established business strategy. Two major supply chain systems, namely, fruits and seafood, were further consolidated and developed, and the overall business layout became clearer. Joyvio Group acquired the controlling interests of Golden Wing Mau and completed the equity restructuring of Funglian Group during the Reporting Period. Its subsidiaries, Golden Wing Mau and Joyvio Agriculture, recorded an increase in revenue and profit. During the Reporting Period, the revenue of the agriculture and food segment increased by 161% to RMB12.94 billion, and the operating profit continued to grow. However, due to the impairment of goodwill arising from the fluctuation of Joyvio Agriculture's stock price during the Reporting Period, the net profit attributable to equity holders of the Company declined by 9% to RMB210 million.

- The advanced manufacturing and professional services segment presented continuous improvement in terms of operations. The business operation efficiency and key indicators of Levima Group maintained a leading position in the industry, with the continual upgrading of product mix. EAL energetically developed air express delivery and high-end logistics solutions and optimized business operation to reduce costs, hence the growth of revenue and net profit. During the Reporting Period, the revenue of the advanced manufacturing and professional services segment increased by 8% to RMB6.331 billion, whereas the net profit attributable to equity holders of the Company fell by 31% to RMB262 million, mainly due to the absence of an one-off gain from the transfer of equity interests in Phylion Battery in 2017.

Financial Investments focused on risk control to ensure steady development. In early 2018, we paid special attention to potential policy and market risks and appropriately slowed down the investment rhythm. Meanwhile, by reaching consensus with the management of the portfolio companies through active communication, we helped to consolidate the business foundation of the portfolio companies and pushed them to complete financing as soon as possible, so as to lay a solid foundation for future development. During the Reporting Period, distressed by the bearish global markets, the net profit of financial investments attributable to equity holders of the Company decreased by 87% to RMB540 million. Nevertheless, under the aforementioned strategy, the three fund platforms maintained good fundamentals and a steady pace in terms of fundraising, new investments and exits; the portfolio of our financial investments maintains a healthy development, and the companies in it are operating well with improving performance. Specifically:

- Legend Star successfully completed its first fundraising from external limited partners. The 3rd RMB fund raised over RMB700 million, and the 3rd USD fund raised USD20 million. During the Reporting Period, Legend Star invested in nearly 40 new onshore or offshore projects; more than 60 of its invested companies completed follow-on financing, achieving value growth; and 10 projects were fully or partially exited.

- The total AUM of Legend Capital exceeded RMB43 billion. In 2018, Legend Capital launched two new RMB funds, namely, the 5th RMB growth fund and the 2nd RMB medical fund, and completed the final closing of the 2nd culture and sports fund. During the Reporting Period, Legend Capital raised a total of RMB3.45 billion. The venture capital kept consolidating its influence of investment in industries such as TMT, innovative consumption, intelligent manufacturing, professional services, medical care and health, culture and sports. In 2018, Legend Capital invested in a total of 50 new projects and fully or partially exited from 24 projects. Besides, 11 of its invested companies successfully went IPO domestic and overseas capital markets in the year, and 2 more have passed the IPO review.

- The total AUM of Hony Capital exceeded RMB80 billion. On one hand, Hony Capital keeps building its advantages in PE and real estate finance; on the other hand, it seeks breakthroughs in new businesses such as public offering fund, hedge fund and special opportunity investment to form a "2+3" business development pattern. During the Reporting Period, Hony Capital raised a total of RMB5.8 billion funds, completed the investment in 17 projects and exited from 19 projects fully or partially. Besides, 2 of its invested companies successfully went IPO on the domestic capital market in the year.

- For years, these three fund platforms have come out on top in the annual ranking lists for angel investment, venture capital, and private equity fund, respectively, as evaluated by professional agencies.

Legend Holdings also celebrated two milestones in 2018, namely, the successful acquisition of BIL and being approved to carry out the H-share "full circulation" pilot project as the first company. These two outcomes again demonstrate Legend Holdings' ability to achieve its stated strategic goals through insight and execution, and has generated a profound influence on our future business operation and value realization.

The strategic objective of building pillar assets has been fulfilled. In July 2018, we formally completed the acquisition of BIL and became the controlling shareholder with 89.94% of its equities. That was the first time that the European Central Bank (ECB) approved a Chinese non-financial company to acquire an "Other Systemically Important" European bank regulated by ECB. In the process, on one hand, Legend Holdings was subject to more than 10 regulatory authorities from home and abroad, especially ECB, EU antitrust authorities, Commission de Surveillance du Secteur Financier (CSSF) and Swiss Financial Market Supervisory Authority (FINMA) and finally obtained all the required approvals; on the other hand, we were recognized and welcomed by the second largest shareholder – the Luxembourgish government, as well as the senior management and employees of BIL. This also reflects the international influence of the Legend Holdings brand and also manifests Legend Holdings' leading business strength and solid compliance.

After the acquisition, the total assets of Legend Holdings increased significantly by 67% to RMB558.267 billion from RMB335.074 billion at the end of 2017. Our asset structure has been optimized, where the financial services, IT, and other segments now account for 45%, 36%, and 19%, respectively, suggesting a more diversified and balanced asset allocation at home and abroad. In addition, BIL is expected to contribute stable profits to Legend Holdings on a long-term basis and help ease the volatility of our overall profits. Therefore, the financial stability and financing capabilities of Legend Holdings have been further enhanced.

In addition to the changes in financial conditions, we are also optimistic about the long-term development opportunities jointly created by BIL and Legend Holdings. As an international company, Legend Holdings should not only be firmly rooted in the Chinese market, but also grasp overseas resources and opportunities. Despite the dramatic changes in the global political and economic environment, we have always believed that good synergies create value. BIL has a leading edge and rich experience in serving SMEs, entrepreneurs, and wealth management customers, which is closely aligned with the development direction of Legend Holdings, particularly in the financial services segment. As a long-term shareholder of BIL, we will not only stay committed to helping BIL pursue its strategies and develop its brand in Luxembourg and other core markets, but also bridge the bank with Legend Holdings in the Chinese market and the Fintech area, so as to create value for its future innovation and international business, empower it with more intelligence, and expand its global presence.

Legend Holdings was successfully approved as the first company to carry out the H-share "full circulation" pilot project. Legend Holdings has always remained sharp to the direction of capital market reforms to seize the opportunities that could contribute to the realization of the value of the holding corporation or the portfolio companies. The Chinese regulators have noticed the urgent need of H-share listed companies for higher liquidity and therefore pioneered the "full circulation" pilot program. Having met the strict standards and requirements, Legend Holdings was finally approved as the first company to carry out the H-share "full circulation" pilot project. It is a great honor for us to receive the recognition for our business and brand from the regulators and become a forerunner of the reform. The conversion of the designated Domestic Shares into H Shares has been completed within the year, and the proportion of tradable H Shares of Legend Holdings has increased from 16.63% to 53.98%.

We believe that the conversion is of significance for all Shareholders, and it also consolidates the foundation for Legend Holdings' future development as a listed company. Now our floating market capitalization better matches the overall value, and the H-Shareholders are more diversified. A higher liquidity of the shares will foster a closer connection between the interests of the Company and all Shareholders, encourage the executives and employees to work with greater dedication, and boost the Company's value creation and sustainable growth. We also hope that the market will play a greater role in the Company's development, so that the value of Legend Holdings can be better understood and embodied.

We have reiterated that Legend Holdings' unique business model and primary strategic guideline – the two-wheel drive between strategic investments and financial investments to create unique value in tandem. Through effective asset allocation and portfolio management, we aim to strike a proper balance in five dimensions, namely, net asset value and growth, profit and growth, stable cash flows, asset-liability structure and return on investment. In 2019, our strategic investment will focus on three aspects, including: fundamentally strengthening the capability in post-investment management and services, effectively promoting capital operation, and giving full play to the advantages of two-wheel drive, for the purpose of creating new profit pillars.

In terms of raising the value of existing assets through post-investment management and services, we believe that human resources, mechanisms and platforms are indispensable. Legend Holdings originated from corporate operation and developed our expertise in financial investment and management. The senior management of the Company have shaped considerable insights about how to make investment and perform management. Based on these valuable experience, we will inject more energy to promote professional execution, middle-management training and new recruitments, so as to help the portfolio companies with refined corporate governance, management structure and incentive design. Besides, the Company will upgrade the knowledge management system and business management system at the headquarter level to continuously enhance the overall post-management and services.

The capital operation, spin-off and listing of the portfolio companies are gradually unfolding. Apart from the on-going IPO reviews of Lakala Payment on the ChiNext Board of Shenzhen Stock Exchange and Zhengqi Financial, our subsidiary Levima New Materials and our associated company EAL have completed the counseling and filing for A-share IPO. Also underway is the major asset restructuring and acquisition of overseas quality target of Joyvio Agriculture our subsidiary in the agriculture and food segment. With the increase of listed platforms affiliated to the Company in the future, we expect that the overall value of Legend Holdings will be more explicit and understood by the market. Meanwhile, the new resources and broader influence acquired from the capital market are expected to help consolidate the operational foundation of the portfolio companies and open up more room for their development, thereby enhancing the asset value and return of Legend Holdings.

Lenovo and BIL, as the two pillar assets, can provide strong support for Legend Holdings from the perspective of profit and build a solid asset, liability and cash flow framework. Next, we will seek to construct new core assets with growth potential in strategically focused segments, especially the non-financial ones, to reinforce our portfolio from value growth and return on investment. While building new pillars, we will tap the full advantages of two-wheel drive, integrate and mobilize the industry insights, project resources and investment models of Legend Holdings and the fund management platforms.

Although short-term fluctuations in domestic and foreign stock markets will affect the market capitalization of the stocks we hold, it will not jeopardize our persistent optimism about long-term returns on the investment. Our financial investments will continuously help the invested companies achieve operational improvement through value-added services, further strengthen the risk control and liquidity management, and capture the next round of investment opportunities through affiliated investment platforms and direct investments, by drawing on the experience accumulated in TMT, medical care, advanced manufacturing and enterprise services. Albeit the liquidity crunch in the primary market, we believe that the three top-tier fund management platforms, with sound track record, abundant project resources and in-depth research, will stand out in the future competition.

We Legenders always embrace and survive challenges. Such a trait has guided us through thick and thin to honor our promises. Though it is hard to change the external environment, we can still build up our strengths by better understanding the logic of long-term investment and making full use of the resources. Our success takes deep roots in the financial and operational stability, and a thriving business demands efficient allocation of resources. With constant reviews and dynamic adjustments, we shall march towards our vision and goals and never walk back.

Legend Holdings Corporation
ZHU Linan
Executive Director and President

Management Discussion and Analysis

Revenue contributions from the Group's businesses

Unit: RMB million

	2018	2017	Change in amount	Change %
Strategic investments	**358,301**	315,649	42,652	14%
IT	**330,780**	299,363	31,417	10%
Financial services	**6,962**	3,638	3,324	91%
Innovative consumption and services	**1,288**	1,842	(554)	(30%)
Agriculture and food	**12,940**	4,962	7,978	161%
Advanced manufacturing and professional services	**6,331**	5,844	487	8%
Financial investments	**651**	653	(2)	–
Elimination	**(32)**	(39)	7	N/A
Total	**358,920**	316,263	42,657	13%

Net profit contributions attributable to equity holders of the Company from the Group's businesses

Unit: RMB million

	2018	2017	Change in amount	Change %
Strategic investments	**5,223**	1,824	3,399	186%
IT	**1,085**	(246)	1,331	N/A
Financial services	**2,567**	1,646	921	56%
Innovative consumption and services	**1,099**	(188)	1287	N/A
Agriculture and food	**210**	232	(22)	(9%)
Advanced manufacturing and professional services	**262**	380	(118)	(31%)
Financial investments	**540**	4,308	(3,768)	(87%)
Unallocated	**(1,401)**	(1,094)	(307)	N/A
Elimination	**–**	10	(10)	(100%)
Total	**4,362**	5,048	(686)	(14%)

Asset allocation of businesses of the Group

Unit: RMB million

	2018	2017	Change in amount	Change %
Strategic investments	**484,418**	260,559	223,859	86%
IT	**202,593**	183,440	19,153	10%
Financial services	**250,982**	49,349	201,633	409%
Innovative consumption and services	**6,335**	7,222	(887)	(12%)
Agriculture and food	**13,221**	9,483	3,738	39%
Advanced manufacturing and professional services	**11,287**	11,065	222	2%
Financial investments	**60,833**	65,938	(5,105)	(8%)
Unallocated	**17,969**	15,265	2,704	18%
Elimination	**(4,953)**	(6,688)	1,735	N/A
Total	**558,267**	335,074	223,193	67%

Business Review

For the 12 months ended December 31, 2018, Legend Holdings realised a revenue of RMB358.92 billion, representing an increase of 13% as compared with the corresponding period of last year; the net profit attributable to equity holders of the Company amounted to RMB4,362 million, representing a decrease of 14% as compared with the corresponding period of last year. The strategic investment segment recorded positive revenue growth, of which the revenue from financial services and agriculture and food recorded a remarkable increase. The change in the net profit attributable to equity holders of the Company was due to the followings: 1) the decrease in net profit contribution from the financial investments segment, which was mainly caused by the significant decrease in the fair value of the financial assets invested; 2) increased profitability of Intelligent Devices Group of Lenovo and continued steady growth in Data Center business; 3) increased profit contribution from the acquisition of BIL during the period.

Strategic Investments

IT

We engage in IT business mainly through our subsidiary Lenovo. Lenovo is a Fortune Global 500 company which develops, manufactures and sells high-end technology products and provides related services to consumers and corporations. As of December 31, 2018, we held 29.10% equity interests in Lenovo.

In 2018, Lenovo delivered a strong performance through robust execution of its Intelligent Transformation strategy. The strong performance featured robust revenue and profitability across major business groups including record-breaking revenue and pre-tax profit in its PC and Smart Device (PCSD) business while a strong revenue growth momentum continued in its Data Center (DCG) business. In addition, in the fourth quarter of 2018, its Mobile Business Group (MBG) recorded a pre-tax profit for the first time since the Motorola acquisition.

During the Reporting Period, the revenue and net profit/(loss) of the IT segment are set out as follows:

Unit: RMB million

	2018	2017
Revenue	**330,780**	299,363
Net profit/(loss)	**3,787**	(670)
Net profit/(loss) attributable to equity holders of Legend Holdings	**1,085**	(246)

During the Reporting Period, through the effective execution of the Intelligent Transformation strategy, the revenue of IT segment increased by 10% to RMB330,780 million, and a remarkable reversal was achieved from a loss of RMB670 million in 2017 to a net profit of RMB3,787 million in 2018, mainly due to the strength of IT segment's PCSD business and the MBG business reaching profitability. In addition, the on-going positive momentum from the DCG business remained a strong contributor to the IT segment's overall growth.

Intelligent Devices Group (IDG) – PC and Smart Device Business

In 2018, despite the industry-wide supply shortage of processors and the decline of the global PC market shipments, Lenovo continued its strategy of prioritizing profitability and driving premium-to-market revenue growth in its PC business. As a result, it is important to note Lenovo's successful gain of market share in premium and high-growth and commercial segments. Lenovo achieved record high market share of 24.6% in global PC market and was the fastest growing PC vendor among top-5, according to the preliminary industry data. When viewed by product segment, Lenovo continued to gain share in the following market segments: Workstation, Thin & Light, Visuals, and Gaming PC.

As part of its Intelligent Transformation strategy, Lenovo showcased several new smart devices including Smart Tab, AI-enabled Yoga S940 with Smart assistant, and consumer-oriented Smart Home products like Smart Alarm Clock at the Consumer Electronics Show, winning 75 awards in total.

Intelligent Devices Group (IDG) – Mobile Business

In the fourth quarter of 2018, the Mobile business achieved a pre-tax profit for the first time since Lenovo's Motorola acquisition, a result stemming from strong execution of the strategy focused on reducing expenses, simplifying the portfolio, and core markets in Latin and North America. Though the strategy of focusing on core geographies led to a decline of the proportion of Mobile business's revenue in Lenovo's total revenue, the actions in simplifying portfolio and reducing expenses resulted in an improved expense to revenue ratio without compromising its efficiency and competitiveness in its marketing and research and development spending. When viewed by geographies, the business in Latin America remained profitable while achieving a more balanced country portfolio with substantial share gains in Argentina and Mexico. Shipments in North America also saw significant growth, driven by increasing consumer demand for the mainstream models and expanded relationships with carriers. In China, Lenovo continued to build its brand equity.

In the future, IDG will strengthen the ecosystem around its devices generating a healthy business model of hardware, software and services revenues. Lenovo targets core PC business revenue growth at a premium to the market while maintaining stable profitability. It will leverage industry consolidation opportunities, and focus on premium and high-growth segments such as gaming PCs, Thin & Light, Visuals, and workstations. For its Mobile business, the transition to a healthy business model is on-track and Lenovo will continue to strengthen its competitiveness in core markets to resume growth.

Data Center Group (DCG)

During the Reporting Period, the Data Center Group delivered solid growth and profitability improvement, after the business further strengthened its long-term capabilities in business model, product leadership, and sales and marketing. Among all product segments under DCG, the Hyperconverged and Software Defined Infrastructure segments continued to deliver stellar growth. In the High Performance Computing (HPC) segment, the business remained the worldwide number one player in the HPC TOP500 List.

The Hyperscale business delivered fast growth in 2018 thanks to its investments in improving its in-house design, manufacturing capabilities and customer mix. Lenovo has started to leverage its global strategic partnership with NetApp, including a new joint venture in China launched in February 2019, enabling Lenovo to address nearly the entire storage and data management market in China in the future. Lenovo now has the most compelling ThinkSystem and ThinkAgile product, the largest storage portfolio in its history and delivers the industry's leading product reliability.

Lenovo will continue its transformation into a world-class, next-generation IT solutions provider with premium to market growth and technology leadership in the Software Defined segment. In Hyperscale, Lenovo will leverage its in-house design and manufacturing capabilities, bring compelling offerings to global hyperscalers. In storage and networking, its strategic partnerships, including with NetApp, are building a global franchise.

Lenovo Capital and Incubator Group (LCIG) and Others

The mission of Lenovo Capital and Incubator Group (LCIG) is to invest and build Lenovo's next-generation IT capabilities in AI, Internet of Things, Big Data and VR/AR. LCIG's support for building stronger vertical solutions and services businesses is a key element of Lenovo's Intelligent Transformation Strategy. Lenovo achieved quick revenue growth in Software & Services, Big Data, Vertical Solutions and E-commerce business. In China, the Smart IoT User Devices and Services (UDS) platform, connecting users, devices and cloud services, also witnessed rapid increase of its monthly average users (MAU).

Lenovo is well prepared for geographic political and macroeconomic volatility leveraging its strength as a global company with worldwide manufacturing capabilities, leading supply chain flexibility and extensive experience in managing the impact of past policy changes. Lenovo aims to be the leader in and enabler of the intelligent transformation. It is confident that it can continue to execute its Intelligent Transformation strategy to build leading positions in every business it enters. This industry leadership should drive long-term, sustainable, and profitable growth that, in turn, creates better value for the Shareholders.

Financial Services

Overview

Our subsidiaries and associates in the financial services business mainly include:

- BIL, our subsidiary, mainly provides a comprehensive range of banking services, including retail banking, corporate banking, private banking, capital markets and other businesses;
- Zhengqi Financial, our subsidiary, mainly provides SMEs with comprehensive financial solutions such as direct loans, financial leasing, commercial factoring and equity investments;
- JC Finance & Leasing, our subsidiary, mainly provides financial leasing services;
- Kaola Technology, our subsidiary, mainly provides innovative financial services;
- Lakala Payment, our associate, mainly provides third-party payment and value-added services;
- Hankou Bank, our associate, mainly engages in commercial banking services; and
- Union Insurance, our associate, mainly provides insurance brokerage and related services.

Legend Holdings has established a broad presence in the financial services business, covering both domestic and overseas markets. Our subsidiaries and associates have obtained various financial licenses and permits. Legend Holdings will continue to facilitate the long-term development of our portfolio companies in the financial industry with all-round supports. Based on a large pool of our portfolio companies and customer resources, we will promote synergic development of our financial businesses, including business alignment and consolidation, cooperation on the industrial chain, intelligence sharing, big data analysis, etc., for the enhancement of overall competitiveness.

During the Reporting Period, the global economy experienced a slackened growth while more stringent regulatory policies were imposed on China's financial industry, and the domestic and overseas economies were exposed to various uncertainties. In the face of the complex and ever-changing external environment, we closely responded to the trends in the economy and regulatory systems, and continued to monitor the portfolio companies' risk of development strategies, credit risk, operation risk, market risk, investment risk, etc., so as to help them perfect the risk management system and enhance the overall risk management capacity.

In the future, based on our industrial resources and technology advantages, we will on one hand keep optimizing our investment portfolio and strengthen the current edge in credit-related business, and on the other hand closely follow and invest in other financial services business both at home and abroad, mainly focusing on insurance, securities and Fintech.

During the Reporting Period, the revenue and net profit of the financial services segment are set out as follows:

Unit: RMB million

	2018	2017
Revenue	**6,962**	3,638
Net profit	**2,896**	1,904
Net profit attributable to equity holders of Legend Holdings	**2,567**	1,646

During the Reporting Period, the revenue of Legend Holdings' financial services segment was RMB6,962 million, representing an increase of 91% as compared with RMB3,638 million in the corresponding period of last year, which was, on one hand, due to the increase in revenue resulting from the consolidation of the financial statements of BIL by Legend Holdings since July 2, 2018, and, on the other hand, the steady growth recorded for the income from financial leasing and other businesses. The net profit of financial services segment increased from RMB1,904 million in the corresponding period of last year to RMB2,896 million, representing an increase of RMB992 million, which was mainly due to the net profit contribution increase from the financial leasing business and the payment business, the incremental profit contribution from the newly consolidated financial statements of BIL, and the change in the fair value of PIC.

Operating Highlights

- During the Reporting Period, the Company completed the acquisition of 89.936% of the shares of BIL on July 2, 2018. The acquisition enabled the Company to fulfill its strategical goal of building pillar assets and is expected to bring sound returns to the Shareholders. As of the end of 2018, the assets under management of BIL reached EUR39.5 billion, customer deposits and loans reached EUR17.3 billion and EUR13.4 billion, respectively, maintaining steady growth in performance.

- Zhengqi Financial, a subsidiary of the Company, formally submitted its listing application form (Form A1) to the Hong Kong Stock Exchange through its joint sponsors on November 30, 2018 to apply for listing and trading on the Main Board of the Hong Kong Stock Exchange.

- JC Finance & Leasing, a subsidiary of the Company, maintained a sound and rapid development. As of December 31, 2018, the total assets of JC Finance & Leasing amounted to RMB12,550 million. In 2018, JC Finance & Leasing achieved operating income of RMB903 million and net profit of RMB230 million, representing an increase of 26% and 28%, respectively, as compared with the corresponding period of last year. Meanwhile, it accelerated the expansion of retail financial leasing businesses to cover, among others, heavy trucks and SMEs.

- The transaction amount of Lakala Payment, our associate, exceeded RMB3,800 billion, representing a year-on-year increase of approximately 70%. The transaction amount and the number of transactions processed through the platform were among the highest in the domestic third-party payment industry.

BIL

We signed an agreement with Precision Capital S.A., a Luxembourg-based financial holding company, on September 1, 2017 to acquire its 89.936% stake in BIL, while the Luxembourgish government retained its 9.993% ownership. Following the approval of the transaction among others by European and Luxembourgish regulators, the transaction was closed on July 2, 2018.

Founded in 1856, BIL is one of the oldest financial institutions in Luxembourg. It has always played an active role in the main stages of Luxembourg's economic development. It is the third-biggest bank in Luxembourg in terms of market share and is recognized as systemically important by the European Central Bank, with a balance sheet size of EUR25.5 billion as of the end of 2018. Employing more than 2,000 people, BIL is present in the financial centers of Luxembourg, Switzerland (since 1984), Denmark (since 2000), Sweden (since 2016) and the Middle East (since 2005).

BIL currently operates in retail, corporate and private banking, as well as in capital markets, of which:

- Retail and affluent clients have access to a network of 41 branches to meet all their banking, financing, saving and investment needs. BIL has made its mark as an innovator when it comes to the early introduction of new technologies such as mobile banking, cardless cash withdrawals, contactless payments and fingerprint recognition;

- BIL is a strong partner of companies of all sizes, financial institutions and the public sector and provides a comprehensive range of banking services and advice, primarily for Luxembourg-based businesses;

- BIL helps private banking clients to manage and structure their wealth and financial sector professionals to develop their activities. For private (ultra) high net worth clients, BIL offers integrated financial and non-financial solutions such as asset structuring, life insurances, credit solutions, wealth and estate planning as well as capital protection.

The "Retail, Corporate and Wealth Management" business areas of BIL delivered a good performance in 2018 despite negative market conditions on the assets under management side:

- Assets under management increased by 0.2% reaching EUR 39.5 billion compared with EUR 39.4 billion at the end of 2017. This increase resulted from new net inflows of EUR 0.95 billion mainly due to Retail & Corporate activities and from a negative market effect of EUR 0.87 billion;

- Customer deposits increased by 6%, reaching EUR 17.3 billion compared with EUR 16.3 billion at year-end 2017;

- Customer loans increased by 0.3% to EUR 13.4 billion, of which commercial activities' loans increased by EUR 0.68 billion (up 5% compared with year-end 2017 excluding impairment);

- The revenue and net profit of 2018 reached EUR 573 million and EUR 131 million, respectively;

- Common Equity Tier 1 ratio stood at 12.04% as of the end of 2018, demonstrating business stability;

- In May 2018, Moody's confirmed BIL's ratings with a revised outlook from positive to stable (A2/Stable). Both Standard & Poor's and Fitch confirmed ratings in 2018 which remain unchanged compared with year-end 2017 (A-/Stable and BBB+/Positive, respectively).

During the Reporting Period, the revenue and net profit of BIL are set out as follows:

Unit: RMB million

	For the six months ended from July to December 2018
Revenue	**2,165**
Net profit	**510**

BIL's asset scale, revenue and profit growth potential and business stability well meet our criteria for constructing pillar assets in strategic investments. Its long history and prominent presence in Luxembourg has not only provided itself with a stable and business-friendly environment, but also created opportunities to expand services and capture growth, given Luxembourg is one of the leading financial centers in the world. Legend Holdings are also committed to maintaining and investing further in the development of the BIL brand in Luxembourg, Europe and internationally. In the future, we will also focus on the BIL's synergies with Legend Holdings and China in terms of businesses in the Chinese market and Fintech.

Zhengqi Financial

Zhengqi Financial was established in 2012. As of December 31, 2018, we held 82.5% equity interests in Zhengqi Financial. Zhengqi Financial is a leading innovative provider of integrated financial services in China which helps SMEs to enhance their value. It operates with the core strategic theme of "investment bank thinking and integrated solutions", providing a basket of services for SMEs throughout their life cycle. Under the guidance of "investment bank thinking", Zhengqi Financial has developed in-depth understanding of and closely monitored the development strategy and business model of its customers, and analysed their extensive needs in financing, operation and strategic expansion, thus actively serving SMEs. At the same time, relying on a comprehensive product portfolio including loans, financial leasing, credit enhancement, equity and mezzanine investment, asset management, factoring, supply chain management, as well as start-ups counseling and business incubator services, Zhengqi Financial provides customers with tailor-made "integrated solutions".

During the Reporting Period, faced with the complex and changeable environment, Zhengqi Financial strengthened its active risk management and maintained stable development of loan business. As of December 31, 2018, the balance of loan business was RMB5,650 million, representing a year-on-year decrease of RMB224 million, or 4%, as compared with the balance of RMB5,874 million at the end of last year. During the Reporting Period, Wuhan Guozheng Microcredit Co., Ltd. was newly established. Positioned as a technology-oriented microcredit company, it will continue to expand the regional layout of loan business and provide financing services for technology-based growth companies.

Ever since the commencement of its financial leasing business in the second half of 2013, Zhengqi Financial has endeavored to develop and improve its service capabilities in financial leasing, energetically enhanced cooperation with manufacturers and focused on the industries, and thoroughly implemented the strategic thinking of investment-loan linkage of the company. As a result, its financial leasing business achieved steady growth. As of December 31, 2018, the closing balance of lease receivables of the financial leasing business amounted to RMB5,012 million, which was basically the same as RMB4,986 million for the same period of last year.

During the Reporting Period, Zhengqi Financial vigorously expanded its non-financing guarantee business. As of December 31, 2018, the outstanding guarantee balance of Zhengqi Financial amounted to RMB4,262 million, representing an increase of RMB497 million or 13% as compared with RMB3,765 million over the corresponding period of last year.

In September 2015, Zhengqi Financial established Zhengqi International Commercial Factoring Company Limited (正奇國際商業保理有限公司) which provides accounts receivable factoring services to core enterprises and the upstream and downstream companies along the supply chain. The business has a broad market space and potential for rapid growth. During the Reporting Period, the company continuously enhanced the team building and proactively developed the underlying assets involved in the factoring business under the guidance of the risk control awareness formed in the credit business over the years, aiming to turn the factoring business into an important contributor to the business growth of the company. As of December 31, 2018, the outstanding commercial factoring balance amounted to RMB1,697 million, representing an increase of RMB160 million or 10% as compared with the balance of RMB1,537 million over the corresponding period of last year.

In March 2013, Zhengqi Financial established Anhui Zhidao Investment Co., Ltd. (安徽志道投資有限公司) to carry out direct equity investment, mezzanine investment or investment fund business and to provide financial support to SMEs through equity investment and investment-loan linkage, sharing the future value increment of SMEs. During the Reporting Period, the company continued to thoroughly implement its strategy of "investment bank thinking and investment-loan linkage", strengthened the "Tripartite Joint Action" with other portfolio companies of Legend Holdings, and gradually divested from the private placement business which is vulnerable to market volatilities. The company successfully withdrew from some of the invested projects in 2018 and realized a gain of RMB102 million, marking a new profit growth point of the company.

During the Reporting Period, Zhengqi Financial innovated financing methods and opened up new financing channels. In February, Pre-ABS of Zhengqi Leasing was issued successfully with an issuance scale of RMB600 million. In June, "Tian Feng-the first tranche of asset-backed securities special project of Zhengqi Leasing (天風－正奇租賃一期資產支持專項計劃)" was set up with an issuance scale of RMB547 million. In September, the "Anhui First Lease ABN" of Zhengqi Leasing was successfully declared with a scale of storage rack amounting to RMB1,000 million. In December, the fourth tranche of corporate bonds of Zhengqi Financial was approved by CSRC and the issuance scale was RMB1,100 million. Currently, Zhengqi Financial has various financing channels including bank loan, trust loan, insurance funds, asset securitization and corporate bonds, and is actively exploring other financing methods such as medium-term notes, short-term financing bills, debt financing plans, and overseas financing. Zhengqi Financial has established its comparative advantages among its peers in financing with generally smooth financing channels and relatively controllable funding cost.

In 2018, against the challenging macro environment, Zhengqi Financial reinforced the risk control institutions, optimised the authorization and approval procedures for risk control of the headquarter and branches, strengthened the headquarter's authority of review and approval, and adopted and strengthened various measures to keep business risks under control. Meanwhile, the company intensified its analysis and judgment on the macro environment and economy, and organized several meetings on the strategies for the next three years to figure out coping tactics, formulate plans in advance and actively adjust its business mix.

Legend Holdings supports the equity financing and listing conducted by those subsidiaries that operate in independent business domains under a complete industrial chain with sound operations and possess the capability of carrying out mergers and acquisitions according to their own development needs when opportunity arises. As a well-functioning company with huge growth potential, Zhengqi Financial fully meets our listing expectations. On November 30, 2018, Zhengqi Financial submitted its listing application form (Form A1) to the Hong Kong Stock Exchange through its joint sponsors to apply for listing and trading on the Main Board of the Hong Kong Stock Exchange.

During the Reporting Period, the revenue and net profit of Zhengqi Financial are set out as follows:

Unit: RMB million

	2018	2017
Revenue	**1,831**	1,180
Net profit	**720**	839

During the Reporting Period, the revenue increased by 55% year on year from RMB1,180 million in the corresponding period of last year to RMB1,831 million, mainly because the revenue of 2017 was reported net of interest expense, while the interest expense of 2018 was shifted to cost of sales. But for this adjustment, the revenue would increase by 20% year on year. Net profit decreased by 14% year on year from RMB839 million in the corresponding period of last year to RMB720 million, which was mainly due to more credit assets' impairment accrued subject to the economic environment change on a cautious basis.

JC Finance & Leasing

JC Finance & Leasing was established in November 2015 and specializes in financial leasing and relevant financial businesses under Legend Holdings. Backed by the brand and the management expertise of Legend Holdings, JC Finance & Leasing has initiated cooperation with both domestic and international well-known equipment manufacturers, focused on industries and industrial chain, and conducted financial leasing business relating to sectors that reflect new economic trends in China, such as medical services, advanced manufacturing, energy conservation and environmental protection, agri-food, electronic information, public services and transportation, aiming to develop itself into a leading enterprise in the financial leasing industry. As of December 31, 2018, the Company held 99.01% equity interest in JC Finance & Leasing, down by 0.99 percentage point than that of June 30, 2018, which was due to the investment by the employee stock platform.

During the Reporting Period, JC Finance & Leasing continued to achieve rapid business growth. As of December 31, 2018, the total assets of JC Finance & Leasing and the closing balance of receivables of its financial leasing business amounted to RMB12,550 million and RMB11,640 million, respectively, representing a year-on-year increase of17% and 17%, respectively. The revenue and net profit of JC Finance & Leasing in 2018 amounted to RMB903 million and RMB230 million, representing an increase of 26% and 28%, respectively, as compared with the corresponding period of last year.

JC Finance & Leasing continued to reinforce its business presence and market expansion. During the Reporting Period, while maintaining significant growth in respect of the existing business segments, the transportation and logistics department completed the business layout in several provinces, set up tens of new branch offices, and achieved a strong business growth. The SME leasing business gained a successful start. The retail financial leasing business represented by heavy truck and SME leasing will become important growth drivers for the company in the future.

JC Finance & Leasing has pursued external financing actively and achieved new breakthroughs in diversified financing channels such as bank loans, asset-backed schemes and bonds. Despite the generally tightening funding in the market, JC Finance & Leasing gained credit lines from a number of banks, and successfully issued two tranches of ABS totaling RMB1,752 million and one tranche of asset-backed notes (ABN) amounting to RMB1,512 million, enhancing its recognition in capital markets. In 2019, JC Finance & Leasing will continue to increase its effort in financing in capital markets and explore diversified financing channels.

During the Reporting Period, the revenue and net profit of JC Finance & Leasing are set out as follows:

Unit: RMB million

	2018	2017
Revenue	**903**	719
Net profit	**230**	180

Kaola Technology

During the Reporting Period, Kaola Technology further consolidated its leading position in the financial technology sector and continued to provide services for personal consumption, SMEs and community finance in compliance with its licenses. Thanks to the advantages in the Internet technology and big data mining, Kaola Technology has had over tens of millions of loan applicants. Besides, it has accumulated advantages in risk management model and data-based crediting model, extended the credit business empowered by technologies from a few successful cases to a broader range, and accelerated the export of full-life cycle credit technology products and services, including standard products such as Tianqiong Anti-fraud, Hawkeye Risk Management, and diversified tailor-made product and service portfolios, to small and medium-sized banks, consumer finance companies and other licensed financial institutions. As of December 31, 2018, the Company held 51% equity interests in Kaola Technology.

In adherence to the principles of small amount and dispersion, Kaola Technology maintained approximately RMB6.0 billion of credit balance at the end of 2018 despite the tightening financial regulations. Kaola Technology has ensured sustained fund supply and cost control by constantly strengthening the cooperation in funds and businesses with accredited financial institutions. Meanwhile, it has accumulated and improved the risk management technology to keep the overdue loans under control, thus maintaining a sound profit margin.

With the development of new technology-driven credit business, Kaola Technology will continue to create profits leveraging on its own advantages. It will also continue to deliver to financial institutions the risk control technology as a contribution to the industry.

During the Reporting Period, the revenue and net profit of Kaola Technology are set out as follows:

Unit: RMB million

	2018	2017
Revenue	**1,950**	1,728
Net profit	**453**	457

During the Reporting Period, the revenue increased by 13% year on year from RMB1,728 million for the corresponding period of last year to RMB1,950 million, mainly because the revenue of 2017 was reported net of interest expense, while the interest expense of 2018 was shifted to cost of sales. But for this adjustment, there would be a stable growth of revenue.

Associates in Financial Services Segment

During the Reporting Period, total profits contributed by associates to the financial services segment were RMB983 million (RMB448 million for the corresponding period of last year). The increase in profit was mainly attributable to the value-added income from investment projects such as PIC.

Lakala Payment

Lakala Payment is a well-known third-party payment company in China, focusing on providing enterprise users with settlement services and individual users with payment services. With a consistent idea of inclusiveness, technological progress, innovation and integration, Lakala Payment has developed a domestic first-class payment ecosystem. Meanwhile, it actively responded to the national policies and joined NetsUnion Clearing Corporation (網聯清算股份有限公司) under the PBOC. As of December 31, 2018, we held 31.38% equity interests in Lakala Payment. On March 3, 2017, Lakala Payment submitted to CSRC the application for IPO on the ChiNext Board of the Shenzhen Stock Exchange.

During the Reporting Period, the transaction amount of Lakala Payment exceeded RMB3,800 billion, representing a year-on-year increase of approximately 70%. The transaction amount and the number of transactions processed through the platform were among the highest in the domestic third-party payment industry with business coverage nationwide. By the end of 2018, Lakala Payment has served more than 19 million merchants.

Hankou Bank

Hankou Bank conducts commercial banking businesses including corporate banking, retail banking and financial market. It generates revenue primarily from net interest income and fee and commission income. As of December 31, 2018, Hankou Bank had 173 affiliated agencies in China, including the sales department of its head office, 14 branches, 17 first-tier sub-branches, 2 special service institutions and 139 second-tier sub-branches (including 27 community banks). The network of Hankou Bank basically covers the whole Hubei Province and also extends to Chongqing.

In 2018, the businesses operated by Hankou Bank grew steadily, with all key indicators fulfilling the operation goals. The total assets registered a year-on-year growth of 14%, while the equity and the net profit attributable to the equity holders of the Company achieved a year-on-year growth of 12% and 13%, respectively. Meanwhile, Hankou Bank cooperated with a number of investment institutions to form an "investment and loan alliance" to further promote the pilot projects of investment-loan linkage. Hankou Bank was among the first batch of banks to join the public service platform in Hubei Province under the "Belt and Road" Initiative. The "Financial Cloud Service Platform" created by Hankou Bank was granted a national patent and won various honors such as Outstanding Bank Traders, Top Ten City Commercial Bank Retail Banking Awards, and the Most Innovative Small and Medium-sized Banks of the Year.

Hankou Bank will continue to enhance the corporate banking and to innovate the financial market business, expand the small and micro retail business, in an effort to develop a "three-pronged" business landscape and to become one of the most innovative and reliable cooperative banks among regional banks.

Union Insurance

Union Insurance is a leading professional insurance intermediary service group in China. As of December 31, 2018, we held 48.0% equity interests in Union Insurance. The major clients of Union Insurance come from the education sector. Union Insurance provides risk advisory services to schools, local and provincial educational institutions and insurance products and services to students. Through two insurance brokers (legal person) and an insurance actuarial advisory service institution and over 170 branches, Union Insurance has formed a nationwide service network at provincial, city, county, town and school levels. It provides risk management and insurance brokerage services to teachers and students from schools of all levels and kinds across China every year. During the Reporting Period, the risk management and insurance brokerage business of Union Insurance maintained a leading position in China's education-related insurance brokerage business.

Innovative Consumption and Services

Overview

Our subsidiaries and associates in the innovative consumption and services business mainly include:

- Shanghai Neuromedical Center (德濟醫院), our subsidiary, mainly provides neurology specialist and other comprehensive medical healthcare services;

- Better Education, our subsidiary, mainly provides pre-school education services;

- CAR, our associate, mainly provides comprehensive car rental services including car rentals, fleet rentals and financial leasing, as well as sales of used cars; and

- Bybo Dental, our associate, mainly provides dental healthcare services through chain operations.

In respect of the innovative consumption and services segment, we continued to push forward the development and value creation of existing businesses while seeking new investment opportunities. On one hand, we placed more focus on niche segments; on the other hand, we strengthened the two-wheel drive with Legend Star, Legend Capital and Hony Capital under our financial investment segment. During the Reporting Period, we continued to explore opportunities in the medical services segment and signed a subscription agreement with Hospital Corporation for HKD800 million convertible bonds issued by it in December 2018.

Operating Highlights

- By continuously optimizing the asset portfolio and strengthening the post-investment management, the innovative consumption and services segment recorded profits for the first time.

- The subsidiaries of the innovative consumption and services segment achieved sound development: as of the end of 2018, Shanghai Neuromedical Center gained revenue of RMB273 million, representing an increase of 24% as compared with the corresponding period of last year; Better Education realized revenue of RMB497 million, representing an increase of 30% as compared with last year.

- Bybo Dental strategically introduced Taikang Life Insurance as the controlling shareholder, while Legend Holdings made further capital contribution to support its development. As of the end of 2018, the revenue of Bybo Dental reached RMB1,810 million, representing a year-on-year increase of 26%. Besides, with reinforced standardization and operation management, losses were further reduced, and the adjustment of capital structure led to the effective control over financial expenses. Therefore, the overall operating condition was improved.

During the Reporting Period, the revenue and net profit/(loss) of innovative consumption and services segment are set out as follows:

Unit: RMB million

	2018	2017
Revenue	**1,288**	1,842
Net profit/(loss)	**1,005**	(546)
Net profit/(loss) attributable to equity holders of Legend Holdings	**1,099**	(188)

During the Reporting Period, the revenue of innovative consumption and services segment decreased by 30% to RMB1,288 million as compared with the corresponding period of last year, mainly due to the cessation of consolidating the revenue of Bybo Dental since April 2018. Net profit for the period increased significantly, mainly due to the investment income from the strategic introduction of Taikang Life Insurance as the controlling shareholder of Bybo Dental.

Shanghai Neuromedical Center

Shanghai Neuromedical Center, our subsidiary medical institution, provides clinical neurology specialist medical service. In August 2016, we made investment in Shanghai Neuromedical Center. As of December 31, 2018, we held 58% of its equity interests and 15% of equity interests through Legend Capital, our venture capital vehicle.

Founded in 2013, Shanghai Neuromedical Center is a specialist hospital built according to the scale of tertiary specialized hospital standards and excels in clinical neuroscience and other general medical services. Its key strategic development areas include neurosurgery, functional neurosurgery, neurology, epilepsy treatment center, cerebrovascular disease treatment center, cardiovascular disease treatment center, emergency intensive healthcare center, nerve electrophysiology center and neuro-rehabilitation center supported by the development of general subjects such as surgery and internal medicine.

In 2018, Shanghai Neuromedical Center focused on the upgrading of business mix, refining professional departments, clarifying the direction for technology development, and investing more resources in the introduction and training of talents. During the Reporting Period, the number of outpatients and inpatients continued to grow at a high rate, increasing by 8% and 21%, respectively, and the revenue stood at RMB273 million, representing a year-on-year increase of 24%.

The following table sets forth the number of available beds and key business statistics of Shanghai Neuromedical Center, respectively:

	As of December 31, 2018	As of December 31, 2017
Number of available beds	**324**	300
Outpatient visits *(ten thousand persons)*	**17.1**	15.9
Discharged patients *(ten thousand persons)*	**6,634**	6,593

During the Reporting Period, the revenue and net loss of Shanghai Neuromedical Center are set out as follows:

Unit: RMB million

	2018	2017
Revenue	**273**	221
Net (loss)	**(9)**	(9)

During the Reporting Period, the revenue of Shanghai Neuromedical Center increased to RMB273 million, which was mainly due to the significant increase in the number of outpatient visits and discharged patients. Shanghai Neuromedical Center had a net loss of RMB9 million, which was mainly affected by the policy on "cancellation of drug price addition". However, with the strengthened discipline construction of the hospital and enhancement of brand awareness, Shanghai Neuromedical Center is expected to make profits.

Better Education

Better Education, our subsidiary, is a leading kindergarten group with direct operation networks of middle and high-end kindergartens in China and is mainly engaged in the pre-school education for kids. We made a strategic investment of approximately USD127.5 million in Better Education in July 2017. As of December 31, 2018, we held 51% equity interests in Better Education, and Hony Capital held 29% of its equity interests.

After over a decade's operation, Better Education has established a standardized operation model and developed an operation team with rich experience in management. At present, its kindergarten networks cover 39 cities in 16 provinces in China. As of December 31, 2018, Better Education directly ran 108 kindergartens, 11 early education and training schools, and 16 new kindergartens in preparation in Shanghai, Suzhou, Nanjing, Chongqing, Changsha, Guangzhou and other cities with over 31,000 enrolled students and about 5,100 staff members. It is a leading kindergarten group with direct operation networks of middle and high-end kindergartens and ranks among the top tier in respect of business scale in China.

The following table sets forth the main business information of Better Education:

	As of December 31, 2018	As of December 31, 2017
Number of kindergartens, early learning centers and training schools	**119**	91
Number of enrolled students	**About 31,000**	About 26,000
Number of in-service teaching staff	**About 5,100**	About 4,000

During the Reporting Period, the revenue and net profit of Better Education are set out as follows:

Unit: RMB million

	2018	For the 5 months from August to December 2017
Revenue	**497**	187
Net profit	**51**	25

Since the second half of 2018, the Central Committee of the Communist Party of China, the State Council, and the Ministry of Education have promulgated a number of policies and regulations concerning pre-school education, which have imposed various restrictions on the future development model and capitalization path of Better Education. Meanwhile, based on the current structure of kindergartens and schools and the development of new businesses of the company, we believe that the business fundamentals of Better Education remain positive, as a certain proportion of kindergartens in the performance improvement stage or preparation period, and the increasing tuition level will also continuously contribute to future performance.

Better Education will also actively respond to the national policy call for the reform and development of pre-school education, and actively cooperate with the government and the competent education authorities at all levels to explore kindergarten operation under a multi-level model. Better Education strives to provide children with abundant and quality pre-school education and contribute to the healthy development of pre-school education and private education.

Associates of Innovative Consumption and Service Segment

CAR

CAR, our associate, provides comprehensive car rental services including car rental, fleet rental and financial leasing, and sales of used cars services. Through its strategic partner, UCAR Inc., it provides an on-demand chauffeured car services based on mobile Internet Technology and the strong brand of "UCAR". As of December 31, 2018, we held 26.60% equity interests in CAR.

In 2018, CAR has adopted defensive competitive measures to overcome the challenges from ride-hailing vehicles and car sharing companies. The company reduced and stabilized the ride-hailing fleet size of UCAR, launched the car sharing business, and refocused on the growth of car rental business to improve profitability. During the Reporting Period, the percentage of reservations through the mobile application of CAR to the total reservation amount increased to 87%. As of December 31, 2018, the total number of customers increased by 28% year on year, and 30% of car-sharing customers have become car rental customers.

As of December 31, 2018, the total size of operating fleet of CAR reached 125,311 cars, increasing by 35% as compared with the corresponding period of last year; the total size of fleet reached 135,191 cars, increasing by 32% as compared with the corresponding period of last year.

During the Reporting Period, the overall rental revenue of CAR grew by 6% year on year to RMB5,340 million. Specifically, car rental days grew by 24% year on year and revenue increased by 18% year on year to RMB4,485 million; fleet rental revenue and other revenue decreased by 32% year-on-year to RMB855 million. In order to increase the vehicle supply for car sharing services, the company postponed car decommissioning and sold 12,596 used cars, down by 66% as compared with the corresponding period of last year.

During the Reporting Period, the revenue and net profit of CAR are set out as follows:

Unit: RMB million

	2018	2017
Revenue	**6,444**	7,717
Net profit	**290**	881

During the Reporting Period, the revenue of CAR amounted to RMB6,444 million, down by 16% year on year, which was mainly due to the decrease of total revenue caused by the reduction in the number of used cars decommissioned and sold. However, the total rental income amounted to RMB5,340 million, up by 6% as compared with the corresponding period of last year. The net profit amounted to RMB290 million, down by 67% year on year, which was mainly due to the relatively significant fluctuation in the RMB exchange rate during the period that ended up with a large one-off fair value loss of the issued US dollar bonds. During the Reporting Period, the adjusted net profit amounted to RMB681 million, representing an increase of 11% as compared with the adjusted net profit of RMB613 million of last year, and the adjusted net profit margin increased to 13%.

Looking forward to 2019, CAR will focus on providing customers with smarter and more convenient services. With more self-service devices and the unmanned operation mode to cover more than 90% of all car rental fleets, CAR will enable a more dispersed distribution of service outlets and easier access to customers. In respect of used car sales, CAR is actively expanding sales channels to alleviate market uncertainties and seeking attractive and economical OEM repurchase proposals with a view to achieving a recovery growth in disposal volume.

Bybo Dental

Bybo Dental, our associate, provides dental healthcare services. We made a strategic investment in Bybo Dental in July 2014 and became its controlling shareholder. In January 2018, in order to support the development and optimize the capital structure of Bybo Dental, Taikang Life Insurance was strategically introduced as the controlling shareholder, and Legend Holdings made further capital contributions to support the future development of Bybo Dental. Upon the investment from Taikang Life Insurance, Bybo Dental changed its brand name to "Taikang Bybo Dental" in December 2018. As of December 31, 2018, we held 36.469% equity interests in Bybo Dental.

During the Reporting Period, Bybo Dental continued to strengthen medical quality and medical services to provide customers with quality dental treatment experience. Bybo Dental refined its medical system and management, improved the medical quality system, and strictly implemented the three-level quality control system, standardized process, and the relevant monitoring mechanism. Bybo Dental continued to hire additional competent medical personnel, improve overall healthcare level, and establish long-term core competitive advantages. Bybo Dental deeply cultivated medical technologies to create a top-notch technical high ground in professional disciplines. Bybo Dental established medical centers in various regions in China for dental implantation, orthodontics, pedodontics, periodontal disease, healthy oral cavity, aesthetic restoration and other fields. While providing treatment for difficult and complicated cases, Bybo Dental will also promote in earnest the training for and capacity improvement of the echelon of doctors for each discipline. Bybo Dental enriched the coverage of its medical services, strengthened the painless, comfortable and humanistic services, and provided each client with dental services with professionalism, safety, humanity care and supreme experience.

The collaboration with insurance resources has also unfolded and taken gradual effects. While carrying out customer interactions nationwide, Bybo Dental and Taikang Life Insurance have expanded their customer base by providing dental value-added services for insurance projects and developing several dental insurances in cooperation with Taikang Life Insurance, leading to more precise marketing channels and improved brand awareness. At the same time, Bybo Dental further strengthened the standardization of its group, actively explored the reform of management system and operational mechanism, and reinforced management capacity in a multi-pronged manner to promote the dental business.

As of December 31, 2018, Bybo Dental had 213 outlets, including 52 hospitals and 161 clinics, covering 25 municipalities directly affiliated to the State Council and provinces. The number of dental chairs stood at 2,747.

During the Reporting Period, Bybo Dental focused on its existing hospital and clinic operations. Supported by the current outlets, the revenue of Bybo Dental increased from RMB1,434 million in 2017 to RMB1,810 million in 2018, representing a year-on-year increase of 26%. Besides, with the reinforcement of standardization and operation management, losses were further reduced, and the adjustment of capital structure led to the effective control over financial expenses. Therefore, the overall operating condition was improved.

In the future, Bybo Dental will continue to improve its medical technology and quality, and focus on service quality while creating greater synergy with insurance, so as to enhance customer loyalty and market share. It will strive to deliver better financial performance while providing high-quality dental medical services.

Agriculture and Food

Overview

Joyvio Group is a wholly-owned subsidiary of Legend Holdings. It is an agricultural and food industry group specially designed by us to carry Legend Holdings' vision in agriculture and food. Joyvio Group categorizes fruit and high-end animal protein as its two main business lines, and actively plans its business layout in the fields of fresh semi-finished products and agro-food technology.

There are development opportunities in the agriculture and food industry in China: (1) upgrading of consumption: with China's increasing per capita disposable income and consequential changes in spending concepts and habits, we believe that China is now in a stage of quick upgrading of food consumption, (2) upgrading of industry: the model of agricultural and food industry chain in China is traditional with relatively low level of professional division of labor. Through overall design and synergistic network across the industrial chains, product quality, food safety, operating efficiency, profitability and sustainability will be significantly enhanced, (3) overseas resources: with remarkable advantages in resources, product varieties and technologies, overseas markets are intrinsically complementary with the consumption market in China. We have been actively looking for investment opportunities amidst the aforesaid circumstances.

Joyvio Group is committed to the construction of a resource integration platform, focusing on two supply chain systems of fruit and seafood. In respect of the supply chain of fresh fruit, Golden Wing Mau continued to deploy its resources in the global supply chain and a comprehensive pipeline distribution network. "Joyvio", its high-end fruit brand, has gained broader influence and achieved category superposition, leading to the rapid year-on-year growth of supermarket delivery and distribution pipeline business. In respect of the seafood supply chain, domestically, we have established Joyvio Agriculture, an A-share company listed on Shenzhen Stock Exchange, which controls Qingdao Starfish, a leading Chinese enterprise engaged in seafood; overseas, we own KB Food, a leading Australian seafood supplier, based on which the expansion and integration of global seafood supply chain system will be carried out.

We hope to develop Joyvio Group into an agricultural and food industry group under Legend Holdings. We will continue to improve operational efficiency and provide consumers with products and services of better quality through industrial integration and our global presence.

Operating Highlights

- In respect of fruit business, during the Reporting Period, Golden Wing Mau changed from an associate of Joyvio Group to its subsidiary. Together with other shareholders, Joyvio Group will make continuous efforts to provide best fruit products and services for its consumers, with a view to develop Golden Wing Mau into a world-leading fruit industry company.

- In respect of seafood animal protein business, Australian Seafood Investment Pty Limited, a wholly-owned subsidiary of KB Food, actively expanded its businesses in the upstream and completed the acquisition of Takari, a deep sea shrimp trapping boat, in December 2018, further consolidating the leading position of KB Food in shrimp product market. Meanwhile, KB Food entered into a cooperation framework agreement with Joyvio Agriculture to explore business opportunities in the Chinese market with the support of the channels and resources of Joyvio Agriculture.

During the Reporting Period, the revenue and net profit of agriculture and food segment are set out as follows:

Unit: RMB million

	2018	2017
Revenue	**12,940**	4,962
Net profit	**435**	288
Net profit attributable to equity holders of Legend Holdings	**210**	232

During the Reporting Period, the revenue of the agriculture and food segment increased from RMB4,962 million in the corresponding period of last year to RMB12,940 million, which was mainly attributable to, as compared to last year, the consolidation of the revenue of Golden Wing Mau, and the increase in revenue of Joyvio Agriculture, Nine Masters, and KB Food for the year. Net profit increased from RMB288 million in the corresponding period of last year to RMB435 million, which was mainly due to the consolidation of Golden Wing Mau, and the revenue generated from the shareholding restructuring of Funglian Group during the period. The decrease of net profit attributable to equity holders of the Company was mainly caused by the write-off of Joyvio Agriculture's goodwill resulting from the stock price fluctuation.

(1) Fruit business

During the Reporting Period, benefited from the rapid growth in the new retail industry in China, the upbeat trend of fruit consumption was accelerated, which drove the robust revenue growth of Golden Wing Mau whose main products are quality fruits, and turned Golden Wing Mau into a national key leading enterprise of agricultural industrialization. Following Joyvio Blueberry, Joyvio Durian and Joyvio Banana also gained consumers' recognition. Golden Wing Mau continued to carry out marketing campaign and achieved wider influence for "Joyvio", its high-end fruit brand. As a result, "Joyvio", as the only fruit brand, was successfully selected as one of the top 500 Chinese brands. At the same time, Golden Wing Mau continued to deploy its resources in the global supply chain and a comprehensive pipeline sales network. In respect of plantation, the company co-operated with Hortifrut, a world-leading blueberry company, in new varieties and plantation technologies of blueberry, and achieved mass production. In respect of supermarket and retailer service, the company kept up with new retail upgrades and became the supplier of Fresh Hema and 7fresh, and once again won the Best Supplier of the Year Award from Wal-Mart China, a global retail giant. In respect of distribution, the company has achieved layout in 14 first-class fruit wholesale markets in China. In addition to kiwifruits, it also became the largest importer and distributor of apples, blueberries, cherries and grapes in China. In order to focus on business resources and improve management efficiency, Golden Wing Mau has carried out a split-off, under which the original plantation segment of Golden Wing Mau was split as Xinguojiayuan. Meanwhile, with constant optimism about the fruit industry and the prospects of Golden Wing Mau and Xinguojiayuan, Joyvio Group has increased its shareholdings in them during the year.

(2) Animal protein business

During the Reporting Period, a stable growth was recorded for the operating income of Joyvio Agriculture, allowing it to maintain a leading position as China's largest pandalus borealis importer and distributor, the largest pollock processor and supplier, and a seafood brand importer with full-channel layout. Besides, Joyvio Agriculture has started to expand its business layout towards scarce seafood resources and assets in the upstream. KB Food has been awarded the title of Best Seafood Supplier by Woolworths, Australia's largest supermarket chain operator, for three consecutive years, and has further strengthened its strategic partnership with other national chain supermarkets. Through maintaining cooperative relationship with fishermen and actively expanding in the domestic market, the company has further increased the market share of the Australian rock lobster business. KB Food also continued to actively identify and capitalize on opportunities for resource integration in the upstream, and completed the acquisition of Takari, a deep sea shrimp trapping boat in December 2018, further consolidating the leading position of KB Food in shrimp product market. Meanwhile, KB Food entered into a cooperation framework agreement with Joyvio Agriculture to explore business opportunities in the Chinese market with the support of the channels and resources of Joyvio Agriculture. As the tariffs under the China-Australia Free Trade Agreement continue to decline, it will be a long-term benefit for KB Food to export its products to the Chinese market.

(3) Fresh semi-finished products business

During the Reporting Period, as Nine Masters has innovated and improved its business model, its abilities of operation and management, product research and development, and resource integration have been further enhanced. During the Reporting Period, the company continued to expand its group customers, and leveraged its advantages to develop new products for end users in the Ready business such as Ready-to-Cook (RtC) and Ready-to-Eat (RtE) products. The sales channels and customer base were expanded while brand awareness of the company continued to increase, which further strengthened the leading position of Nine Masters in the domestic fresh semi-finished products industry.

(4) Drinks business

Joyvio Group's drinks business includes tea leaves (Longguan Company), Chinese liquor (Hebei Hengshui Laobaigan), wine and liquor chain retail (Liquor Easy).

After Longguan Longjing was selected as the designated tea for the Belt and Road Forum for International Cooperation and the ministerial conference of BRICS in 2017, Longguan Company continued to promote the high-end Longjing tea brand, launched cross-border cooperation, expanded the self-owned e-commerce channels, and continuously enhanced the popularity and reputation of the Longguan brand while improving its sales in 2018, hence a greater brand awareness and influence in the tea industry.

After Funglian Group, former subsidiary of Joyvio Group, was consolidated into Hebei Hengshui Laobaigan (an A-share company, listed on Shanghai Stock Exchange), through the vigorous implementation of strategies such as continuous optimization of channels, direct access to end users, product upgrading and transformation, and the creation of brand marketing atmosphere, the company continued to optimize its product mix and build up market competitiveness, leading to sustainable growth of its operating income and profit.

Liquor Easy further expanded the outlets and delivery points in the markets of Henan, Beijing and Xi'an, improving market coverage and service capabilities. In 2018, the company registered positive profit for the first time.

(5) Packaged food business

Joyvio Group invested in Huawen Food, a well-known enterprise in China. In 2018, Huawen Food actively promoted the construction of terminal channels, extended the sales channels to second and third-tier cities and below, and expanded its share in the snack food market there. Meanwhile, the company attached great importance to the investment in brand building to enhance the brand recognition. In October 2018, it sponsored "Wild Kitchen", an online variety show launched by Mango TV, and achieved outstanding brand promotion effect. In July 2018, Huawen Food was restructured from a limited liability company into a joint stock limited company. In October, it completed the pre-IPO counseling and IPO filing with Hunan Provincial Securities Regulatory Bureau.

Advanced Manufacturing and Professional Services

Overview

Our subsidiaries and associates in the advanced manufacturing and professional services include:

- Levima Group, our subsidiary, is primarily engaged in the research and development and production of advanced polymer materials and special chemicals;

- Zeny Supply Chain, our subsidiary, mainly provides logistics services; and

- EAL, our associate, is mainly engaged in air logistics related business.

Legend Holdings is committed to developing China's leading manufacturing and related professional services. Based on the urgent need for chemical new materials and products, such as advanced polymer materials and special chemicals in industrial upgrading and transformation of domestic high-end manufacturing and professional services, Legend Holdings focuses on the research and development and provision of related products and services, and has completed staged layout in advanced materials. At present, embracing the exceptional historical development opportunities such as "Made in China 2025" and the "Belt and Road" Initiative, Legend Holdings will continue to explore related fields, focus on materials, technology, manufacturing and services that are in short supply in China, keep expanding frontier businesses while facilitating existing industrial development, and achieve efficient coordination among portfolio companies, striving to become a world-leading enterprise in advanced manufacturing and professional services.

During the Reporting Period, the revenue and net profit of advanced manufacturing and professional services segment are set out as follows:

Unit: RMB million

	2018	2017
Revenue	**6,331**	5,844
Net profit	**355**	417
Net profit attributable to equity holders of Legend Holdings	**262**	380

During the Reporting Period, the revenue of advanced manufacturing and professional services segment increased by approximately 8% from RMB5,844 million in the corresponding period of last year to RMB6,331 million, which was mainly due to the combined effects of increase in the revenue of Levima Group and decrease in revenue of Zeny Supply Chain; the net profit decreased by 15% from RMB417 million in the corresponding period of last year to RMB355 million, which was mainly due to the combined effect of the following factors: 1) the one-off gain on the transfer of equity interests in Phylion Battery amounting to RMB386 million in the corresponding period of last year; 2) net profit growth of Levima Group, narrowed net loss of Zeny Supply Chain, and increased net profit contribution from EAL.

Operating Highlights

- Benefiting from the safe and stable operation of equipment, continuous reduction in material and energy consumption of the equipment, continuous optimization of product mix, and strong market demand for products, Levima Group achieved a profit of RMB212 million in 2018, representing a year-on-year increase of 83%;

- The key consumption indicators of Levima New Materials, a subsidiary of Levima Group, have reached the record low since the operation of its device, and remarkable results were obtained in operational improvement works. Levima continued to optimize its product portfolio, with the market share of its special PP, EVA and EOD products remaining first in several niche segments in China. On August 28, 2018, Levima New Materials held the founding meeting for the joint-stock company. On September 10, 2018, the company was restructured from a limited liability company into a joint stock limited company, completing the shareholding reform and laying a more solid foundation for embarking on the capital market. On December 2018, Levima New Materials applied to the Shandong Provincial Securities Regulatory Bureau for listing counselling;

- Despite the pressure brought about by global trade protectionism, RMB depreciation and substantial fluctuations in oil prices, the revenue and profits of EAL both achieved significant year-on-year growth. On December 8, 2018, EAL successfully held the founding meeting of the joint stock company, marking the company's transition to the shareholding reform for IPO.

Levima Group

Through Levima Group, our subsidiary, we are engaged in the research and development and production of chemical new materials, such as advanced polymer materials and special chemicals. During the Reporting Period, as a result of the further optimization of its product mix and continued improvement in operational level, Levima Group recorded an excellent performance with a profit of RMB212 million in 2018, representing a year-on-year increase of 83%. As of December 31, 2018, we held 60.44% equity interests in Levima New Materials through Levima Group, our wholly-owned subsidiary.

In respect of operations, the DMTO integrated device of Levima New Materials maintained safe and stable operation; key raw material consumption per unit, such as methanol consumption per unit and catalyst consumption per unit of DMTO device, kept decreasing, reaching the best level since the operation of its device; and various operational indicators continued to improve and maintained the leading level in the industry.

In respect of market, by strengthening product development and sustained market channel expansion, the product mix of Levima New Materials was further optimized. In particular, its market share ranked first in China in terms of PP, EVA, EOD and other product segments. The proportion of thin-walled polypropylene injection molding products accounted for 100% in PP products. Benefiting from the rapid growth of the domestic fresh food e-commerce and take-away service industry, during the Reporting Period, the thin-walled polypropylene injection molding products have achieved significant growth in meal boxes for take-away service, fresh food package, etc., which allowed Levima New Materials to maintain its market share in China. At the same time, the new special polypropylene products developed by Levima New Materials have been applied to new products such as milk tea cup, winning praises from customers. EVA products with a high content of VA reached 100%. The market share of cable material products continued to rank first in China. The proportion of special EOD products further increased, and the influence of the products in the field of water reducing agents and special surfactants was continuously improved.

In respect of taxation, Levima New Materials was awarded as a high-tech enterprise and was entitled to a preferential policy of 15% corporate income tax rate, further improving its profitability.

In respect of innovation, Levima New Materials has made positive progress in scientific and technological innovation and was recognized as a special fine chemicals engineering technology research center in Shandong. At the same time, it was awarded the honorary title of Shandong Province New Materials Leading Enterprise, Shandong Chemical New Materials Industry Top Ten Enterprises, Shandong Province Petroleum and Chemical Industry Top 100 Enterprises, and China Petroleum and Chemical Private Enterprises Top 100.

On December 26, 2018, Levima New Materials acquired 15% equity interest in Xinneng Fenghuang (Tengzhou) Energy Co., Ltd., a company engaged in methanol production, from Legend Holdings (Tianjin) Co., Ltd., which enabled Levima New Materials to expand its businesses to the upstream methanol raw materials, so as to effectively reduce the impact imposed by the price fluctuations of methanol raw materials on its profitability.

In addition, Levima New Materials is actively preparing A-share listing on Shenzhen Stock Exchange. It completed the joint-stock reform on September 10, 2018. On December 12, 2018, Levima New Materials applied to the Shandong Provincial Securities Regulatory Bureau for listing counseling.

During the Reporting Period, Levima Group achieved a revenue of RMB5,945 million and net profit of RMB212 million, representing a growth of 22% and 83% year on year, respectively.

During the Reporting Period, the revenue and net profit of Levima Group are set out as follows:

Unit: RMB million

	2018	2017
Revenue	**5,945**	4,876
Net profit	**212**	116

Zeny Supply Chain

We provided frozen foods supply chain business through Zeny Supply Chain, our subsidiary, endeavoring to develop it as a leading company in the industry. Zeny Supply Chain and its associates manage 400,000 tonnes of cold-chain storage infrastructure in three major cities along the Beijing-Kowloon Railway (i.e. Zhengzhou, Wuhan and Dongguan) and the customer bases brought about by the two frozen food wholesale markets. After two years' efforts, Zeny Supply Chain successfully adopted the financial service model of frozen product supply chain based on "goods control". At the same time, Zeny Supply Chain started to build a B2B e-commerce trading platform for frozen products and is committed to building a comprehensive service platform for online trading, supply chain finance and cold chain logistics services for the frozen products industry. As of December 31, 2018, we held 98.85% equity interests in the Zeny Supply Chain.

In order to further enhance the competitiveness of the B2B frozen products trading platform of Zeny Supply Chain and stimulate the innovation of the management, the asset-weight separation strategy was implemented on Zeny Supply Chain during the Reporting Period. Light Assets Company (Operation) was controlled by the management by way of Management Buyout (MBO) with independent development and expanded innovative business. For optimized operation of heavy assets, gradual optimization and divestment were carried out for non-strategic assets and loss-making assets.

During the Reporting Period, the revenue and net loss of Zeny Supply Chain are set out as follows:

Unit: RMB million

	2018	2017
Revenue	**386**	968
Net (loss)	**(60)**	(156)

During the Reporting Period, the revenue of Zeny Supply Chain decreased by RMB582 million year on year, which was mainly due to the deconsolidation of Light Assets controlled by the management. Net loss was narrowed by RMB96 million as compared with the corresponding period of last year, which was mainly due to the positive effect brought by the asset optimization strategy of the company.

Associates of Advanced Manufacturing and Professional Services Segment

EAL

We are mainly engaged in air logistics business through EAL, our associate. During the Reporting Period, due to the rising global trade protectionism and the intensified trade frictions among the world's major economies, global producers and traders accelerated the completion of order shipments in order to avoid high tariff losses. As a result, the demand on air logistics continued to grow but the growth rate slowed down as compared to 2017. In addition, the depreciation of RMB and the sharp fluctuation in aviation fuel prices in 2018 also posed challenges to domestic air logistics business.



In spite of these adverse factors, EAL recorded a relatively significant year-on-year increase in revenue and net profit for the year. The increase in revenue and profit was mainly attributable to the increase in revenue from air express and high-end logistics solutions and the optimization of operations to reduce costs. As of December 31, 2018, we held 20.1% equity interest in EAL.

In respect of business, in order to improve the layout of the cargo airline network and respond to the impact of the trade friction between China and the United States, EAL has opened a new cargo airline between Shanghai and Frankfurt to further intensify the cooperation on air transport in South America, Australia and Southeast Asia. It also diversified cargo airline network products and increased the proportion of cargo transportation along air routes other than between China and the United States to offset the potential risk of cargo decline. In terms of customers, EAL set up air cargo service center in Shanghai Zhangjiang High-tech Park and Waigaoqiao Bonded Zone, where international trade demands are concentrated, to extend from airport cargo terminals and supervised warehouse functions to service centers. This connection between the airport and customers has enabled full chain services of goods receiving, agent, customs clearance and transportation to customers within the region, improving customer experience and enhancing EAL's control over the value chain. Meanwhile, the company conducted graded scoring management for international customers through customer relationship management (CRM) system, and developed evaluation functions for the contribution made by customers during the low and peak season to enhance customer service value. In terms of products, the scale of high-end logistics solutions and cross-border fresh logistics business built by EAL continued to show rapid growth. In 2018, supported by over 200 chartered flights, the cumulative import and delivery of global fresh agricultural products under the "direct delivery from origin" stood at approximately 20,000 tons, representing a year-on-year increase of 100%. In terms of high-end logistics solutions, the company has developed new customers such as Yangtze River Storage and launched the new business of precision instrument transportation guarantee.

On December 8, 2018, EAL successfully held the founding meeting for the joint-stock company, also the first shareholder's general meeting, and the first meeting of the board of directors and the board of supervisors, marking the company's entry to the restructuring and listing stage. Subsequently, EAL will continue to integrate the logistics business of China Eastern Airlines, focus on its main business of logistics, promote IPO declaration and centralize sources to build a world-leading logistics enterprise.

Financial investments

Overview

We are a pioneer in China's assets management sector, seeking to capture equity investment opportunities at various stages of a company's development. We seek for financial return by leveraging on various financial investment platforms, which include angel investment, venture capital, private equity investment and other types of investments. Each of our investment platforms has a different specialization and focus, which allows us to target a broad range of investments. In our financial investments business, we also seek synergies and share resources with our strategic investments business. Through Legend Star, Legend Capital and Hony Capital, we have obtained a deep understanding of the financial investment industry, which provides us with the access to numerous investment opportunities. Through investments in our associate funds in various asset classes, we are able to build a wide network in the investment community, expand information sources, capture more investment opportunities and diversify our investment risks. In 2018, we set up cutting-edge funds to invest in the most cutting-edge technologies in TMT and medical fields with the support of Legend Capital and Legend Star, so as to capture disruptive opportunities in future industry development.

In addition to investing in the abovementioned investment platforms, we also made other types of investments, in particularly our own direct financial investments. Through the minority equity investment in primary and secondary markets, we have achieved sound cash returns. During such process, we also place great importance to cooperating with our associate funds and sharing information and related resources to maximise the efficiency of financial investments.

We selectively hold office buildings as investment properties to seek long-term returns. Our properties held for investment mainly include Raycom Info Tech Park Tower A, Tower B and Tower C in Zhongguancun area, Beijing.

During the Reporting Period, the revenue and net profit of financial investment segment are set out as follows:

Unit: RMB million

	2018	2017
Revenue	**651**	653
Investment income and gains	**615**	4,858
Share of profits of associates and joint ventures accounted for using the equity method	**55**	240
Net profit	**466**	4,549
Net profit attributable to equity holders of Legend Holdings	**540**	4,308

During the Reporting Period, the investment income and gains from the financial investments segment decreased to RMB615 million from RMB4,858 million for the corresponding period of last year, and the net profit attributable to equity holders of the Company decreased to RMB540 million from RMB4,308 million for the corresponding period of last year. The decline was mainly due to the fact that as the scale of investment increased, the companies we previously invested in were gradually listings, which led to increase in the exposure of the secondary stock market. In 2018, the stock markets in Mainland China and Hong Kong all experienced sharp declines. Since our investments were measured at fair value, such fluctuations have a relatively large impact on our profit this year.

Legend Star

Founded in 2008, Legend Star is one of China's leading angel investment institutions and focuses on early stage investment in three major areas, namely, artificial intelligence, TMT and healthcare.

As of December 31, 2018, Legend Star managed five funds in total, of which the size exceeded RMB2 billion with an aggregate of over 230 onshore or offshore investment projects including iDreamsky Games, MegviiFace++, AISpeech, Loock.cn, Homework Box, Surestar, Burning Rock Dx, Kintor Pharmaceuticals, PegBio, Conmed Biosciences and other high quality projects. During the Reporting Period, Legend Star had nearly 40 onshore or offshore new investment projects covering different segments such as artificial intelligence, autonomous driving, biotechnology, corporate services, new consumption. Among the projects under management, over 60 projects have finished the follow-on financing; while nearly ten projects have been exited.

In 2018, the third RMB fund completed its final closing, with raised capital in excess of RMB700 million, and the third USD fund raised USD20 million.

Since 2014, Legend Star was ranked as top tier of the Annual Angel Investment Institution/Early Stage Investment Institutions in successive years by the professional institutions in the industry, namely Zero2IPO Group and ChinaVenture Group.

Legend Capital

Legend Capital is one of the leading venture capital institutions in China. As of December 31, 2018, Legend Capital totally managed seven USD funds (two were settled and five were under management), five RMB funds, two early-stage RMB funds (one of which was the sub-fund of Junruiqi, and was not listed separately in the list below.), one USD fund specialised in healthcare sector, two RMB fund specialised in healthcare sector, two RMB funds specialized in the culture and sports sector and one fund in the red-chip return concept. In 2018, Legend Capital launched two new RMB fund, namely Beijing Junlian Shengyuan Equity Investment, L.P. (北京君聯晟源股權投資合夥企業(有限合夥)) ("5th RMB growth fund"), Suzhou Junlian Xinkang Venture Investment, L.P. (蘇州君聯欣康創業投資合夥企業(有限合夥)) ("2nd RMB medical fund") and also completed the final closing of one RMB fund, namely Suzhou JunJunde Equity Investment, L.P. (蘇州君駿德股權投資合夥企業(有限合夥)) ("2nd culture and sports fund"). As of December 31, 2018, the raised fund amounted to RMB3.450 billion during the Reporting Period, including a total of RMB1 billion firstly raised from the 2nd RMB medical fund and the newly raised 5th RMB growth fund has signed for RMB2.45 billion.

In 2019, Legend Capital plans to complete the final closing of the 5th RMB growth fund, TMT Innovative RMB fund and 2nd RMB medical fund and plans to newly raise the 2nd USD medical fund and the 8th USD fund. The newly raised funds will basically maintain the continuity of the investment strategy, focus on Chinese enterprises and cross-border opportunities at the start-up stage and growing stage in TMT, innovative consumption, intelligent manufacturing, professional services and, healthcare, and culture and sports sectors. In addition, in 2019, Legend Capital will strengthen the promotion of exit of projects under management to ensure better return for investors.

During the Reporting Period, Legend Capital accumulatively completed 50 new project investments, covering start-up and growing stage enterprises in TMT, innovative consumption, healthcare, business services, intelligent manufacturing and culture and entertainment sectors.

During the Reporting Period, Legend Capital fully or partially exited 24 projects, contributing a cash inflow of over RMB700 million for Legend Holdings to ensure better cash return. Among its portfolio companies, 11 enterprises were listed on the domestic and overseas capital markets through IPO, namely BILIBILI INC., Wuxi AppTec Group, Wuxi Biologics Cayman Inc., Contemporary Amperex Technology Co., Ltd., Uxin Limited, Wuhan Easydiagnosis Biomedicine Co., Ltd., Milkyway Chemical Supply Chain Service Co., Ltd., Bionano Genomics, Inc., Innovent Biologics, Inc., Axonics Modulation Technologies, Inc., Tongcheng-Elong Holding Limited, and iDreamSky Technology Holdings Limited; two portfolio companies have passed the A Share IPO review, namely, Pharmaron Beijing Co., Ltd. and Jiangsu Lihua Animal Husbandry Co., Ltd.. As of December 31, 2018, a total of 58 of Legend Capital's portfolio companies have been successfully listed (excluding the number of NEEQS companies).

The following table sets forth the information of Legend Capital's funds in which Legend Holdings and its subsidiaries held direct interests in their capacity as a limited partner as of December 31, 2018:

Name of Fund	Fund Term Commencement Date *(month/day/year)*	End Date *(month/day/year)*	Total Commitment	Investment Sector	Interests held by Legend Holdings as a limited partner *(%)*
USD Funds (in USD million)					
LC Fund I	N/A	N/A	35	IT and related sectors	Note (3)
LC Fund III, L.P.	4/27/2006	N/A	170	IT and related sectors (Investment in extension period involves the non-IT sector)	68.64%
LC Fund IV, L.P.	4/15/2008	4/14/2019	350	TMT, healthcare, consumer goods, modern services, clean technology and advanced manufacture	29.77%
LC Fund V, L.P.	5/31/2011	5/30/2021	515	TMT, healthcare, consumer goods, modern services, etc.	19.42%
LC Fund VI, L.P.	1/30/2014	4/17/2024	500	TMT, healthcare, modern services, etc.	23.20%
LC Healthcare Fund I, L.P.	9/29/2015	2/4/2025	250	Healthcare	20.00%
LC Fund VII, L.P.	2/5/2016	2/4/2024	448	TMT, innovative consumption, modern services, intelligent manufacture	22.31%
RMB Funds (in RMB million)					
Beijing Legend Capital Ruizhi Venture Investment Center, L.P. (北京君聯睿智創業投資中心(有限合夥))	9/18/2009	9/18/2019	1,000	TMT, healthcare, consumer goods, modern services, clean technology and advanced manufacture	31.00%
Tianjin Junruiqi Equity Investment, L.P. (天津君睿祺股權投資合夥企業(有限合夥))	3/31/2011	3/30/2019	3,632	TMT, healthcare, consumer goods, modern services, clean technology and advanced manufacture	31.67%
Beijing Legend Capital Maolin Equity Investment, L.P. (北京君聯茂林股權投資合夥企業(有限合夥))	9/9/2014	9/8/2022	3,204	Consumer goods, modern services, TMT, healthcare, etc.	31.21%
Shanghai Qiji Venture Investment, L.P. (上海祺跡創業投資合夥企業(有限合夥))	5/30/2015	5/29/2023	500	TMT and innovative consumer service sector	16.00%
Beijing Legend Capital Mingde Equity Investment, L.P. (北京君聯名德股權投資合夥企業(有限合夥))	7/31/2015	7/30/2021	1,247	Culture entertainment, sports	20.05%
Beijing Legend Capital Xinhai Equity Investment, L.P. (北京君聯新海股權投資合夥企業(有限合夥))	8/11/2015	8/10/2020	1,698	Return of red-chip, cross-border investment and other high-growth projects	17.67%
Beijing Legend Capital Yikang Equity Investment, L.P. (北京君聯益康股權投資合夥企業(有限合夥))	2/5/2016	2/4/2024	1,621	Healthcare	18.50%
Beijing Legend Capital Huicheng Equity Investment, L.P. (北京君聯慧誠股權投資合夥企業(有限合夥))	8/30/2016	8/29/2024	4,500	TMT, innovative consumption, intelligent manufacturing, professional services and healthcare services	22.22%
Suzhou JunJunde Equity Investment, L.P. (蘇州君駿德股權投資合夥企業(有限合夥))	6/30/2017	6/29/2025	1,610	Culture entertainment, sports	28.52%
Suzhou Junlian Xinkang Venture Investment, L.P. (蘇州君聯欣康創業投資合夥企業(有限合夥))	4/16/2018	4/15/2026	1,010	Healthcare	39.60%
Beijing Junlian Shengyuan Equity Investment, L.P. (北京君聯晟源股權投資合夥企業(有限合夥))	7/9/2018	7/8/2026	2,450	TMT, innovative consumption, intelligent manufacturing, professional services and healthcare services	52.87%

Notes:

(1) The end date is extendable in accordance with the relevant limited partnership agreement.

(2) Total commitment represents the aggregate capital commitment by partners of limited partnerships or investors for the funds in the form of limited liability companies, if applicable, as of the final closing date.

(3) LC Fund I comprises two limited liability companies, namely Legend Capital Limited, which focused on investments in China, and Legend New-Tech Investment Limited, which focused on overseas investments.

(4) Suzhou Junlian Xinkang Venture Investment, L.P. (蘇州君聯欣康創業投資合夥企業(有限合夥)) has not completed the final closing yet during the Reporting Period.

Hony Capital

Hony Capital is one of the leading equity investment and management institutions in China. As of the end of 2018, Hony Capital mainly managed eight equity investment funds, two property funds and one cultural industry fund in total. During the Reporting Period, the Haidian technology industry space optimization fund under the strategic cooperation between Hony property fund and an SOE of Beijing Haidian district completed the final delivery with a size of RMB2.16 billion. Hony Horizon Fund Management Co., Ltd., a public fund management company specializing in secondary market investment and management business under Hony Capital, has successfully raised its first fund – Hony Horizon state-owned enterprise transformation and upgrading hybrid fund (fund code: 006369). A total of 4,549 investors participated in the effective subscription, with a net subscription amount was RMB493 million.

Hony Capital's PE funds focus on digital economy, cross-border mergers and acquisitions, SOE reforms, development of large-scale private enterprises with specific industry concentration in consumption, services, healthcare, advanced manufacturing and mobile Internet.

The property fund focuses strategically on the office buildings in first-tier cities to create excess return over the market average, by applying various value-added means such as renovation, enhanced operation and functional adjustment to the office buildings in first-tier cities and other commercial buildings with the potential to be converted into office buildings.

The cultural industry fund will focus on the integrated investment, cross-border investment and investment in relation to the early stage projects in the new trend sectors in the cultural industry, prioritize the film and television industry, entertainment and sports industry, and keep close eyes on online games and new media businesses which are driven by new technologies.

Hony Capital's public fund management company will focus on leveraging Hony Capital's expertise in consumer services, catering, medical and other industries, SOE reforms, and cross-border investment, focusing on value investing and committed to create public fund products with distinctive characteristics and excellent performance.

Hony Capital's overseas secondary market investment platform, Goldstream Capital, focused on liquid assets investment. Currently, it operates a variety of strategies including long and short positions in Chinese stock, long position in Stock Connect, global macro, Sino-US healthcare industry stocks, and special opportunity securities. Goldstream Capital made capital injection to International Elite (stock code: 01328), a Hong Kong listed company, in November 2018.

During the Reporting Period, Hony PE funds completed additional investment in nine new or existing projects, covering start-up stage and growing stage enterprises in healthcare, consumption, services and so on. Hony property funds completed additional investment in seven new or existing projects. Hony cultural industry fund completed additional investment in one existing project. Hony Horizon state-owned enterprise transformation and upgrading hybrid fund was under establishing stage.

During the Reporting Period, Hony PE funds fully or partially exited from eight projects, while Hony mezzanine funds fully or partially exited from ten projects and Hony property funds fully exited from one project. Hony Capital contributed a continuous and stable cash inflow for Legend Holdings. Meanwhile, two of its portfolio companies were listed in China's capital market, namely Bank of Chengdu and Zoomlion Enviro (中聯環境). As of December 31, 2018, 43 of Hony's portfolio companies have been successfully listed onshore or offshore (including PIPE investment) and another three were listed on NEEQS. As of December 31, 2018, Hony Capital has fully exited from 47 investment projects. The median of the internal rate of return on these investments was above 11%.

The following table sets forth the information of the main funds managed by Hony Capital in which Legend Holdings and its subsidiaries held direct interests in their capacity as of December 31, 2018:

Name of Fund	Fund Term Commencement Date *(month/day/year)*	End Date *(month/day/year)*	Total Commitment	Investment Sector	Interests held by Legend Holdings as a limited partner *(%)*
USD Funds (in USD million)					
Hony International Limited	N/A	N/A	29	In view of China's economic environment and the direction of policies, Hony's equity investment funds strategically focus on the opportunities of SOE reforms, mergers and acquisitions of private enterprises and cross-border mergers and acquisitions sectors. In terms of industry selection, it focuses on industries directly benefiting from China's macro trends, including consumer industry, health industry, service industry and high-end manufacturing industry, as well as opportunities for transformation brought by the mobile Internet.	40%
Hony Capital II, L.P.	7/26/2004	8/31/2014	87		41%
Hony Capital Fund III, L.P.	9/19/2006	11/10/2016	580		34%
Hony Capital Fund 2008, L.P.	5/27/2008	6/26/2019	1,398		14%
Hony Capital Fund V, L.P.	8/10/2011	12/15/2021	2,368		11%
Hony Capital Fund VIII (Cayman), L.P.	8/18/2015	10/30/2025	1,647		16%
Goldstream Capital Master Fund I	01/12/2017	N/A	68	Goldstream Greater China long and short position fund starting from the fundamentals of the industries and enterprises, systematically covering a group of industries and enterprises with Hony's cognitive advantages, seeks the opportunities for value investment and growth investment meeting its requirements for investment risks and returns, by in-depth, careful, timely, comprehensive research, establishing a long and short position combination and creating long-term strong risk-adjusted returns for investors.	38%

Name of Fund	Fund Term Commencement Date *(month/day/year)*	End Date *(month/day/year)*	Total Commitment	Investment Sector	Interests held by Legend Holdings as a limited partner *(%)*
RMB Funds (in RMB million)					
Hony Capital RMB I, L.P. (弘毅投資產業一期基金(天津)(有限合夥))	4/24/2008	4/23/2019	5,026		30%
Hony Capital RMB Fund 2010, L.P. (北京弘毅貳零壹零股權投資中心(有限合夥))	8/12/2010	8/11/2019	9,965		20%
Hony Capital Fund 2015, L.P. (弘毅貳零壹伍(深圳)股權投資基金中心(有限合夥))	10/13/2015	10/12/2025	3,596		9%
Hony Capital Real Estate Fund 2015, L.P. (弘毅貳零壹伍(深圳)地產投資中心(有限合夥))	9/28/2016	9/27/2021	2,563	The property fund focuses strategically on office buildings in first-tier cities.	20%
Beijing Haidian Technology Industry Space Optimization Fund, L.P. (北京海淀科技產業空間優化基金中心(有限合夥))	12/8/2016	6/30/2022	2,157	To create excess return, by applying various value-added means such as renovation, enhanced operation and functional adjustment to the office buildings in first-tier cities or other commercial buildings with the potential to be converted into office buildings.	2%
Hony Horizon state-owned enterprise transformation and upgrading hybrid securities investment fund (弘毅遠方國企轉型升級混合型發起式證券投資基金)	31/10/2018	N/A	493	Focusing on the investment opportunities contained in the process of transformation and upgrading of Chinese state-owned enterprises, pursued for long-term appreciation of fund assets on the basis of strict control on investment risks.	20%

Notes:

(1) The end date is extendable in accordance with the relevant limited partnership agreement.

(2) Total commitment represents the aggregate capital commitment by partners of limited partnerships or investors for the funds in the form of limited liability companies, as applicable, as of the final closing date.

(3) Hony Capital Fund VIII (Cayman), L.P and Hony Capital Fund 2015, L.P. (弘毅貳零壹伍(深圳)股權投資基金中心(有限合夥)) were collectively named as "Hony RMB Fund VIII" in the above table.

(4) Goldstream Capital Master Fund I and Hony Horizon state-owned enterprise transformation and upgrading hybrid securities investment fund (弘毅遠方國企轉型升級混合型發起式證券投資基金) in the above table were both public fund. The total commitment was shown as the total share of the fund, and the proportion of the share of the fund held by Legend Holdings is the ratio of the share held by Legend Holdings to the total share of the fund.

Investment Properties

The investment properties that we hold mainly include the high-end office buildings, i.e. Raycom Info Tech Park Tower A, Tower B and Tower C in Zhongguancun(Note). As of December 31, 2018, the occupancy rate was about 97%. We hold Tower A and Tower C of Raycom Info Tech Park through Raycom Property, a wholly-owned subsidiary of the Company and hold Tower B through Raycom Real Estate, a subsidiary. Tower A, B and C are mainly used for rent as premium offices and shops, as well as self-occupied offices. As of December 31, 2018, the fair value of our investment properties amounted to RMB11.23 billion (excluding the self-use portions).

Note: Tower A, B and C are located at Court No. 2 Ke Xue Yuan Nanlu, Haidian District, Beijing, Postal Code: 100190. The terms of land use rights of these properties will expire in the years of 2051, 2057 and 2053, respectively.

FINANCIAL REVIEW

Finance costs

Our finance costs after deducting capitalized amounts increased from RMB4,483 million for the year 2017 to RMB5,306 million for the year 2018. Increase in the finance costs was mainly due to the increase in the total borrowings.

Taxation

Our taxation decreased from RMB2,574 million for the year 2017 to RMB1,360 million for the year 2018. The decrease in taxation was mainly due to the write-off of deferred income tax assets brought to Lenovo by the Tax Cuts and Jobs Act issued by the US government in 2017. No such events occurred in this year.

Capital expenditures and capital commitments

Our capital expenditures mainly arise from purchases of property, plant and equipment, new construction in progress and intangible assets, and payment for investment. Capital expenditures were mainly funded by internally generated resources and external borrowings. Details of the capital expenditures for each of the business segments are set out in Note 5 to the financial statements.

As of December 31, 2018, we had RMB11,091 million of capital expenditures contracted but not yet generated. Such capital commitments were mainly used for purchases of property, plant and equipment, and investment. Details of capital commitments are set out in Note 52 to the financial statements.

Liquidity and financial resources

Our principal sources of funds have been, and we expect to continue to utilize, cash generated from operations, various short-term and long-term bank borrowings, credit facilities and debt financing including corporate bonds and private placement bonds, to satisfy our future funding needs.

Cash and cash equivalents

As of December 31, 2018, our cash and cash equivalents was RMB60,023 million, among which, RMB, CHF, USD, EUR, HKD and other currencies accounted for 35%, 28%, 14%, 13%, 5% and 5%, respectively, while the amount as of December 31, 2017 was RMB32,202 million, among which, RMB, USD, HKD, EUR and other currencies accounted for 54%, 29%, 6%, 4% and 7%, respectively. It is our policy to place our cash in interest-bearing principal-protected demand or short-term deposits with reputable PRC and foreign banks.

Due to our business nature, we have relied on bank loans, other loans and the issuance of corporate bonds to fund a substantial portion of our capital requirements and we expect to continue to finance portions of our capital expenditures with bank loans, other loans and corporate bonds at a proper scale in the foreseeable future.

Indebtedness

The following table sets forth our outstanding bank loans, other loans and corporate bonds as of the dates indicated:

Unit: RMB million

	As of December 31, 2018	As of December 31, 2017
Bank loans		
– Unsecured loans	**35,198**	14,200
– Guaranteed loans	**17,154**	19,586
– Collateralised loans	**5,486**	3,851
Other loans		
– Unsecured loans	**3,125**	2,343
– Guaranteed loans	**7,791**	7,287
– Collateralised loans	**2,112**	1,843
Corporate bonds		
– Unsecured	**57,256**	37,974
– Guaranteed	**103**	494
	128,225	87,578
Less: non-current portion	**(68,548)**	(64,454)
Current portion	**59,677**	23,124

As of December 31, 2018, among our total borrowings, 58% was denominated in RMB (December 31, 2017: 77%), 26% was denominated in USD (December 31, 2017: 22%) and 16% was denominated in other currencies (December 31, 2017: 1%). If categorised by whether the interest rates were fixed or not, the fixed interest rates borrowings and the floating interest rates borrowings accounted for 93% and 7% of our total borrowings, respectively, while as of December 31, 2017 accounted for 92% and 8%, respectively. Increase in our indebtedness was mainly due to growth and expansion of our strategic investment business.

The following table sets forth the maturity profile of our indebtedness as of each of the dates indicated:

Unit: RMB million

	As of December 31, 2018	As of December 31, 2017
Within 1 year	**59,677**	23,124
After 1 year but within 2 years	**19,813**	25,707
After 2 years but within 5 years	**42,055**	36,352
After 5 years	**6,680**	2,395
	128,225	87,578

As of December 31, 2018, we had the following major corporate bonds outstanding:

Issuer	Type of bonds	Currency	Issuance date	Term	Principal amount
The Company	Corporate bonds	RMB	November 30, 2012	10 years	RMB2,300 million
The Company	Private placement bonds	RMB	March 21, 2014	5 years	RMB2,000 million
The Company	Private placement bonds	RMB	March 27, 2014	5 years	RMB740 million
The Company	Corporate bonds	RMB	July 6, 2016	5 years	RMB1,500 million
The Company	Corporate bonds	RMB	July 6, 2016	10 years	RMB2,000 million
The Company	Private placement bonds	RMB	November 28, 2016	3 years	RMB3,000 million
The Company	Corporate bonds	RMB	July 5, 2017	5 years	RMB2,500 million
The Company	Corporate bonds	RMB	January 31, 2018	5 years	RMB1,000 million
The Company	Corporate bonds	RMB	June 29, 2018	3 years	RMB1,600 million
The Company	Corporate bonds	RMB	December 3, 2018	5 years	RMB1,500 million
Lenovo	Long term notes	USD	May 8, 2014	5 years	USD786 million
Lenovo	Long term notes	RMB	June 10, 2015	5 years	RMB4,000 million
Lenovo	Long term notes	USD	March 16, 2017	5 years	USD500 million
Lenovo	Medium term notes	USD	March 29, 2018	5 years	USD750 million
Zhengqi Financial	Corporate bonds	RMB	March 3, 2016	3 years	RMB400 million
Zhengqi Financial	Corporate bonds	RMB	September 22, 2017	3 years	RMB300 million
JC Finance & Leasing	Asset backed securities	RMB	November 17, 2016	3–4 years	RMB266 million
JC Finance & Leasing	Private placement bonds	RMB	March 28, 2017	3 years	RMB500 million
JC Finance & Leasing	Asset backed securities	RMB	June 23, 2017	3–4 years	RMB780 million
JC Finance & Leasing	Private placement bonds	RMB	December 22, 2017	2 years	RMB100 million
JC Finance & Leasing	Private placement bonds	RMB	January 5, 2018	2 years	RMB300 million
JC Finance & Leasing	Asset backed securities	RMB	January 30, 2018	1–3 years	RMB233 million
JC Finance & Leasing	Asset backed notes	RMB	June 22, 2018	1–2 years	RMB410 million
JC Finance & Leasing	Asset backed securities	RMB	November 27, 2018	1–2 years	RMB420 million
BIL	Subordinated debt	EUR	June 30, 2014	25.5 years	EUR150 million
BIL	Subordinated debt	EUR	June 8, 2016	12 years	EUR50 million
BIL	Subordinated debt	USD	October 18, 2016	12 years	USD100 million
BIL	Medium term notes	JPY	1999 to 2002	20 years	JPY1,500 million
BIL	Medium term notes	EUR	2013 to 2018	1–15 years	EUR1,805 million
BIL	Medium term notes	USD	2014 to 2018	1–5 years	USD17 million
BIL	Medium term notes	CHF	April 11, 2016	6.5 years	CHF100 million
Lenovo Finance	Asset backed securities	RMB	September 26, 2018	1.5 years	RMB103 million

The annual interest rates of our bonds listed above as of December 31, 2018 ranged from 0.00% to 7.50%.

As of December 31, 2018, the Company had undrawn banking facilities of RMB87.1 billion. The Company has entered into formal or informal cooperation agreements with various major banks in China. According to these agreements, those banks granted the Company general banking facilities to support its capital needs. Prior approval of individual projects from banks in accordance with bank regulations of China must be obtained before the use of these banking facilities.

Current ratio and net debt to equity ratio

	As of December 31, 2018	As of December 31, 2017
Current ratio (Times)	**0.7**	1.0
Net debt to equity ratio	**82.2%**	70.1%

Current ratio

Current ratio represents current assets as a percentage of current liabilities at the end of each Reporting Period. The decrease of current ratio as at the end of 2018 compared to that of 2017 was mainly due to the effect of acquisition of BIL. The measures used to gauge liquidity risk in the Banking industry differ from those commonly used in other non-banking industries. BIL is not required to classify and present separately the current and non-current portion of its assets and liabilities on its stand-alone Statement of Financial Position. Nonetheless, such classification was effected to the extent that uniform accounting policies on consolidated accounts are required, which may not reflect the underlying liquidity characteristics of the Banking business of the Company. As at the end of the Reporting Period, the Core Equity Tier 1 ratio of BIL stood at 12.04%, bespeaking robust business stability. Moreover, despite of a current ratio of less than 1, we have confidence to honor maturing debts when they fall due in consideration of our operating cash flow forecast, undrawn credit facilities of the Company and its subsidiaries, and the amount of convertible bonds and corporate bonds pipelines after Reporting Period.

Net debt to equity ratio

Net debt to equity ratio is calculated by dividing our net debt (total borrowings less cash and cash equivalents) as a percentage of total equity at the end of each financial period. The increase in the net debt to equity ratio at the end of the Reporting Period as compared with that as of December 31, 2017 was mainly due to the increase in our net debt.

Pledged assets

As of December 31, 2018, we pledged the assets of RMB16.5 billion (December 31, 2017: RMB15 billion) for obtaining borrowings.

Contingent liabilities

Our contingent liabilities primarily comprise (i) shareholder's guarantees we provided in respect of the borrowings provided by commercial banks and other financial institutions to associates and third parties for their business expansion; and (ii) financial guarantees provided by our subsidiaries in the financial services business to SMEs for their borrowings from certain banks.

We evaluated the financial position of financial guarantees provided in connection with our financial services business periodically and made provision accordingly. As of December 31, 2018 and December 31, 2017, the provision made by us was RMB26 million and RMB109 million respectively.

The table below sets forth our total contingent liabilities as of the dates indicated:

Unit: RMB million

	As of December 31, 2018	As of December 31, 2017
Financial guarantee of guarantee business	**10,468**	3,765
Other guarantee		
– Related parties	**3,720**	1,923
– Unrelated parties	**6,376**	11,857

Guarantee provided for unrelated parties mainly represents the guarantee provided for the real estate business disposed of in historical years during the validity period of the guarantee. The guaranteed companies also provided counter-guarantee for such guarantee.

Major Risks and Response Management

As a diversified investment holding company, both Legend Holdings and its portfolio companies should identify, assess and manage various kinds of risks. In particular, the portfolio companies risk management is one of the key tasks of our post-investment management, and we coordinate and standardize risk management through effective management control and services.

Our business operations involve certain major risks, for example:

Macro economy and market environment risk

The Company's subsidiaries are engaged in information technology, financial services and other industries. The macro-economic environment and market fluctuation may affect the business and profitability of our subsidiaries, which results in risk on the fluctuation of the Company's overall operating results.

We continually monitor the changes in macro economy, regulatory policies and market environment, predict possible problems and make feasible adjustments rapidly, including requiring our subsidiaries to adjust business structures, change operation strategies and inject capital. The Company also regularly appraises risks on overall portfolio, and optimizes and adjusts those risks based on the appraisal results when appropriate.

Investment business risk

The Company adopts the two-wheel-drive business model under which strategic investments and financial investments serve as two wheels. Due to the wide range of investments, our judgment on the industry development trend may differ from the actual conditions, which results in risks on lower-than-expected return of investments.

After making sufficient researches on domestic and overseas industrial development trends and national industrial policies, we focus our strategic investments on information technology, financial services, innovative consumption and services, agriculture and food as well as other industries with long-term development potentials. Meanwhile, we conduct long-term industry tracking to ensure that we can keep abreast of the industry trends and make timely and dynamic adjustments to investment strategies in response to the changes in conditions.

Post-investment management risk

The Company carries out strategic investments in various industries at home and abroad and conducts strategic management and control over the acquired enterprises after completion of the acquisition, which exposes the Company to risks on post-investment management and consolidation in operation and management as well as cultural integration with the portfolio companies.

The Company conducts in-depth analysis on the corporate culture and management team of portfolio companies before making investments to ensure that they have common philosophies on development strategies and operational management with us and their cultures are able to be integrated with us. Meanwhile, we adopt various measures to strengthen the management control and service capabilities of the portfolio companies. In particular, we improve the corporate governance structure and realize strategy management through effective corporate governance. The post-investment management team continuously collect information about the operation of the portfolio companies and assists them in improving operational and management efficiencies, corporate values and achieving effective risk management. We also provide the portfolio companies with trainings on management methods, financial and tax related professional services, culture building and trainings related to other fields.

Financial risks

The Group's activities are exposed to a variety of financial risks, which consist of market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. Our overall financial risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. We have implemented a unified and hierarchical financial control management system. We guide and supervise major aspects of the financial management of the subsidiaries and each subsidiary manages its financial risks at their own levels. We and certain of our subsidiaries use derivative financial instruments to hedge certain risk exposures.

- ### Foreign exchange risk

  The Group operates internationally and is exposed to foreign currency risk arising from various currency exposures, primarily with respect to USD, RMB and EUR. Foreign currency risks arise from the future business transactions, recognized assets and liabilities and net investment in foreign operations denominated in a currency other than the functional currency of the Company and our subsidiaries. The Company and each of our subsidiaries monitor the amount of assets and liabilities and transactions denominated in foreign currencies closely in order to minimize the foreign exchange risk and enter into forward exchange contracts to mitigate the foreign currency risk (if applicable).

- ### Interest risk

  The Group's interest rate risk arises from the mismatches between contractual maturities or re-pricing dates of interest-generating assets and interest-bearing liabilities. Each of our operating entities has formulated its own interest risk management policies and procedures covering identification, measurement, monitoring and control of risks. We manage interest rate risk to control potential loss from interest rate risk at an acceptable level.

- ### Price risk

  The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheets either at fair value through profit or loss or fair value through other comprehensive income. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio and constantly judges and deals with the potential impacts of price changes.

  Our investments in equity of other entities that are publicly traded in the following capital markets: Hong Kong, China, Europe, US, and Japan.

- ### Credit risk

  Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. Credit risk arises mainly from exposure of loans to customers raised by the subsidiaries engaged in banking business and non-banking business of financial investments segment, exposure from receivables, as well as the credit risks arising from investments in debt securities, other exposures arising from its trading activities and the activities provided off-balance sheet commitment and guarantee business to customers.

  We use internal credit risk ratings that reflect its assessment of the probability of default of individual counterparties. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgement from the credit risk officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model. For the credit risk raising from receivables, our relevant subsidiaries have established credit policies under which individual credit evaluations are performed on all customers to determine the credit limit and terms applicable to the customers.

- **Liquidity risk**

  Cash flow forecasting is performed by the Company and each of our subsidiaries. We monitor the subsidiaries' rolling forecasts of short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institutions so that it does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

Compliance risk

Compliance risk refers to the risk of the Company and each of our subsidiaries and their Directors, Supervisors, senior management and its employees being subject to legal obligations, regulatory penalties, financial or reputation losses due to operation and management or practice in violation of regulations. As our business activities and investments cover, including but not limited to, the PRC, Hong Kong, Europe, Australia and South America, we are also subject to the laws and regulatory rules of different jurisdictions. The Board of the Company will monitor our compliance policies, review the effectiveness of our internal control and risk management and seek for advice from the compliance advisor and internal and external lawyers on compliance matters from time to time. During the Reporting Period, the Group has complied with relevant regulations which have significant impacts on our business and operation in all material respects.

Events after the Reporting Period

On January 15, 2019, the Company completed the public issuance of 2019 corporate bonds (first tranche) of Legend Holdings Corporation to qualified investors. The actual size of issue of the 3-year type of the first tranche of bonds is RMB2 billion with a final coupon rate of 4.50%. The actual size of issue of the 5-year type of the First Tranche of Bonds is RMB1 billion with a final coupon rate of 5.30%.

On January 24, 2019, Lenovo completed the issuance of 5-year USD675 million convertible bonds bearing annual interest at 3.375% due in January 2024 (the "Bonds") to third party professional investors (the "bondholders"). The bondholders have the right, at any time on or after 41 days after the date of issue up to the 10th day prior to the maturity date, to convert part or all of the outstanding principal amount of the Bonds into ordinary shares of Lenovo at a conversion price of HKD7.99 per share, subject to adjustments. The outstanding principal amount of the Bonds is repayable by Lenovo upon the maturity of the Bonds on January 24, 2024, if not previously redeemed, converted or purchased and cancelled. Based on the initial conversion price of HKD7.99 per Share and assuming full conversion of the bonds at the initial conversion price, the bonds will be convertible into 662,539,112 Shares, representing:(i) approximately 5.51% of the existing issued share capital of Lenovo as at the date of this announcement; and (ii) approximately 5.23% of the issued share capital of Lenovo, as enlarged by full conversion of the Bonds.

On February 27, 2019, Leap Wave, a wholly-owned subsidiary of the Company, completed the subscription for the convertible bonds of Hospital Corporation (the "Convertible Bonds") in an aggregate principal amount of HKD800 million at an initial conversion price of HKD20 (the "Conversion Price") per conversion share and at the consideration equivalent to the total principal amount of the Convertible Bonds. Assuming that the Board decides to exercise in full the conversion rights attached to the Convertible Bonds in the aggregate principal amount of HKD800 million, based on the initial Conversion Price of HKD20 per share, the Company will hold up to 40 million Shares in Hospital Corporation (the "Conversion Shares") in total, representing approximately 28.94% of the issued share capital of Hospital Corporation and approximately 22.45% of the issued share capital of Hospital Corporation as enlarged by the issue of the Conversion Shares (assuming there is no further issue or repurchase of Shares). After Closing and if none of the Convertible Bonds has been converted, Leap Wave (as the holder of the Convertible Bonds) shall be entitled to nominate one qualified person as director of Hospital Corporation, provided that the Leap Wave directly or indirectly holds not less than 10% equity of Hospital Corporation's total issued share capital on an as-converted and fully-diluted basis. After Closing and if the Convertible Bonds have been fully or partially converted, Leap Wave (as a shareholder of Hospital Corporation) shall then be entitled to nominate one qualified person as a director of Hospital Corporation pursuant to the articles of association of Hospital Corporation.

On February 28, 2019, Beijing Joyvio Zhencheng Technology Co., Ltd. (北京佳沃臻誠科技有限公司,Joyvio Zhencheng, a subsidiary of Joyvio Group) (as the Buyer), Inversiones ASF Limitada, Asesorías e Inversiones Benjamín S.A., Inversiones Ruiseñor Dos Limitada, Inversiones Arlequín Dos Limitada (as the Sellers) and Joyvio Group (as the guarantor) entered into the Stock Purchase Agreement (the Agreement). Pursuant to the Agreement, the Buyer has conditionally agreed to purchase and the Sellers have conditionally agreed to sell approximately 95.26% of the issued shares of the Australis Seafoods S.A. (the "Target Company"), a public company registered in Santiago, Chile and listed on the San Diego Stock Exchange. The value of 100% equity interest in the Target Company is approximately USD880 million (equivalent to approximately RMB6,064 million). The final consideration will be subject to the adjustments for any variations of net financial debts and net working capital in the audited financial statements of the Target Company for the period from June 30, 2018 to the date of adjustment in accordance with the terms of the Agreement. Joyvio Group has agreed to provide a joint and several guarantee for the performance of obligations of Joyvio Zhencheng under the Agreement without consideration. Up to the date of this report, the Group has not yet completed the relevant approval from all of the authorities and registration procedures related with the acquisition of Australis Seafoods S.A., so the relevant information is not disclosed.

Use of proceeds from the initial public offering

The Company's net proceeds from the initial public offering amounted to approximately HKD14.75 billion (equivalent to approximately RMB11.64 billion, including the proceeds from the partial exercise of over-allotment option), which are intended to be applied in the manner disclosed in the prospectus of the Company.

As of December 31, 2018, the Company applied RMB2 billion for the repayment of partial amount of the corporate bonds due in 2015 and RMB342 million for the ordinary working capital. In accordance with its strategic development and operation, on July 2, 2018, the Company used all the remaining proceeds that had been raised from its initial public offering as partial settlement of the acquisition of BIL.

Details about the number of employees, remuneration policy and bonus and remuneration standards for Directors

As at December 31, 2018, the Company and its subsidiaries had approximately 75,000 employees. The Company acknowledges that a top-notch professional team with high efficiency is vital to a first-class investment holdings company for fully supporting the Company's strategic and business development. To attract and retain top-notch talents, the overall remuneration level has to be fairly competitive in the market. Therefore, the Company established a general remuneration system for core management members and employees with market competitiveness which is compatible with the business features of the Company:

1. In respect of the Company's core management members ("core management"), the overall remuneration comprises annual remuneration, mid-term to long-term incentives and benefits. Annual remuneration as well as mid-term to long-term incentives of core management of the Company is determined by the Board based on the overall performance of the Company and the duties undertaken by the core management and their performance. The Company will then determine performance results according to the Company's performance and the performance appraisal of core management. Annual remuneration comprises annual basic salaries (determined based on the duties undertaken by core management) and target bonus (calculated based on a certain proportion of the basic salaries of core management with reference to the overall performance of the Company and performance appraisal of core management). And the benefits include basic social benefits and supplemental benefits of the Company.

2. In respect of the employees of the Company, the overall remuneration consists of annual remuneration, mid-term to long-term incentives and benefits. Annual remuneration comprises basic salaries and target bonus. Basic salaries represent salaries determined based on duties undertaken by the employees, their performance and capabilities. Target bonus is determined based on a certain proportion of the employees' basic salaries and calculated based on the annual operating results of the Company and the annual performance appraisal of employees. Meanwhile, in order to attract and motivate talents to create values for the sustainable development of the Company, the 2016 mid-term to long-term share incentive scheme was approved by the Board and the general meetings of the Company. In addition, the Company also establishes a system of basic social benefits and supplemental benefits as a complementary with a view to enhance its benefits level.

3. The remuneration for Independent Non-executive Directors is determined based on the time devoted, workload, duties undertaken thereby and prevailing market level. The Remuneration Committee reviews the remuneration for Independent Non-executive Directors on a regular basis.

4. In accordance with the relevant regulations of China, the Company provides various statutory benefits to our employees, including basic pension insurance, basic medical insurance, employment injury insurance, unemployment insurance, maternity insurance and housing provident fund. In addition, in order to provide our employees with more comprehensive benefits, the Company also provides supplemental benefits on its own, including supplement to pension insurance, medical insurance and housing provident fund as well as physical medical examination.

Recommendation of final dividend

The Board has recommended a final dividend of RMB0.30 per ordinary share (before tax) for the year ended December 31, 2018 (2017: RMB0.27). The proposed final dividend is subject to the approval of the Shareholders at the 2018 annual general meeting of the Company (the "2018 AGM") to be held on Thursday, June 13, 2019. The proposed cash dividend will be paid to the Shareholders (whose names appear on the register of members of the Company on Monday, June 24, 2019) on or before Monday, July 15, 2019. The specific arrangement for the distribution of final dividend (including arrangement of withholding and payment of income tax for the Shareholders) will be disclosed separately in the notice of 2018 AGM. The dividends for Domestic Shares will be paid in RMB, and the dividends for H Shares will be denominated in RMB and paid in HKD (the exchange rate for RMB to HKD shall be calculated based on the average of the intermediate exchange rate for conversion for RMB to HKD released by the People's Bank of China for a calendar week before the date of the 2018 AGM).

Closure of register of members

In order to determine the Shareholders entitled to attend and vote at the 2018 AGM, the register of members of the Company will be closed from Tuesday, May 14, 2019 to Thursday, June 13, 2019 (both days inclusive), during which time no transfer of the H Shares will be registered. Accordingly, unregistered H Shareholders shall lodge relevant share transfer documents with the Company's H share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, May 10, 2019.

In order to determine the entitlement of the H Shareholders to the final dividend for 2018, the H share register of the Company will be closed from Wednesday, June 19, 2019 to Monday, June 24, 2019 (both days inclusive). The H Shareholders who wish to receive the final dividend for 2018 shall deliver the share certificates accompanied by the transfer documents to the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, June 18, 2019.

Biography of Directors, Supervisors and Senior Management

Mr. LIU Chuanzhi *Chairman and Executive Director*

Mr. LIU Chuanzhi (柳傳志), aged 74, the Founder of Legend Holdings and was appointed as a Director and the Chairman of the Board on February 18, 2014, the date of the Company changed to a joint stock limited liability company and was appointed as the Chairman of the Nomination Committee on June 29, 2015. Mr. LIU is also the founder of Lenovo and held various senior positions as the president, an executive director, a non-executive director and the chairman of the board of Lenovo from 1989 to 2011. He has substantial experiences in corporate management and holds chairmanships in various members of Legend Holdings.

Prior to joining Legend Holdings, Mr. LIU served at the Institute of Computing Technology Chinese Academy of Sciences (中國科學院計算技術研究所). In 1966, Mr. LIU graduated from the Radar Navigation Department of People's Liberation Army Institute of Telecommunication Engineering (中國人民解放軍軍事電信工程學院雷達導航系) (now known as Xidian University) in China.

Mr. ZHU Linan *Executive Director*

Mr. ZHU Linan (朱立南), aged 56, was appointed as a Director and the President of the Company on February 18, 2014, the date of the Company changed to a joint stock limited liability company. Mr. ZHU joined Legend Holdings since 2001 and served consecutively as a Director and Executive Vice President and Director and President. Mr. ZHU first joined the Company's subsidiary in 1989 and served as the general manager of Shenzhen Legend Computer Co., Ltd. (深圳聯想電腦有限公司). From 1997 to 2001, he joined Lenovo and served consecutively as a general manager of Business Development Department, head of Corporate Planning Office, an assistant president, a vice president and a senior vice president. He was a founder of Legend Investment Limited (聯想投資有限公司), the predecessor of Legend Capital Co., Ltd. (君聯資本管理股份有限公司) in 2001 and served as president and managing director and has served as the chairman since 2015. In addition, Mr. ZHU holds directorships and senior management positions in various members of Legend Holdings. Mr. ZHU is currently a non-executive director of Lenovo and CAR Inc. (both listed on the Hong Kong Stock Exchange).

Mr. ZHU obtained his master's degree in Electronic Engineering from Shanghai Jiao Tong University in China in 1987.

Mr. ZHAO John Huan *Executive Director*

Mr. ZHAO John Huan (趙令歡), aged 56, was appointed as a Director and Executive Vice President of the Company on February 18, 2014, the date of the Company changed to a joint stock limited liability company. Mr. ZHAO joined Legend Holdings in 2003 when he founded Hony Capital. From 2003 to 2011, he served consecutively as executive vice president, senior vice president and a director and senior vice president of Legend Holdings Limited, the predecessor of the Company. He is currently the chairman of Hony Capital.

Mr. ZHAO has extensive experiences in corporate management and held senior management positions at several companies in the United States and the PRC. From 2002 to 2003, Mr. ZHAO was the advisor to chief executive officer of Lenovo. Prior to joining Legend Holdings, he also served as the research & development director and senior manager of Shure Brothers, Inc., vice president of US Robotics Inc. (listed on NASDAQ Stock Market), chairman of the board and president of Vadem, Inc., chairman of the board and president of Infolio Inc. and a managing partner and chief executive officer of eGarden Ventures, Ltd.

Mr. ZHAO is currently a non-executive director of Lenovo and a non-executive director of China Glass Holdings Limited, the chairman of the board, chief executive officer and executive director of Best Food Holding Company Limited and the chairman of the board and non-executive director of Hospital Corporation, and the chairman of the board of directors and executive director of International Elite Ltd. (all listed on the Hong Kong Stock Exchange), the director of Shanghai Jin Jiang International Hotels Development Co., Ltd. and ENN Ecological Holdings Co., Ltd. (both listed on the Shanghai Stock Exchange) and a non-executive director of Zoomlion Heavy Industry Science & Technology Development Co., Ltd. (listed on the Hong Kong and Shenzhen Stock Exchanges). He previously served as the chairman of the board of China Glass Holdings Limited (listed on the Hong Kong Stock Exchange), a director of New China Life Insurance Company Ltd., Chinasoft International Limited and CSPC Pharmaceutical Group Limited (all listed on the Hong Kong Stock Exchange), the vice chairman of Shanghai Chengtou Holding Co., Ltd. (上海城投控股股份有限公司) and the vice chairman and director of Shanghai Environmental Group Co., Ltd. (both listed on the Shanghai Stock Exchange) and a director of Fiat Industrial S.p.A. (listed on MTA Italian Stock Exchange).

Mr. ZHAO obtained his bachelor's degree in science from Nanjing University in China in 1984 and a master of electronic engineering and science degree from Northern Illinois University in the United States in 1990 and a master of business administration degree from the J.L. Kellogg Graduate School of Management at Northwestern University in the United States in 1996.

Mr. NING Min *Executive Director*

Mr. NING Min (寧旻), aged 49, was appointed as a Director and a member of Remuneration Committee of the Company on December 27, 2018, and was appointed as a Senior Vice President, the Chief Financial Officer and the Secretary of the Board of the Company on February 18, 2014, the date of the Company changed to a joint stock limited liability company. He has been a Senior Vice President and a member of the Executive Committee of the Company (including its predecessor) since 2012. He was appointed as the Joint Company Secretary of the Company on March 15, 2015. Mr. NING's day-to-day responsibilities include assisting in the development and implementation of development strategies of the Company, and responsible for asset management, public relations, investors relationship, finance management and relevant affairs of capital market, and the Hong Kong office of the Company. He currently holds chairmanships and directorships in various members of the Company.

Mr. NING joined Legend Holdings in 2000 and served consecutively as an Assistant President and a Deputy Head of the Corporate Planning Office, the secretary of the Board, an Assistant President and the General Manager of the Asset Management Department, a Senior Vice President and General Manager of the Asset Management Department. From 1991 to 2000, Mr. NING served consecutively in Lenovo as a secretary to the president and an assistant to the chairman of the Board. Mr. NING is currently a director of Xi'an Shaangu Power Co., Ltd. (西安陝鼓動力股份有限公司) and Beijing Electronics Zone Investment and Development Co., Ltd. (北京電子城投資開發集團股份有限公司) (both listed on the Shanghai Stock Exchange). He was previously a non-executive director of China Glass Holdings Limited (listed on the Hong Kong Stock Exchange).

Mr. NING obtained his bachelor's degree in economics from Renmin University of China (中國人民大學) in 1997. Mr. NING completed courses of master of business administration offered by Graduate School of Renmin University of China (中國人民大學研究生院) in China in 2001.

Mr. WU Lebin *Non-executive Director*

Mr. WU Lebin (吳樂斌), aged 56, was appointed as a Director of the Company on September 4, 2014. He is the chairman of the board of directors of CAS Holdings, a substantial Shareholder, and the chairman of the board of directors and executive director of Biosino Bio-Technology and Science Incorporation (listed on the Hong Kong Stock Exchange). He previously served as a deputy head of the Institute of Biophysics of CAS (中國科學院生物物理研究所), the chief of Public Relations Coordination Office of CAS General Office (中國科學院辦公廳公共關係協調處), and an engineer of Strategic Vision Office of CAS Technology Policy Bureau (中國科學院科技政策局戰略遠景處).

Mr. WU obtained his bachelor's degree in medicine from Jiangxi Medical College (江西醫學院) (now known as Medical College of Nanchang University (南昌大學醫學院)) in China in 1983 and a master's degree in science from the Institute of Vertebrate Paleontology and Paleoanthropology of Chinese Academy of Sciences (中國科學院古脊椎動物與古人類研究所) in China in 1988. He also completed an EMBA study program jointly offered by the branch of University of Wisconsin-Madison in the United States and CAS in 2002.

Mr. SUO Jishuan *Non-executive Director*

Mr. SUO Jishuan (索繼栓), aged 55, was appointed as a Director and a member of Audit Committee of the Company on June 5, 2018. Mr. SUO served as the Supervisor of the Company from September 4, 2014 to June 5, 2018. Mr. SUO is the general manager and director of Chinese Academy of Sciences Holdings Co., Ltd. (中國科學院控股有限公司). Mr. SUO worked for Lanzhou Institute of Chemical Physics, Chinese Academy of Sciences (中國科學院蘭州化學物理研究所) ("LICP") from 1991 to 2003 and served consecutively as deputy head of the State Key Laboratory for Oxo Synthesis and Selective Oxidation (羰基合成和選擇氧化國家重點實驗室), the head of the National Engineering Research Center of Fine Petrochemical Intermediates (精細石油化工中間體國家工程研究中心), assistant to the chief of LICP, deputy chief of LICP and vice president of Lanzhou Branch of Chinese Academy of Sciences. He was the chairman of the board of directors of Chengdu Organic Chemicals Co., Ltd., Chinese Academy Sciences (中國科學院成都有機化學有限公司) from 2003 to 2009, deputy general manager of CAS Holdings from 2009 to 2014, the chairman of the board of Software Engineering Center, Chinese Academy Sciences (北京中科院軟件中心有限公司) from 2011 to 2014 and the chairman of the board of Shenzhen CAS IP Investment Co., Ltd. (深圳中科院知識產權投資有限公司) from 2011 to 2015. Mr. SUO also served as the Chairman of the board of China Science Publishing & Media Group Ltd. (中國科技出版傳媒集團有限公司) from 2016 to 2018.

Mr. SUO obtained his bachelor's degree in science from Inner Mongolia University in China in 1986 and a doctoral degree in science from LICP in China in 1991.

Mr. MA Weihua *Independent Non-executive Director*

Mr. MA Weihua (馬蔚華), aged 70, was appointed as a Director of the Company on March 15, 2015 with effect from June 29, 2015, the listing date of the Company. He was also appointed as the Chairman of Remuneration Committee and a member of Nomination Committee on June 29, 2015.

Mr. MA has been an independent non-executive director of China Eastern Airlines Corporation Limited (listed on the Hong Kong and the Shanghai Stock Exchanges), an independent director of China World Trade Center Co., Ltd. (中國國際貿易中心股份有限公司) (listed on the Shanghai Stock Exchange), an independent non-executive director of Postal Savings Bank of China Co., Ltd. (listed on the Hong Kong Stock Exchange), the chairman and a non-executive director of Bison Finance Group Limited (formerly known as RoadShow Holdings Limited) (listed on the Hong Kong Stock Exchange) and the chairman of board of supervisors of Taikang Insurance Group Co., Ltd. (previously known as Taikang Life Insurance Company Limited).

Mr. MA previously served as the president, chief executive officer and executive director of China Merchants Bank Co., Ltd. (listed on the Hong Kong and Shanghai Stock Exchange), an independent non-executive director of China Petroleum & Chemical Corporation (listed on the Hong Kong, Shanghai, New York and London Stock Exchanges) and an independent non-executive director of Winox Holdings Limited and China Resources Land Limited (both listed on the Hong Kong Stock Exchange). In addition, Mr. MA is a member of the Standing Council of China Society for Finance and Banking, the director-general of One Foundation (壹基金公益基金會理事長) and the director-general of Council of National Fund for Technology Transfer and Commercialization (國家科技成果轉化引導基金理事會理事長). Mr. MA is a member of the Twelfth National Committee of the Chinese People's Political Consultative Conference.

Mr. MA was awarded the doctor of philosophy degree in economics from Southwest Finance and Economics University in China in 1999.

Mr. ZHANG Xuebing *Independent Non-executive Director*

Mr. ZHANG Xuebing (張學兵), aged 53, was appointed as a Director of the Company on March 15, 2015 with effect from June 29, 2015, the listing date of the Company. He was also appointed as a member of the Audit Committee and a member of the Nomination Committee of the Company on June 29, 2015. Mr. ZHANG established Zhong Lun Law Firm in 1993 and is the managing partner to present. He is currently an external director of China Telecommunications Corporation, the independent director of Huafa Industrial Co., Ltd. Zhuhai and the Council of China University of Political Science and Law in China. In addition, Mr. ZHANG was the former chairman of the Eighth and Ninth Beijing Lawyers Association (北京市律師協會). He is now the vice-chairman of the All China Lawyers Association (中華全國律師協會), and an arbitrator of the China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會).

Mr. ZHANG obtained his bachelor of laws degree from China University of Political Science and Law in China in 1986, master of laws degree from China University of Political Science and Law in China in 1991 and master of laws degree from Duke University in the United States in 1998. Mr. ZHANG was admitted as a PRC qualified lawyer in 1989 by Beijing Municipal Bureau of Justice (北京市司法局) and was granted the qualification of lawyer for engaging in securities law business by the China Securities Regulatory Commission in 1996.

Ms. HAO Quan *Independent Non-executive Director*

Ms. HAO Quan (郝荃), aged 60, was appointed as a Director of the Company on March 15, 2015 with effect from June 29, 2015, the listing date of the Company. She was also appointed as the Chairperson of the Audit Committee and a member of the Remuneration Committee of the Company on June 29, 2015. Ms. HAO previously served as a lecturer of the Renmin University of China from 1982 to 1989. She first joined KPMG (USA) in 1993 and became a partner of KPMG Huazhen (Special General Partnership) and its predecessor from 2001 to 2015. Ms. HAO is currently an independent director of BEST Inc. (listed on New York Stock Exchange) and HSBC Bank (China) Company Limited.

Ms. HAO obtained her bachelor of economics degree from the Renmin University of China in 1982 and the master of business administration degree from Temple University in the United States in 1993. Ms. HAO obtained the qualification of certified public accountant in California, the United States in 1995 and as a PRC certified public accountant in 2002.

Mr. LI Qin *Supervisor*

Mr. LI Qin (李勤), aged 78, was appointed as the Chairman of the Board of Supervisors on February 18, 2014, the date of the Company changed to a joint stock limited liability company. Mr. LI served as deputy general manager of Chinese Academy of Sciences Computer Technology Research Institute New Technology Development Company (中國科學院計算技術研究所新技術發展公司) (the predecessor of the Company) from 1985 to 1989, and as executive vice president of Lenovo from 1989 to 2001. He served at Legend Holdings Limited (the predecessor of the Company) as executive vice president from 2001 to 2009 and as chief supervisor from 2009 to 2014. Mr. LI is an independent non-executive director of Sunac China Holdings Limited (listed on the Hong Kong Stock Exchange).

Mr. LI obtained his graduate certificate specializing in auto-control from Beijing Mechanical Institute (北京機械學院) in China in 1965.

Mr. LUO Cheng *Supervisor*

Mr. LUO Cheng (羅成), aged 40, was appointed as a Supervisor of the Company on January 16, 2018. He is an assistant president of China Oceanwide Ltd., a substantial Shareholder. He obtained a master of art degree from the University of Leeds in 2002, majoring in accounting and finance. Mr. LUO is currently a supervisor of Mingsheng Holdings Co., Ltd. (民生控股股份有限公司) (listed on the Shenzhen Stock Exchange), and also served as a supervisor of Oceanwide Holdings Co., Ltd. (泛海控股股份有限公司) (listed on the Shenzhen Stock Exchange).

Ms. FENG Ling *Supervisor*

Ms. FENG Ling (馮玲), aged 54, was appointed as a Supervisor of the Company on June 5, 2018. Ms. FENG Ling is the chief financial officer of CAS Holdings, a substantial Shareholder and a supervisor of Levima New Materials Limited, a subsidiary of the Company. She served as deputy general manager of the finance and auditing department, general manager of the asset operation department, and general manager of the finance and auditing department of CAS Holdings. She is currently a supervisor of China Science Publishing & Media Ltd. (中國科技出版傳媒股份有限公司), a supervisor of China Sciences Group Co., Ltd. (中科實業集團(控股)有限公司) and a director of Beijing Corona Science & Technology Co., Ltd. (北京科諾偉業科技股份有限公司).

Ms. FENG obtained the senior advanced engineer qualification granted by the Chinese Academy of Sciences in 2013, the senior accountant qualification issued by the Senior Professional and Technical Evaluation Committee of the Ministry of Housing and Urban-Rural Development of the PRC (中國住房和城鄉建設部高級專業技術職務評審委員會) in 2009, and the certified public accountant qualification issued by the Chinese Association of Certified Public Accountants in 2001. Ms. FENG obtained a bachelor's degree from Xi'an College of Architecture and Technology (西安冶金建築學院) in 1985.

Mr. CHEN Shaopeng *Senior Management*

Mr. CHEN Shaopeng (陳紹鵬), aged 49, was appointed as a Senior Vice President and a member of the Executive Committee of the Company (including its predecessor) since 2011, responsible for the investment in the agriculture and food businesses of the Company. Mr. CHEN is currently the chairman of the board of Joyvio Group and holds chairmanships and directorships in various members of Legend Holdings. From 1993 to 2011, Mr. CHEN served consecutively in Lenovo as a sales manager, a regional manager, a regional deputy general manager, a regional general manager, an assistant president, a vice president, a senior vice president & president of Greater China Region, a senior vice president & president of Asia-Pacific and Russia Region and a senior vice president & president of Emerging Markets Group. Prior to joining Legend Holding, he served as a system administrator of the computing center of the Planning and Design Institute of the Ministry of Light Industry from 1992 to 1993. Mr. CHEN also served as a director of Joyvio Agriculture Development Co., Ltd. (佳沃農業開發股份有限公司) (listed on Shenzhen Stock Exchange).

Mr. CHEN obtained his bachelor's degree in engineering from Beijing Institute of Light Industry (北京輕工業學院) (now known as Beijing Technology and Business University (北京工商大學)) in China in 1992 and an EMBA degree from Tsinghua University in China in 2005. He completed the Advanced Management Program at Harvard Business School in the United States in 2008.

Mr. TANG Xudong *Senior Management*

Mr. TANG Xudong (唐旭東), aged 57, was appointed as a Senior Vice President and a member of the Executive Committee of the Company (including its predecessor) since January 2012, responsible for managing the investments in Legend Star, Legend Management Institute (聯想管理學院), Human Resources Department and other administrative affairs. Mr. TANG is currently the chairman of the board of Beijing Legend Star Investment Management Limited and holds directorships in various members of Legend Holdings. In addition, Mr. TANG serves as a director of CAS Holdings, the substantial Shareholder, since 2011.

Mr. TANG joined Legend Holdings in 2001 and served consecutively as Vice President and Head of Corporate Planning Office, Vice President, Senior Vice President and General Manager of the Incubator Investment Division, General Manager of Human Resources Department, and Executive Dean of Legend Management Institute. From 1990 to 2001, he served consecutively in Lenovo as general manager of the Legal Department, general manager of Human Resources Department and deputy head of Corporate Planning Office. Prior to joining Legend Holdings, Mr. TANG served as an assistant engineer in CAS Policy Bureau (中國科學院政策局) from 1987 to 1990.

Mr. TANG obtained his bachelor's degree in laws from Central Institute of Nationalities (中央民族學院) (now known as Minzu University of China) in China in 1986, and got an EMBA degree from Cheung Kong Graduate School of Business in China in 2005.

Mr. LI Peng *Senior Management*

Mr. LI Peng (李蓬), aged 47, was appointed as a Senior Vice President and a member of the Executive Committee of Legend Holdings on July 15, 2015, currently responsible for the strategic investments of Legend Holdings including financial services investment and overseas investment. He currently holds directorships in various members of Legend Holdings. Mr. LI joined Legend Holdings in 2003 and served consecutively as a Deputy Head of the Corporate Planning Office and General Manager of the Investment Management Department, General Manager of the Finance & Assets Department, an Assistant President, a Vice President as well as a Senior Vice President and General Manager of the Strategic Investment Department. Mr. LI is currently the Senior Vice President and a member of the Executive Committee of Legend Holdings.

Prior to joining Legend Holdings, Mr. LI served as a finance manager of Sinotrans Corporation (中國對外貿易運輸總公司) from 1994 to 1999. He also served as a senior financial analyst of Teradyne Connection Systems, US from June 2001 to December 2002.

Mr. LI obtained his bachelor's degree in international finance from University of International Business & Economics (China) in China in 1994, and an MBA from the University of New Hampshire in the United States in 2001.

Director's Report

Principal Businesses

The principal businesses of the Company comprise strategic investment business (investment in five major sectors: IT, financial services, innovative consumption and services, agriculture and food, and advanced manufacturing and professional services) and financial investment business (mainly includes angel investments, venture capital investments, private equity investments and other investments).

Reserve

During the Reporting Period, the changes in reserve of the Company and its subsidiaries are set out in the consolidated statement of changes in equity of the financial statements prepared in accordance with the International Financial Reporting Standards in this annual report. The changes in reserve of the Company are set out in the note 50(b) to the financial statements.

Distributable Reserve

According to the Articles of Association of the Company, dividend can only be distributed in accordance with the distributable profit determined by the China Accounting Standards for Business Enterprises or International Financial Reporting Standards or accounting standards of the place where the Company is listed (whichever is lower).

As of December 31, 2018, the distributable reserve of the Company amounted to RMB1,546 million (2017: RMB2,552 million) which was calculated pursuant to the accounting policy under the China Accounting Standards for Business Enterprises.

Results and Appropriations

The results of the Company and its subsidiaries for the year are set out in the consolidated income statement on pages 138 to 139 of this annual report.

The overall financial position of the Company and its subsidiaries as at December 31, 2018 are set out in the consolidated balance sheet on pages 140 to 142 in this annual report, and the financial position of the Company as at December 31, 2018 in note 50(a) to the financial statements, respectively.

The consolidated cash flows statement of the Company and its subsidiaries for the year is set out in the consolidated cash flows statement on pages 145 to 146 in this annual report.

The Board has recommended a final dividend of RMB0.30 per ordinary share (before tax) for the year ended December 31, 2018 (2017：RMB0.27). The proposed final dividend is subject to the approval of the Shareholders at the 2018 AGM to be held on Thursday, June 13, 2019. The proposed cash dividend will be paid to the Shareholders (whose names appear on the register of members of the Company on Monday, June 24, 2019) on or before Monday, July 15, 2019. The specific arrangement for the distribution of final dividend (including arrangement of withholding and payment of income tax for the Shareholders) will be disclosed separately in the notice of 2018 AGM. The dividends for Domestic Shares will be paid in RMB, and the dividends for H Shares will be denominated in RMB and paid in HKD (the exchange rate for RMB to HKD shall be calculated based on the average of the intermediate exchange rate for conversion for RMB to HKD released by the People's Bank of China for a calendar week before the date of the 2018 AGM).

Dividend Policy

1. The Company has adopted a Dividend Policy (the "Dividend Policy"), which provides Shareholders with sustainable returns every year. Dividend shall be determined according to the net profits attributable to equity holders of the Company (after adjustments for restructuring or other one-off non-cash items, if any) during relevant financial period, and shall be subject to the criteria set out in 3 and 4 below. The Company does not intend to set any dividend distribution ratio. The Company strives to maintain financial flexibility as well as to strike a balance between Shareholders' interests and prudent capital management.

2. The Company may consider declaring and paying special dividends from time to time in addition to the annual dividend paid to the Shareholders.

3. The Company's ability to pay dividends will depend on, among other things, the Company's operations, business plans and strategies, cash flows, financial positions, operating and capital requirements and contractual restrictions, as well as dividends received from the subsidiaries and associates of the Company, while in turn will depend on the ability of such subsidiaries and associates to pay a dividend. The payment of dividend is also subject to the provisions of the Articles of Association the Company and any other applicable laws and regulations, and other factors impacting the Company that the Board may consider relevant.

4. The Dividend Policy reflects the current view of the Board on the financial and cash flow positions of the Company and its subsidiaries. The Board will continue to review the Dividend Policy from time to time and there can be no assurance that dividends will be paid in any particular amount in any given period. The Board decides to recommend and pay dividend, the distribution manner, frequency and amount, which will depend on the Company's operations and profits, business plans and strategies, cash flows, operating and capital requirements, general financial positions, contractual restrictions and other factors impacting the Company that the Board may consider relevant.

Shares Issued

The Company did not issue any new Shares for the year ended December 31, 2018. The details of Shares issued of the Company are set out in note 33 to the financial statements.

Bonds Issued

During the year ended December 31, 2018, the Company issued a total of three tranches of corporate bonds. All bonds were listed on the Shanghai Stock Exchange and were issued to eligible domestic investors. The proceeds from such three issuances after deducting the issue expenses were fully utilized towards repayment of interest-bearing debts.

1. On February 2, 2018, the Company completed the public offering of 2018 corporate bonds of a total amount of RMB1 billion (Tranche 1), with a term of 5 years, and a final coupon rate of 6%.

2. On July 3, 2018, the Company completed the public offering of 2018 corporate bonds of a total amount of RMB1.6 billion (Tranche 2), with a term of 3 years, and a final coupon rate of 5.99%.

3. On December 3, 2018, the Company completed the public offering of 2018 corporate bonds of a total amount of RMB1.5 billion (Tranche 3), with a term of 3 years, and a final coupon rate of 4.7%. Both investors and the Company may choose to renew for another 2 years or not before the expiry of the 3-year term.

Equity-linked Agreements

No equity-linked agreement was entered into by the Company during the year ended December 31 or as at December 31, 2018.

Donations

During the year, donations for charity or other purposes made by the Company and its subsidiaries amounted to RMB39 million (2017: RMB25 million).

Business Review

Under the Disclosure of Financial Information set out in Appendix 16 to the Listing Rules, the Company is required to include a business review in the Director's Report. According to Schedule 5 to the Companies Ordinance of Hong Kong, a business review shall cover certain aspects, the details of which are as follows:

1. A fair review of the business of the Company and its subsidiaries

   "Management Discussion and Analysis" on pages 14 to 53 of this annual report.

2. A description of the principal risks and uncertainties facing the Company and its subsidiaries

   "Major Risks and Response Management" on pages 49 to 51 of this annual report.

3. Particulars of important events affecting the Company and its subsidiaries that have occurred subsequent to the Reporting Period

   "Events after the Reporting Period" on pages 51 to 52 of this annual report.

4. An estimation of the potential development in the business of the Company and its subsidiaries

   "Management Discussion and Analysis" on pages 14 to 53 of this annual report.

5. An analysis on financial key performance indicators

   "Financial Review" on pages 44 to 48 of this annual report.

6. The Company's environmental policies and performance

   Details of the environmental and social policies and performance of Legend Holdings and its subsidiaries are set out in "Environmental, Social and Governance Report" on pages 91 to 128 of this annual report.

7. Key relationships with employees, customers, suppliers and other stakeholders

   The philosophy and principles of the Company and its subsidiaries towards its employees, customers, suppliers and other stakeholders are set out in "Environmental, Social and Governance Report" on pages 91 to 128 of this annual report.

Principal Customers and Suppliers

During the year, the sales of product and service to the top five customers from the Company and its subsidiaries were less than 12%. The principal suppliers of the Company and its subsidiaries accounted for the following percentages of the procurement amount of the Company and its subsidiaries during the year:

The largest supplier 13%
Total percentage of the top five suppliers 34%

None of the Directors, their close associates or any Shareholders (who to the knowledge of the Directors owns more than 5% of the issued Shares) had interests in the aforementioned principal suppliers.

Property, Plant and Equipment and Investment Properties

Details of changes in the property, plant and equipment and investment properties of the Company and its subsidiaries during the Reporting Period are set out in notes 17 and 18 to the financial statements, respectively.

Borrowings

Details of the borrowings of the Company and its subsidiaries are set out in note 43 to the financial statements.

Contingencies

Details of the contingencies of the Company and its subsidiaries are set out in note 49 to the financial statements.

Five-year Financial Summary

The results and summary of assets and liabilities of the Company and its subsidiaries for the year ended December 31, 2018 and in the latest four fiscal years are set out on pages 305 to 306 of this annual report.

Substantial Subsidiaries and Associates

Details of substantial subsidiaries and associates of the Company are set out in notes 12 and 13 to the financial statements.

Corporate Governance Code

The Company has complied with all the applicable code provisions of the Corporate Governance Code contained in Appendix 14 of the Listing Rules during the year ended December 31, 2018.

The Company reviews the compliance of the Corporate Governance Code and the Corporate Governance Report on an annual basis in order to ensure that the Company has complied with the code provisions. Efforts have been made to continuously enhance corporate governance with reference to the best recommended practices.

Compliance with the Relevant Laws and Regulations

The Company and its subsidiaries operate and invest in, among others, China, Hong Kong, Europe, Australia and South America. During the Reporting Period, the Company complied with the relevant laws and regulations which had material impacts on Legend Holdings' business and operations in material respects.

Purchase, Sale or Redemption of the Listed Securities of the Company

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

Sufficient Public Float

As at the date of this report, in accordance with the public information that the Company could obtain and as far as the Directors are aware, the Directors confirmed that the Company had been maintaining the sufficient public float as prescribed by the Listing Rules.

Pre-emptive Rights

According to the Company's Articles of Association and the Company Law of PRC, our Shareholders do not have any pre-emptive rights.

Tax Relief

If the Shareholders are requested by the PRC tax authorities to claim refund of overpaid tax fees through the Company in accordance with the relevant requirements of the Administrative Measures for Non-resident Taxpayers to Benefit from the Taxation Treaties (《非居民納税人享受税收協定待遇管理辦法》) (please refer to the announcement【2015】No. 60 of State Administration of Taxation (website: http://www.chinatax.gov.cn/n810341/n810765/n1465977/n1466022/c1949446/content.html), they are required to submit reports and information as stipulated in section VII of the announcement【2015】No. 60 of State Administration of Taxation to the tax authorities, and supplement the conditions of enjoying the treatment of treaties.

If non-resident enterprise Shareholders satisfy the prescribed conditions and apply for enjoyment of the policy not subject to withholding income tax, they are required to submit in advance the relevant documents to the Company in accordance with the relevant requirements of the announcement【2018】No. 53 of State Administration of Taxation (website: http://www.chinatax.gov.cn/n810341/n810755/c3906659/content.html) in order that the Company may seek approval from and file with the relevant tax authorities as early as possible. Upon completion of approval and filling, the Company will not withhold enterprise income tax for them.

Save as disclosed above, the Company is not aware of any details concerning tax relief arising from holding the securities of the Company.

Information of Directors and Supervisors

During the year and as at the date of this report, the Directors of the Company are as follows:

Mr. LIU Chuanzhi *(Chairman)*
Mr. ZHU Linan
Mr. ZHAO John Huan
Mr. NING Min (appointed on December 27, 2018)
Mr. WU Lebin#
Mr. SUO Jishuan# (appointed on June 5, 2018)
Mr. MA Weihua*
Mr. ZHANG Xuebing*
Ms. HAO Quan*
Mr. WANG Jin (retired on June 5, 2018)
Mr. LU Zhiqiang (resigned on September 7, 2018)

Non-executive Directors
* Independent Non-executive Directors

The Company has received annual independence confirmations which are made by each of existing Independent Non-executive Directors to ensure their independence in the Company pursuant to Rule 3.13 of the Listing Rules; and the Company is of the view that such Directors are independent of the Company.

During the year and as at the date of this report, the Supervisors are as follows:

Mr. LI Qin *(Chairman of Board of Supervisors)*
Mr. LUO Cheng (appointed on January 16, 2018)
Ms. FENG Ling (appointed on June 5, 2018)
Mr. QI Zixin (resigned on January 16, 2018)
Mr. SUO Jishuan (resigned on June 5, 2018)

Permitted Indemnity Provision

The Company has maintained liability insurances for its Directors, Supervisors and senior management to provide protection to them for liability that might arise in the course of their performance of duties according to law and facilitate them to fully discharge their duties.

Management Contracts

No contract in relation to the management and administration work of the Company or its any major business was entered into or subsisted during the year (other than the service contracts entered into with Directors and Supervisors or persons engaged by the Company).

Directors' Interests in Acquisition of Shares or Debentures

For the year ended December 31, 2018, there was no arrangement to enable the Directors to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any of its subsidiaries.

Directors' and Supervisors' Interests in Transactions, Arrangements or Contracts

Save as disclosed in the section "Interests of the Directors and Supervisors" in note 51(b) to financial statements, at any time during the year ended December 31, 2018 or the year end date, any Directors and Supervisors or their connected entities directly or indirectly have no material interests in other important transactions, arrangements or contracts entered into by the Company or any of its subsidiaries.

Directors' and Supervisors' Emoluments and Five Highest Emoluments

The Directors' and Supervisors' emoluments are determined by the Board with reference to their duties, responsibilities and performance and the results of the Company and its subsidiaries. Details of the Directors' and Supervisors' emoluments and the five highest paid individuals are set out in notes 51(a) and 10 to the financial statements, respectively.

Directors' Interests in Competing Business

During the Reporting Period, none of the Directors (excluding the Independent Non-executive Directors) had any interests in businesses which constitute competition or may constitute direct or indirect competition in the businesses of the Company and its subsidiaries.

Change of Director's and Supervisor's Information

Pursuant to Rule 13.51B(1) of the Listing Rules, the change of Director's and Supervisor's information is as follows:

1. Mr. LUO Cheng resigned as the supervisor of Oceanwide Holdings Co., Ltd. (泛海控股股份有限公司) (listed on the Shenzhen Stock Exchange) with effect from March 11, 2019.

2. Mr. ZHAO John Huan was appointed as the chairman of the board and executive director of International Elite Ltd. (listed on the Hong Kong Stock Exchange) with effect from December 28, 2018, and resigned as the vice chairman and director of Shanghai Environmental Group Co., Ltd. (上海環境集團股份有限公司) (listed on the Shanghai Stock Exchange) with effect from June 29, 2018.

3. Mr. NING Min was appointed as Executive Director and a member of Remuneration Committee with effect from December 27, 2018.

4. Mr. LU Zhiqiang resigned as Non-executive Director and a member of Remuneration Committee with effect from September 7, 2018.

5. Ms. HAO Quan was appointed as independent director of HSBC Bank (China) Company Limited (滙豐銀行(中國)有限公司) with effect from August 2, 2018.

6. Mr. SUO Jishuan was appointed as Non-executive Director and a member of Audit Committee and resigned as the Supervisor with effect from June 5, 2018.

7. Ms. FENG Ling was appointed as the Supervisor with effect from June 5, 2018.

8. Mr. WANG Jin retired as Non-executive Director and a member of Audit Committee with effect from June 5, 2018.

9. Mr. MA Weihua was appointed as the chairman of Bison Finance Group Limited (previously known as RoadShow Holdings Ltd., listed on the Hong Kong Stock Exchange) with effect from May 29, 2018.

Connected Transactions, Continuing Connected Transactions and Material Related Party Transactions

For the year ended December 31, 2018, the Company and its subsidiaries had entered into the following transactions, which had constituted connected transactions or continuing connected transactions of the Company under the Listing Rules and shall be disclosed pursuant to Chapter 14A of the Listing Rules:

Connected Transactions

1. On December 26, 2018, Legend Holdings Tianjin Limited ("Legend Holdings Tianjin"), a subsidiary of the Company and Levima Advanced Materials entered into the Equity Transfer Agreement, pursuant to which Legend Holdings Tianjin has agreed to dispose all of its interest in Xinneng Fenghuang (Tengzhou) Energy Co., Ltd. ("Xinneng Fenghuang"), an associate of the Company, representing 15% of the total equity interest of Xinneng Fenghuang, to Levima Advanced Materials, at a consideration of approximately RMB288 million. CAS Holdings is a substantial Shareholder and holds more than 10% of the total issued share capital of Levima Advanced Materials, which therefore is a connected subsidiary of the Company. As such, the disposal constituted a connected transaction of the Company under Chapter 14A of the Listing Rules (For details, please refer to the announcement of the Company dated on December 26, 2018).

2. On December 21, 2018, Leap Wave Limited ("Leap Wave") a subsidiary of the Company, as the subscriber, and Hospital Corporation as the issuer, entered into the Subscription Agreement, pursuant to which Hospital Corporation has conditionally agreed to issue and Leap Wave has conditionally agreed to subscribe for the convertible bonds in the aggregate principal amount of HK$800,000,000 for a total consideration equal to the aggregate principal amount of the convertible bonds. As Mr. ZHAO John Huan ("Mr. ZHAO"), an Executive Director, controls over 30% interest in Hospital Corporation, Hospital Corporation is deemed an associate of Mr. ZHAO. As such, the bonds subscription constituted a connected transaction of the Company under Chapter 14A of the Listing Rules (For details, please refer to the announcement of the Company dated December 21, 2018).

3. On August 23, 2018, Legion Elite Limited, a subsidiary of the Company, subscribed for an interest in the class B shares of Goldstream Capital Segregated Portfolio Company ("Fund Portfolio Company") (the "2018 Subscription") in the amount of US$10,000,000, the proceeds of which are designated for the investment in Goldstream Special Opportunity Fund SP ("GSO Fund SP"). Reference is made to the announcement of the Company dated November 24, 2017 in relation to the investment in fund interest in Goldstream Capital Master Fund I ("GCM Fund I") (the "2017 Subscription"). Given the investment manager ("Investment Manager") of GCM Fund I is the same as the investment manager of GSO Fund SP, being the subject Fund under the subscription, the 2017 Subscription and the 2018 Subscription shall be aggregated under Rule 14A.81 of the Listing Rules. As Mr. ZHAO, an Executive Director, indirectly controls over 30% interest in the Investment Manager and Fund Portfolio Company, each of the Investment Manager and the Fund Portfolio Company is deemed an associate of Mr. ZHAO under the Listing Rules. The 2018 Subscription constituted a connected transaction of the Company under Chapter 14A of the Listing Rules (For details, please refer to the announcement of the Company dated August 23, 2018).

4. On February 8, 2018, Smart Fellow Limited, a subsidiary of the Company and Fortune Eight Deacon Limited ("FED") applied to China Merchants Bank for acquisition loans in the aggregate amount of HK$624 million, of which FED applied to China Merchants Bank for a loan of HK$226.2 million. Right Lane Limited ("Right Lane"), a subsidiary of the Company, has provided guarantee in the amount of HK$226.2 million for FED in respect of its loans. As (i) Mr. ZHAO, an Executive Director indirectly controls over 30% equity interests in Hony Capital Fund VIII. FED, a wholly-owned subsidiary of Hony Capital Fund VIII, is deemed an associate of Mr. ZHAO; and (ii) FED owns 29% of the issued shares of Better Education (a subsidiary of the Company) and therefore constitutes a connected person of the Company. As such, the provision of the guarantee in the amount of HK$226.2 million by Right Lane for FED constituted a connected transaction of the Company under Chapter 14A of the Listing Rule (For details, please refer to the announcement of the Company dated February 8, 2018).

Continuing Connected Transactions

5. On August 30, 2018, Tengzhou Guozhuang Mining Co., Ltd. ("Guozhuang Mining"), a subsidiary of the Company and Levima Advanced Materials entered into the Coal and Administrative Services Agreement, pursuant to which during a term of three years Guozhuang Mining shall provide Levima Advanced Materials with coal and related administrative services and the annual transactions amount shall not exceed the agreed annual caps (2018 annual cap: RMB130 million; 2019 annual cap: RMB150 million, and 2020 annual cap: RMB170 million). As CAS Holdings, a substantial Shareholder, holds 29.50% equity interest in Levima Advanced Materials, Levima Advanced Materials is a connected subsidiary of the Company. The provision of the coal and related administrative services to Levima Advanced Materials constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rule (For details, please refer to the announcement of the Company dated August 30, 2018).

   During the year ended December 31, 2018, pursuant to the Coal and Administrative Services Agreement, the actual aggregate amount of the coal and related administrative services provided by Guozhuang Mining to Levima Advanced Materials amounted to RMB115 million, and did not exceed the annual cap prescribed in the Agreement (RMB130 million).

6. On August 30, 2018, the Company and Better Education entered into the Financial Assistance Agreement, pursuant to which the Company has agreed to, at the written request of Better Education and within a term of three years, provide continuing financial assistance in the amount of no more than US$250 million or its equivalent in Renminbi to Better Education or its subsidiaries, subject to the then financial positions of the Company and compliance with the Listing Rules. As Mr. ZHAO, an Executive Director, indirectly controls over 30% equity interests in Hony Capital Fund VIII, Hony Capital Fund VIII is deemed as an associate of Mr. ZHAO, and Hony Capital Fund VIII, Hony Capital Fund VIII indirectly holds 29% of the issued share capital of Better Education, Better Education is a connected subsidiary of the Company. As such, the provision of continuing financial assistance to Better Education constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules (For details, please refer to the announcement of the Company dated August 30, 2018).

   During the year ended December 31, 2018, pursuant to the Financial Assistance Agreement, the actual aggregate amount of financial assistance provided by the Company to Better Education amounted to RMB205 million, and did not exceed the annual cap prescribed in the Agreement (US$250 million or its equivalent in Renminbi).

7. On May 2, 2018, Fujitsu Client Computing Limited ("FCCL"), a subsidiary of Lenovo, a subsidiary of the Company and Fujitsu Limited ("Fujitsu") and members of the Fujitsu Group entered into (i) the Transitional Services Agreement; (ii) Secondment Agreement; (iii) Services Agreement; (iv) Manufacturing Agreement (FPE); (v) Manufacturing Agreement (FIT); (vi) Sales and Distribution Agreement; (vii) Fujitsu Trademark and Brand License Agreement; (viii) Manufacturing and Services Agreement; and (ix) R&D Services Agreement. As Fujitsu is a substantial shareholder of FCCL, a subsidiary of Lenovo, Fujitsu is a connected person of Lenovo which is a subsidiary of the Company, and accordingly, Fujitsu (and its associates) become connected persons of the Company. Transactions contemplated under above agreements are continuing connected transactions of the Company under Chapter 14A of the Listing Rules. All agreements are valid for more than three years (For main contents of each of above agreement and annual caps and the reasons for annual caps exceeding three years, please refer to the announcement of the Company dated May 3, 2018.)

   During the year ended December 31, 2018, actual aggregate transaction amount of the above continuing connected transactions was RMB17,562 million, which did not exceed relevant annual cap prescribed in the above agreements, being RMB37,918 million (i.e. JPY624.8 billion) (For details of annual caps, please refer to the announcement of the Company dated May 3, 2018).

8. On May 8, 2017, the Company and Levima Advanced Materials entered into the Continuing Financial Assistance Framework Agreement, pursuant to which the Company agreed to grant financial assistance to Levima Advanced Materials not exceeding RMB5,200 million in aggregate upon the written requests made by Levima Advanced Materials during the term of 36 months from June 16, 2017, subject to the then financial position of the Company and compliance with the Listing Rules. Levima Advanced Materials is a connected subsidiary of the Company. As CAS Holdings, a substantial Shareholder and a connected person of the Company, holds 29.50% equity interest in Levima Advanced Materials, the provisions of the financial assistance to Levima Advanced Materials under the Continuing Financial Assistance Framework Agreement therefore constituted continuing connected transactions of the Company in accordance with Chapter 14A of the Listing Rules. The Continuing Financial Assistance Framework Agreement (including the cap of the financial assistance) has been approved by the independent Shareholders at the Company's annual general meeting held on June 16, 2017.

   For the year ended December 31, 2018, actual aggregate amount of the financial assistance provided to Levima New Materials by the Company pursuant to the Continuing Financial Assistance Framework Agreement amounted to RMB4,066 million, not exceeding the cap stipulated in the agreement (being RMB5,200 million) (For details of the continuing connected transaction, please refer to the announcement of the Company dated May 8, 2017 and the circular of the Company dated May 26, 2017).

In accordance with Rule 14A.55 of the Listing Rules, the Independent Non-executive Directors had reviewed the continuing connected transactions as referred to in the paragraphs (5) to (8) above, and confirmed that those transactions had been entered into (i) in the ordinary and usual course of business of Legend Holdings; (ii) on normal commercial terms or better; and (iii) according to the agreements governing them, the terms of which were fair and reasonable and in the interests of the Shareholders as a whole.

The Company has engaged an auditor to report on the continuing connected transactions of the Company and its subsidiaries in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has reviewed the continuing connected transactions referred to in the paragraphs (5) to (8) above and confirmed to the Board that nothing has come to their attention that causes them to believe that they have not been approved by the Board; that they were not, in all material respects, in accordance with the pricing policies of the Company and its subsidiaries if the transactions involve the provision of goods or services by the Company and its subsidiaries; that they were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and that they have exceeded the caps in accordance with Rule 14A.56 of the Listing Rules.

During the year ended December 31, 2018, the Company and its subsidiaries have complied with the relevant policies and guidelines issued by the Stock Exchange when determining the price and terms of the continuing connected transactions entered into and have complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in relation to the connected transactions entered therein.

Save for the connected transactions and continuing connected transactions as disclosed above also constitute the related party transactions, the related party transactions as set out in the note 55 to the financial statements do not constitute connected transactions under Chapter 14A of the Listing Rules.

Pension Schemes

Details of pension benefit of the Company and its subsidiaries are set out in notes 9 and 45 to the financial statements, respectively.

Auditor

PricewaterhouseCoopers ("PricewaterhouseCoopers") has been appointed by the Company as the independent auditor for the year ended December 31, 2018. The consolidated financial statements for 2018 of the Company which were prepared in accordance with the International Financial Reporting Standards have been audited by PricewaterhouseCoopers. A resolution for the re-appointment of PricewaterhouseCoopers as the independent auditor of the Company will be proposed at the 2018 AGM.

Directors' Interests and Short Positions in Securities

As at December 31, 2018, the interests or short positions of the Directors, Supervisors and chief executive of the Company in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register maintained by the Company under Section 352 of the SFO, or as notified to our Company and the Hong Kong Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 to the Listing Rules, were as follows:

(i) Interests in the Shares of the Company

Name of Director	Nature of interest	Class of Shares	Number of Shares held	Approximate percentage of shareholding in the relevant class of Shares[(i)]	Approximate percentage of shareholding in the total issued Shares[(ii)]
LIU Chuanzhi	Beneficial owner	H Shares-Long Position	68,000,000	5.34%	2.88%
ZHU Linan	Beneficial owner	H Shares-Long Position	48,000,000	3.77%	2.03%
NING Min	Beneficial owner	H Shares-Long Position	36,000,000	2.83%	1.52%

Notes:

(i) The calculation is based on the percentage of shareholding in H Shares as at December 31, 2018. References are made to the announcements of the Company dated April 23, 2018 and June 1, 2018, in relation to the approval granted on the Company's application to participate in the H Shares Full Circulation Pilot Project. On June 6, 2018, the Company completed the conversion of 880,000,000 Domestic Shares into H Shares. As of December 31, 2018, the Company has issued 1,271,853,990 H Shares and 1,084,376,910 Domestic Shares.

(ii) The calculation is based on the total number of 2,356,230,900 Shares in issue as at December 31, 2018.

(ii) Interests in our associated corporations

Name of Director/Supervisor	Name of associated corporation	Nature of interest	Number of shares and underlying shares held	Approximate percentage of shareholding in the total issued shares
LIU Chuanzhi	Lenovo	Beneficial owner	4,184,960[(a)]	0.03%
ZHU Linan	Lenovo	Beneficial owner	7,071,473[(b)]	0.05%
ZHAO John Huan	Lenovo	Beneficial owner	4,931,415[(c)]	0.04%
NING Min	Lenovo	Beneficial owner	1,370,401	0.01%
LI Qin	Lenovo	Beneficial owner	1,724,000	0.01%

Notes:

(a) Mr. LIU Chuanzhi owns 2,795,968 ordinary shares directly and is deemed to be interested in 690,000 ordinary shares held by his spouse through a trust. He also holds 698,992 units of share awards which are convertible into ordinary shares.

(b) Mr. ZHU Linan owns 3,024,267 ordinary shares and 4,047,206 units of share awards which are convertible into ordinary shares.

(c) Mr. ZHAO John Huan owns 579,970 ordinary shares and 4,351,445 units of share awards which are convertible into ordinary shares.

(d) The calculation is based on the total number of 12,014,791,614 shares issued by Lenovo as at December 31, 2018.

Interests of the Substantial Shareholders

As at December 31, 2018, so far as the Directors are aware, the following persons or corporations had an interest and/or a short position in the Shares or underlying Shares of the Company which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, and an interest and/or a short position as recorded by the Company in the register required to be kept under section 336 of the SFO:

Name of Shareholder	Class of Shares	Nature of interest	Number of Shares held	Approximate percentage of shareholding in the relevant class of Shares[(1)]	Approximate percentage of shareholding in the total issued Shares[(2)]
CAS Holdings	Domestic Shares	Beneficial owner	684,376,910	63.11%	29.04%

Name of Shareholder	Class of Shares	Nature of interest	Number of Shares held	Approximate percentage of shareholding in the relevant class of Shares[1]	Approximate percentage of shareholding in the total issued Shares[2]
Beijing Lian Chi Zhi Yuan Management Consulting Center Limited Partnership (北京聯持志遠管理諮詢中心(有限合夥) ("Lian Chi Zhi Yuan")	H Shares-Long Position	Beneficial owner	480,000,000	37.74%	20.37%
Beijing Lian Chi Zhi Tong Management Consulting Limited (北京聯持志同管理諮詢有限責任公司)[3] ("Lian Chi Zhi Tong")	H Shares-Long Position	Interest in controlled corporation	480,000,000	37.74%	20.37%
LU Zhiqiang[4]	Domestic Shares	Interest in controlled corporation	400,000,000	36.88%	16.97%
China Oceanwide	Domestic Shares	Beneficial owner	400,000,000	36.88%	16.97%
Oceanwide Group[4]	Domestic Shares	Interest in controlled corporation	400,000,000	36.88%	16.97%
Tohigh[4]	Domestic Shares	Interest in controlled corporation	400,000,000	36.88%	16.97%
Beijing Lian Heng Yong Xin Investment Center Limited Partnership (北京聯恒永信投資中心(有限合夥)) ("Lian Heng Yong Xin")	H Shares-Long Position	Beneficial owner	178,000,000[6]	13.99%[6]	7.55%[6]
Beijing Lian Heng Yong Kang Management Consulting Limited (北京聯恒永康管理諮詢有限公司)[5] ("Lian Heng Yong Kang")	H Shares-Long Position	Interest in controlled corporation	178,000,000[6]	13.99%[6]	7.55%[6]
LIU Chuanzhi	H Shares-Long Position	Beneficial owner	68,000,000	5.34%	2.88%

Notes:

(1). The calculation is based on the percentage of shareholding in Domestic Shares or H Shares as at December 31, 2018. References are made to the announcements dated April 23, 2018 and June 1, 2018, in relation to the approval granted on the Company's application to participate in the H Shares Full Circulation Pilot Project. On June 6, 2018, the Company completed the conversion of 880,000,000 Domestic Shares into H Shares. As of June 30, 2018, the Company has issued 1,271,853,990 H Shares and 1,084,376,910 Domestic Shares.

(2). The calculation is based on the total number of 2,356,230,900 Shares in issue as at December 31, 2018.

(3). Lian Chi Zhi Tong is the sole general partner of Lian Chi Zhi Yuan and has de facto control over it. Accordingly, Lian Chi Zhi Tong is deemed to be interested in the 480,000,000 H Shares.

(4). Oceanwide Group and Tohigh are corporations controlled by Mr. LU Zhiqiang. Tohigh holds the entire equity interest in Oceanwide Group which in turn holds 98% equity interest in China Oceanwide. Accordingly, Mr. LU Zhiqiang is deemed to be interested in the 400,000,000 Domestic Shares held by China Oceanwide.

(5). Lian Heng Yong Kang is the sole general partner of Lian Heng Yong Xin and has de facto control over it. Accordingly, Lian Heng Yong Kang is deemed to be interested in the 178,000,000 H Shares held by Lian Heng Yong Xin.

(6). On January 5, 2019, the Company and ENN Group International Investment Limited ("ENN International") entered into a sale and purchase agreement for H Shares, pursuant to which, Lian Heng Yong Xin, agreed to sell and ENN International, agreed to purchase, through on-market transactions on the trading platform of the Hong Kong Stock Exchange, a total of 54,090,000 H Shares, representing approximately 4.25% of the total issued H Shares and approximately 2.29% of the total issued Shares. As of the date of the report, the above transaction was completed and Lian Heng Yong Xin held 123,910,000 H Shares, representing approximately 9.74% of the total issued H Shares and approximately 5.26% of the total issued Shares. The interest of Lian Heng Yong Kang in H Shares is deemed to be decreased accordingly.

As at December 31, 2018, save as disclosed above, there was no other person or corporations who held interests and/or short positions in the Shares or underlying Shares which are required to be recorded in the register to be kept under section 336 of Part XV of the SFO, or was a substantial Shareholder.

By order of the Board
Legend Holdings Corporation
LIU Chuanzhi
Chairman

March 28, 2019

Supervisor's Report

The Board of Supervisors of Legend Holdings Corporation complies with the regulations of the "Company Law of the PRC (《中華人民共和國公司法》)", Articles of Association, "Rules of Procedures of the Board of Supervisors" and Listing Rules, earnestly fulfilling their supervisory duties, safeguarding shareholders' rights, upholding the interests of the Company, observing the principles of integrity, trying their best to fulfill their duties, and discharging their duties with reasonable care, diligence and initiative.

The Board of Supervisors comprises three members. The Chairman of the Board of Supervisors is Mr. LI Qin (representative of the employees), Mr. LUO Cheng (representative of Shareholders), and Ms. FENG Ling (representative of Shareholders).

Mr. LUO Cheng was appointed as the Supervisor to replace Mr. QI Zixin with effect from January 16, 2018. Ms. FENG Ling was appointed as the Supervisor to replace Mr. SUO Jishuan with effect from June 5, 2018.

The following matters were approved and passed by resolutions of the Board of Supervisors in 2018. The approval of such resolutions were in compliance with relevant laws, regulations and the provisions of the Company's Articles of Association:

1. On March 27, 2018, the audited consolidated financial statements of the Company for the year ended December 31, 2017, the Company's profit distribution plan for the year 2017 as well as the 2017 Supervisor's Report of the Company were considered and passed.

2. On April 13, 2018, the resignation of Mr. SUO Jishuan, and the nomination of Mr. LUO Cheng and Ms. FENG Ling as the candidates for Shareholders representative Supervisors of the third session of the Board of Supervisors were considered and approved.

3. On August 29, 2018, the unaudited consolidated financial statements of the Company for the six months ended June 30, 2018 (prepared in accordance with the International Accounting Standards), interim results announcement of the Company for the six months ended June 30, 2018, the 2018 interim report of the Company as well as the Company's unaudited consolidated financial statements for the six months ended June 30, 2018 (prepared in accordance with China Accounting Standards for Business Enterprises) were considered and passed.

In 2018, the members of the Board of Supervisors also attended all Board meetings and meetings of the Audit Committee as well as the annual general meeting of the Company for the year ended 2017, in order to supervise the lawfulness and the compliance procedures in relation to the matters considered in the respective meetings of the Board, and the Audit Committee and the annual general meetings.

The Board of Supervisors is of the opinion that in 2018, the Board and management of the Company are both operating in strict compliance with the laws, regulations and the provisions of the Articles of Association of the Company; whereas the decision-making processes were legal, the principle of good faith and due diligence was complied, and the authority was exercised in good faith in the best interests of the Shareholders.

In 2019, the Board of Supervisors will continue to strictly abide by the Articles of Association of the Company and the relevant provisions, safeguard the interests of Shareholders and properly discharge its various duties.

By order of the Board of Supervisors
Legend Holdings Corporation
LI Qin
Chairman of the Board of Supervisors

March 28, 2018

Corporate Governance Report

The Company believes that effective corporate governance structure is the principle factor to promote and safeguard the rights and interests of Shareholders and other stakeholders and improve the values of Shareholders. Therefore, the Company strives to achieve and maintain a high corporate governance level which most satisfies the needs and interests of the Company and its subsidiaries.

The Company has complied with all code provisions of the Corporate Governance Code contained in Appendix 14 of the Listing Rules during the year ended December 31, 2018.

The Company reviews the compliance of the Corporate Governance Code and the Corporate Governance Report on an annual basis in order to ensure that the Company has complied with the code provisions. Efforts have been made to continuously enhance corporate governance with reference to the best recommended practices.

Composition of the Board

The Board currently comprises nine members, including four Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. Details are as follows:

Executive Directors:

Mr. LIU Chuanzhi *(Chairman of the Board and Chairman of the Nomination Committee)*
Mr. ZHU Linan *(President)*
Mr. ZHAO John Huan *(Executive Vice President)*
Mr. NING Min *(Member of Remuneration Committee)*

Non-executive Directors:

Mr. WU Lebin
Mr. SUO Jishuan *(Member of Audit Committee)*

Independent Non-executive Directors:

Mr. MA Weihua *(Chairman of the Remuneration Committee and member of the Nomination Committee)*
Mr. ZHANG Xuebing *(Members of the Audit Committee and the Nomination Committee)*
Ms. HAO Quan *(Chairperson of the Audit Committee and member of the Remuneration Committee)*

Biographical details of members of the Board are set out on pages 54 to 61 in the section of "Biography of Directors, Supervisors and Senior Management" of this annual report. To the best knowledge of the Company, there are no financial, business, family or other significant relationships among members of the Board, the Board of Supervisors or senior management.

During the Reporting Period, the Board has complied with the requirements of the Listing Rules to appoint at least three Independent Non-executive Directors, being one-third of the Board, and one of them has appropriate professional qualifications in accounting. The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and considers that all of the Independent Non-executive Directors are independent as at the date of this report in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules. The respective capacity of Independent Non-executive Director is expressly identified in all corporate communications that disclose the names of the Directors.

Appointment, Re-election and Retirement of Directors

Each of the members of Directors (including Non-executive Directors) is elected or changed by the Shareholders' general meeting for a term of three years, renewable upon re-election. The Nomination Committee is responsible for evaluating the appointment of new Directors, re-election of Directors or filling the vacancies of Directors, advising to the Board and submitting for approval at the Shareholders' general meeting upon approval by the Board.

Board Diversity

Board diversity policy of the Company is beneficial for enhancing the Company's comprehensive performance and operating capability and provides support to the Company in achieving strategic goals and maintaining its sustainable and balanced development. According to the board diversity policy, in respect of setting measurable objectives, in selecting Director candidates, Board diversity will be considered, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and term of service. Directors with technical, legal, financial, management and audit background will provide various extensive business experiences to the Company. Meanwhile, such factors will be considered by the Company based on its business model and specific needs and the ultimate decision will be based on merit, value and contribution that the selected candidates will bring to the Board. The Nomination Committee makes recommendations or gives advice to the Board on the appointment of new Directors based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board, in the expectation that Board members will make their own contributions from diversified perspectives.

Regarding the Board composition under diversified perspectives, the Nomination Committee reviews and evaluates the current skills, qualifications and experience of the Directors. The Nomination Committee is of the opinion that the Board maintains a balanced and sufficiently diversified composition, discharge its functions effectively and enhance the quality of its deliberations and decision making. In directing and managing the business of the Company, the Board members have extensive experience, professional qualifications and diversified viewpoints in management of investment business, equity investment, financial management, accounting, internal control and legal issues. They are familiar with the major topics of the economic development of China, thereby satisfying the sustainable development needs of Legend Holdings. The role of the Non-executive Directors and Independent Non-executive Directors ensures that objective and independent judgement is exercised by the Board. The composition of each committee under the Board remains properly balanced and discharges its functions effectively.

Duties and Authorities of the Board and Management

Pursuant to Articles of Association of the Company, the Board is a standing decision-making body of the Company and its main duties include the following:

- Convening Shareholders' general meetings and implementing resolutions passed at such meetings;
- Deciding operating plans and investment plans, the establishment of internal management body and basic management systems;
- Formulating plans for annual financial budget, final accounts and profit distribution plans;
- Formulating plans for increasing or decreasing the registered capital of the Company and plans for issuing bonds or other securities of the Company and plans for listing;
- Formulating plans for material asset purchase and disposal;
- Preparing and monitoring the financial systems and financial reports of the Company;
- Engaging or dismissing senior management;

- Optimizing and improving corporate governance policies and standards of the Company; and
- Supervising policies of the Company in respect of compliance and reviewing the effectiveness of internal control and risk management of the Company.

Save for the above-mentioned matters that are required to be considered and approved by the Board, the authorization and responsibilities of daily operational management of the Company are assigned to the President and the Executive Committee under the President (members of the Executive Committee include all Executive Directors and senior management). Details of main duties of the President are set out in the paragraph of "Chairman of the Board and the President". In addition, to simplify daily investment decisions and investment procedures, the Board authorizes and appoints certain representatives of the Executive Committee to consider and approve on behalf of the Board the investment and financing projects which are in conformity with established investment standards. However, if such investments, acquisitions or disposals of assets, financing, connected transactions trigger disclosure obligations under the Listing Rules, such transactions shall be subject to the approval by the Board.

The Board also assigns certain specific responsibilities to its special committees in accordance with the corresponding Terms of Reference of respective committees under the Board. The Board established the Audit Committee, Remuneration Committee and Nomination Committee. Their responsibilities and Terms of Reference are stipulated in writing and published on the websites of the Hong Kong Stock Exchange and the Company.

The Company has purchased Director's liability insurances for the Directors, which provided protection to the Directors for liabilities that might arise in the course of their performance of duties according to law and facilitate Directors to fully perform their duties.

Chairman of the Board and the President

The positions of the Chairman of the Board and the President of the Company are assumed by Mr. LIU Chuanzhi and Mr. ZHU Linan respectively. They are two distinctly different positions, details of which are in the Articles of Associations of the Company.

Pursuant to Article 108 of the Articles of Association of the Company, the functions of the Chairman of the Board include presiding over the Shareholders' general meeting, presiding over meetings of the Board, leading and organizing to formulate various systems for the Board's operation, coordinating the operation of the Board, hearing regular and non-regular work reports from the Company's senior management, and providing the Board with guidance opinions on the execution of Board resolutions, supervising and reviewing the implementation of the Board resolutions, ensuring the Board to act in the best interests of the Company, nominating the candidates of the President and secretaries to the Board of the Company. The Chairman of the Board actively encourages the Directors to fully participate in the Board's affairs, and contribute to the functions of the Company. It also encourages the Directors with different views to voice their concerns, and allows sufficient time for discussion to ensure that the decisions of the Board can fairly reflect the consensus of the Board. In this regard, apart from regular Board meetings, the Chairman of the Board also holds meetings with Independent Non-executive Directors in the absence of other Directors, respectively. Under the leadership of the Chairman of the Board, the Board has adopted sound corporate governance practices and procedures and has taken appropriate steps to keep effective communications with the Shareholders.

Pursuant to the Article 123 of the Articles of Association of the Company, the President of the Company is responsible to the Board and its functions and power include generally operating and managing the business of the Company, organizing and implementing the resolutions of the Board of the Company, the policies in relation to annual operation plans and investment plans of the Company, determining those projects such as investment, acquisition or disposal, financing unless otherwise required the approval of the Board meetings or Shareholders' general meetings, so as to ensure the Board's full understanding of the capital needs of the Company's business and formulate the proposed plans for annual financial budget and final accounts of the Company and make recommendations to the Board. The President of the Company ensures sufficient supply of capital needs of the business with the assistance of Chief Financial Officer, while closely monitoring the operating and financial performance of the Company according to the relevant plans and budget. The President of the Company will take remedial measures and propose to convene extraordinary meeting for reporting and make recommendations to the Board in respect of significant issues.

The President and Chairman of the Board of the Company maintain close communications with all Directors to ensure that they fully understand the Company's business development status in all aspects. They are responsible for building and maintaining an effective executive team in order to discharge their duties. The President of the Company is responsible for proposing to the Board for engaging or dismissing senior management; coordinating with other Executive Directors and management teams of various departments, formulating the proposed plans for basic management systems and internal management structures of the Company, and formulating specific rules and regulations of the Company. The President of the Company determines other issues of the Company within the scope authorised by the Board.

Directors' and Supervisors' Professional Training and Continuous Professional Development

All Directors and Supervisors have been given reference materials such as relevant introduction and guidelines upon joining the Company to facilitate their familiarizing the history and business information of the Company and their understanding of all obligations they shall assume in accordance with the Company Law of the PRC, Listing Rules, applicable laws and other regulatory rules and under the governance policies of the Company.

The Company encouraged the Directors to participate in continuous professional development so as to update their knowledge and skills, and facilitate the discharge of their duties on a well-informed and satisfactory basis.

The Directors regularly receive the latest information on business of the Company and its subsidiaries, its operating rules and regulations and industrial specific environment and obligations and responsibilities of the Directors. During the Reporting Period, the Company organized Directors, Supervisor and senior management to participate in an on-site training, and PricewaterhouseCoopers was engaged to explain the impact of banking business on the financial report of Legend Holdings. On the other hand, all Directors, Supervisors and senior management had been provided learning materials for reading and learning, such as bulletins, reports and video links. Summary of attendance of Directors in training programs is as follows:

	Training content		
Name of Directors	**Law and regulation**	**Corporate governance**	**Duties of Directors**
Executive Directors			
LIU Chuanzhi	✔	✔	✔
ZHU Linan	✔	✔	✔
ZHAO John Huan	✔	✔	✔
NING Min(1)	✔	✔	✔
Non-executive Directors			
WU Lebin	✔	✔	✔
SUO Jishuan	✔	✔	✔
LU Zhiqiang(2)	✔	✔	✔
Independent Non-executive Directors			
MA Weihua	✔	✔	✔
ZHANG Xuebing	✔	✔	✔
HAO Quan	✔	✔	✔

Notes:

(1) He was appointed as the Executive Director on December 27, 2018, and he also served as the Secretary to the Board before serving as a Director and participated in the same training programs together with the rest of the Directors.

(2) He resigned as the Non-executive Director on September 7, 2018.

Model Code for Securities Transactions by Directors and Supervisors

The Company has adopted the Model Code for Securities Transactions by the Directors and Supervisors(the "Model Code"), which is no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. Specific enquiry has been made of all the Directors and Supervisors, and all the Directors and Supervisors have confirmed that they had complied with the Model Code during the period ended December 31, 2018.

Accountability of Directors on the Financial Statements

The Directors are responsible for preparing financial statements for every financial year of the Company with the support of the finance team, and ensure that the preparation of financial statements has constantly adopted appropriate accounting policies and in accordance with the International Financial Reporting Standards so as to truly and fairly report the Company's status. In presenting the interim and annual financial statements of the Group, the Directors have considered whether suitable accounting policies have been applied consistently and that judgments and estimates are prudent and reasonable.

The management team recognizes the importance of providing the Board with sufficient explanations as well as appropriate and relevant information on an accurate and timely basis. Management presents to the Board the annual and interim business reviews and financial reports comparing the actual performance of the Group with the budget and highlights of major relevant matters to enable the Board to make a well-informed assessment on the performance, position and prospects of the Group.

The statement issued by the independent auditor on its reporting responsibilities is set out in the "Independent Auditor's Report" on pages 129 to 137 of this annual report.

Appointment and Remuneration of the External Independent Auditor

The external independent auditor currently appointed by the Company is PricewaterhouseCoopers. The Audit Committee is mandated to monitor the independence of the Company's external auditor, PricewaterhouseCoopers, to ensure objectivity in the financial statements.

During the year ended December 31, 2018, the remuneration paid and payable to the Company's external independent auditor, is set out below:

Type of Services	*RMB'000*
Audit services	82,466
Non-audit services	42,902

The above remuneration includes the charges paid for the provision of relevant services provided by the independent auditor to the Company and its subsidiaries whereas non-audit services are primarily information system and tax consultation service.

Audit Committee

The Audit Committee comprises three members and the majority are Independent Non-executive Directors. The Chairperson of the Audit Committee is Ms. HAO Quan, an Independent Non-executive Director, and the other two members are Mr. SUO Jishuan, a Non-executive Director, and Mr. ZHANG Xuebing, an Independent Non-executive Director. The Chairperson of the Audit Committee possesses accounting professional qualifications and has complied with the requirements of Rule 3.21 under the Listing Rules.

The main duties of the Audit Committee include but not limited to monitoring the truthfulness of financial reports and the financial reporting procedures, the effectiveness of risk management and internal control systems and the effectiveness of internal audit functions, monitoring the engagement of the external independent auditor and its qualification, assessment on its independence and work performance, regular review of the financial reports and monitoring of annual audit of the Group, compliance with applicable accounting standards as well as legal and regulatory requirements on financial disclosures. Details of the Terms of Reference of the Audit Committee are available on the websites of the Company and the Hong Kong Stock Exchange respectively.

Pursuant to the requirements of Terms of Reference of the Audit Committee, the Audit Committee held three meetings during the Reporting Period. The matters that the Audit Committee has reviewed, discussed, considered and proposed for the Board's approval (if applicable) are set out as follows:

- The audit related matters for 2017 (including but not limited to scope, audit method, principal accounting policies, key accounting estimates and assumptions, discussion on material accounting matters, independent auditor's recommendation to the management);
- 2017 annual profit distribution plan;
- The audit fee for 2017 and the re-appointment of the independent auditor for 2018;
- The annual results announcement for the year ended December 31, 2017 and the 2017 annual report of the Company and its subsidiaries;
- The unaudited consolidated financial statements for the three months ended March 31, 2018 and the nine months ended September 30, 2018 of the Company and its subsidiaries (prepared in accordance with China Accounting Standards for Business Enterprises);
- The interim results announcement for the six months ended June 30, 2018 and the 2018 interim report of the Company and its subsidiaries;
- Matters related to interim review for 2018 (including but not limited to scope, method of review, principal accounting policies, key accounting estimates and assumptions, discussion of material accounting matters, the independent auditor's recommendation to the management);
- Review on "Management's Statement of 2018 Interim Financial Information of the Company and Its Subsidiaries", "Management's Statement of 2018 Annual Audit of the Company and Its Subsidiaries" and management's comment;
- Annual audit planning for the financial year ended December 31, 2018 presented by the independent auditor and audit schedule;
- The latest revision of relevant accounting/audit standards, Hong Kong Companies Ordinance and Listing Rules and significant differences in standards affecting financial statements of the Company;
- Independence statement letter from the independent auditor;

- Risk management and internal control structure, annual work plan for risk management and internal control as well as its summary;
- Annual work plan for internal audit and its summary;
- The resources, employees' qualifications and experience of the Company's accounting, risk control, internal audit and financial reporting functions, and whether their training programs and budget are sufficient;
- Confirmation on effective risk control and management and internal control systems by management; and
- Connected transactions and continuing connected transactions in 2018.

Concepts of Risk Management and Internal Control

The risk management and internal control system is designed to assist the Company in achieving its long-term vision and mission by identifying and evaluating the Company's risk exposures and formulating appropriate control measures to protect our business, the Shareholders, assets and capital. We believe that the risk management and internal control system embedded in each business will enhance its long-term Shareholder's values.

We pursue the core value of upholding corporate interests first, truth, ambition and employee-oriented to lay foundation for governing the Company's risk management and internal control with the cultural expression of accountability, professionalism, creativity and collaboration. The Company strongly believes that good corporate governance is usually related to the overall control environment. In order to ensure that each employee of the Company is also responsible for risk management, the Company has established formal codes of professional conduct and ethics to ensure that employees at all levels adhere to the business ethics and possess the corresponding competency. The Company attaches great importance to prevent non-compliance risks and has developed anti-corruption and whistleblowing policies.

The Company has formulated relatively comprehensive management policies and implementation rules of various functions of operation and management in order to formulate policies and procedures of various business functions and continue to streamline and improve the management policies standards according to the changes of internal and external business environment and the needs of business development, thereby ensuring the steady development of the Company. Currently, the documentation system of the Company covers the key management areas of and all business and supporting segments. The Company's risk management and internal control systems also include clear organizational structures and management responsibilities, reasonable and effective authorization mechanism, sound financial accounting system, regular performance analysis and review and other control activities, as well as good information and communication mechanism, and ensures the Company's the stability and effective operation of risk management and internal control systems through continuous risk assessment and supervision.

Main Features of Risk Management and Internal Control System

The Company formulated the risk management and internal control framework guided by the COSO framework:

1. Establish three lines of defence of risk management and internal control:

	For business of the headquarters of the Company	**For business of subsidiaries**
1st Line of Defence	Business divisions	Subsidiaries
2nd Line of Defence	Relevant functional departments	Business divisions and relevant functional departments
3rd Line of Defence	Audit Department	Audit Department

2. Adopt the following multi-assurance mode:

	For business of the headquarters of the Company	For business of subsidiaries
Supervision of the Board and the Audit Committee	• The Board regards risk management as an important task, and believes that effective risk management and internal control systems are important foundations for good corporate governance. • The Board is fully responsible for the risk management and internal control systems, including assessing and determining the nature and extent of the risks it is willing to accept in achieving the Company's strategic objectives, and is responsible for establishing and maintaining an appropriate and effective risk management and internal control systems to protect our business, the Shareholders, assets and capital. • Audit Committee is responsible for supervising and monitoring the overall effectiveness of the risk management and internal control system.	
Supervision and communication of Executive Committee	• Assume the leadership role, and seek for the balance between risk and opportunity. • Design, implement and review the risk management framework and system. • Report the effectiveness of risk management and internal control systems to the Board and the Audit Committee semiannually.	
Risk accountability of business divisions	• Be responsible for identifying and assessing main risks within the scope of their duties, making effective risk management decisions and developing risk mitigation strategies. • Execute and report work in daily operation, including identification of major risks and implementation of mitigation strategies.	• Develop relevant policies, standards, procedures and guidelines of Legend Holdings. • Supervise over the risk management and monitoring activities of subsidiaries.
Supervision and monitoring of relevant functional departments	• Develop relevant policies, standards, procedures and guidelines of Legend Holdings. • Supervise over the risk management and monitoring activities of business divisions in relation to relevant functions.	
Independent Assurance of Audit Department	• Adopt risk-oriented audit method, focus on areas with major risks or major changes in risks, and provide independent assurance on the adequacy and effectiveness of internal control to the Audit Committee.	
Independent assurance supplement of external audit	• Test the main monitoring measures on which external audit work relies, and report major risks that may affect the performance of the Company to the Audit Committee semiannually.	
Subsidiaries	–	• Be responsible for identifying and assessing major risks in the company, making effective risk management decision and developing risk mitigation strategies.

3. The features and responsibility of the Audit Department:

The Audit Department quarterly reports to the Audit Committee, the President, Senior Vice President and Chief Financial Officer, develops rectification and improvement plans with each department and the subsidiaries of the Company for the identified issues and deficiencies and follows up the implementation of the proposals. The rectification efforts were in line with expectations. The features and responsibility of the Audit Department include:

- being independent from the management of operations.

- to establish risk identification and assessment methods, unify the standards and procedures of risk assessment, organize, coordinate and take the lead in establishing the risk management and internal control systems of the Group.

- the Audit Department is fully authorized with the access to all operating data and information of the Group during the ordinary course and internal audit projects.

- to conduct risk-oriented audit work and special reviews on areas of concern identified by the Audit Committee and the management.

Procedures on Identifying, Evaluating and Managing Significant Risks

Risk management is a continuous process and requires regular monitoring and review. The Company's procedures on identifying, evaluating and managing significant risks are as follows:

- Determination of scope: determine the scope of risk management;

- Identification and analysis: identify risks that may potentially affect the business and operations; analyze potential consequences and probability of occurrence.

- Evaluation: use the evaluation standards developed by the management to evaluate risk level and take into account the impact of risks on the operations and the likelihood of occurrence, and consider whether existing monitoring measures are adequate; prioritize risks through comparing risk evaluation results.

- Mitigation and monitoring: develop monitoring and mitigation plan, to prevent, avoid or reduce risks; perform ongoing and periodic monitoring of the risk and ensures that appropriate internal control procedures are in place; revise the risk management policies and internal control procedures in case of any significant change.

- Report: report the results of risk monitoring to the management and the Audit Committee semiannually.

We strive to enhance the Company's risk management and internal control structure and capability to ensure long-term growth and sustainable development for the Company's business. In this regard, we are required to implement consistently an effective risk management and internal control structure. We will continue along the same direction, aiming to integrate risk management and internal control into our daily operations.

Risk Review Procedure and Control Effectiveness

1. Effectiveness and scope of review procedures

The Board is of the view that, based on the review found by the Audit Committee on the results submitted by management, the risk management and internal control systems of the Company for the Reporting Period ended December 31, 2018 were effective and sufficient and no material issues were identified.

The scope of review covers the controls in all significant aspects, including financial controls, operational controls and compliance controls. Meanwhile, the review also covers major changes in risks, the resources, employees' qualifications and experiences of the Company's accounting, internal audit and financial reporting functions as well as their training programs and budget for them.

Internal control systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives. In addition, it provides only a reasonable but not an absolute assurance on matters with no significant misrepresentations or loss.

2. Objectives of review procedures

Review procedures involve the overall processes from the top to the bottom and from the bottom to the top and aims at fully identifying all major risks within the Group, and prioritizing such risks; reporting major risks to appropriate management levels; facilitating effective communications among the management on risks; appropriately supervising risk mitigation work.

3. Implementation process of review procedures

The bottom-up procedures include:

- Subsidiaries report the list of major risks identified to the Audit Department quarterly, and report the list of major risks semiannually and review the effectiveness of risk mitigation measures.

- The Audit Department submits the reminders of major risks in each segment to the Audit Committee quarterly after summarizing, screening, evaluating and consulting processes, and submits detailed reports or conduct in-depth discussions on individual risks together with the Executive Committee.

The top-down procedures include:

- At the quarterly business review meetings, members of the Executive Committee discuss and consider the business development, risk management and internal control of subsidiaries, to early identify and respond to new risks and issues concerned.

- Major risks identified will be further evaluated and monitored by business divisions and relevant functional departments of the Company.

For main risk exposures of the Company, and adverse impacts of such risks on business and financial positions, and the measures already taken, please refer to corresponding specific contents set out in the section Management Discussion and Analysis.

Procedures on and Internal Control of Handling and Disseminating Inside Information

In order to regulate its information disclosure, the Company strengthens the management of information disclosure and has developed the management system of information disclosure (the "System") in accordance with the principles and requirements under the laws and regulations such as the SFO and the Listing Rules as well as the Articles of Association together with the actual conditions of the Company, and implements it accordingly. The System is applicable to the Directors, Supervisors, President, secretary to the Board, senior management, responsible person of each department and subsidiary, other persons having the duty for information disclosure and staff who can access to such inside information by virtue of his/her office or capacity. The System provides detailed guidelines on the appropriate timing, contents, formats, internal vetting processes and disseminating procedures of information under different circumstances, the review and disclosure procedures of releasing results announcements, ad hoc announcements, inside information announcements, regular reports and circulars, duties of, confidentiality and penalty provisions for all management staff who are responsible for information disclosure. The "Code of Conduct for Employees" of the Company also explicitly requires that all staff be obliged to information confidentiality and comply with the System. In addition, the Company provides training to relevant staff on the System so as to ensure the effective implementation.

During the Reporting Period, the Company sought for advice from the compliance advisor in accordance with the requirements of information disclosure under the SFO and the Listing Rules from time to time. The Board is of the view that the Company's procedures on and internal control of handling and disseminating inside information are effective.

Remuneration Committee

The Remuneration Committee comprises three members and the majority of them are Independent Non-executive Directors. The Chairman of the Remuneration Committee is Mr. MA Weihua, an Independent Non-executive Director, and the other two members are Mr. NING Min, an Executive Director, and Ms. HAO Quan, an Independent Non-executive Director.

The Remuneration Committee is principally responsible for studying the remuneration strategies and policies, performance appraisal and incentive mechanism and other related matters in relation to the Directors, Supervisors and senior management, and making relevant recommendations to the Board. Details of the Terms of Reference of the Remuneration Committee of the Board are available on the websites of the Hong Kong Stock Exchange and the Company.

In accordance with the provision of Terms of Reference of the Remuneration Committee, the Remuneration Committee convened one meeting in the year.

In the year, the Remuneration Committee has reviewed, discussed, considered and recommended the Board to grant approval on the following matters:

- 2017 bonus plan and 2018 management policy for senior management;
- disclosure of the Directors', Supervisors' and senior management's remuneration in the 2017 annual report;
- Remuneration plan for newly appointed Directors and Supervisors.

For the year ended December 31, 2018, the remuneration categories of the senior management of the Company (excluding the senior management members who concurrently serve as the Directors) are as follows:

Remuneration categories (HKD)	Number of staff
18,000,001–18,500,000	1
20,500,001–21,000,000	1
30,000,001–30,500,000	1

The details of remuneration of the Directors and Supervisors for the year ended December 31, 2018 are set out in note 51(a) to the financial statements.

Nomination Committee

The Nomination Committee comprises three members and the majority of them are Independent Non-executive Directors. The Chairman of the Nomination Committee is Mr. LIU Chuanzhi, the Chairman of Board, and the other two members are Mr. MA Weihua and Mr. ZHANG Xuebing, the Independent Non-executive Directors.

The Nomination Committee is principally responsible for making recommendations on planning regarding to the appointment, reappointment and succession planning of the Directors, reviewing the structure, size, composition and policy of diversity of the Board and assessing the independence of Independent Non-executive Directors. Details of the Terms of Reference of the Remuneration Committee are available on the websites of the Company and the Hong Kong Stock Exchange.

During the year, after the receipt of notifications of retirement and resignation of Directors, and notifications of nominating the Shareholders holding over 3% equity interest as the new Director candidates, the members of the Nomination Committee considered them as preferred candidates based on their skills and experiences. The Nomination Committee gave advice to the Board on the appointments of new Directors and recommended such persons to be elected and re-elected. The Nomination Committee evaluated the suitability of the new Director candidates based on the Company's business model and specific needs, and the ultimate decision was based on merit, value and contribution that the selected candidates would bring to the Board. The Nomination Committee also considered factors including the balance between sustainability of the Board and the introduction of new Board members.

In accordance with the provisions of Terms of Reference of the Nomination Committee, given the conditions that each member of the Nomination Committee made his own judgment based on sufficient reference materials and was provided channels and enough opportunities to raise questions and to discuss different views in advance during the processes of their reviews and assessments, the members of the Nomination Committee approved and confirmed the following by way of written resolutions:

- Assessed the independence of Independent Non-executive Directors, confirmed if the structure of the Board was in compliance with the governing requirements of the Company and no existence of impacts affecting the independence of Independent Non-executive Directors;

- Review and assessed the current structure, size and composition of the Board (including skills, knowledge, experiences), review the Board diversity policy, confirmed that all of the above were in line with the Company's operations, scale of assets and shareholding structure and that the Board maintained a balanced and sufficiently diversified composition, discharged its functions effectively and enhanced the quality of its deliberations and decision-making, and confirmed the effectiveness of the Board diversity policy;

- Proposed re-election of the Board and Supervisors (excluding the employee representative Supervisor) on 2017 annual general meeting to the Board;

- After the approval of the appointment of new Directors by the general meeting, proposed new Directors to join the Board Committees and become new members;

Meanwhile, each member of the Nomination Committee also reviewed the following:

- the Corporate Governance Policies and Practices, the compliance with "Corporate Governance Code" and the disclosure in "Corporate Governance Report";

- the implementation of the professional training for Directors and Supervisors and continuing professional development program, and

- the policies regarding the compliance with law and regulatory requirements and its implementation.

Corporate Governance Functions

The Nomination Committee is responsible for performing the duties on corporate governance functions set out below:

a. formulating the Company's corporate governance policies and practices, monitoring its implementation and making recommendations to the Board;

b. reviewing and monitoring the training and continuous professional development plans of the Directors, the Supervisors and senior management;

c. reviewing and monitoring the Company's policies and practices regarding compliance with laws and regulatory rules as well as their implementation;

d. formulating, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to the employees and Directors; and

e. reviewing the Company's compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, together with the information disclosure in the Corporate Governance Report.

Board, Board Committees and General Meetings

The Board has convened meetings regularly, of which at least four times every year. The Board has convened four meetings during the Reporting Period. All decisions made by the Board are voted by the Board and supplemented by circulating resolutions in writing during the periods between Board meetings. Upon signing of Directors in accordance with requirements of Articles of Association of the Company, the resolutions would become resolutions resolved by the Board.

The attendance at the Board meetings, the meetings of the Board Committee and general meeting for each Director during the Reporting Period is as follows:

	Number of attendance/ Number of meetings being convened *(Note)*			
	The Board	**Audit Committee**	**Remuneration Committee**	**General Meeting**
Executive Directors				
LIU Chuanzhi	4/4	–	–	1/3
ZHU Linan	4/4	–	–	3/3
ZHAO John Huan	4/4	–	–	3/3
Non-executive Directors				
WU Lebin	3/4	–	–	2/3
SUO Jishuan *(resigned on June 5, 2018)*	3/4	2/3	–	1/3
WANG Jin *(retired on June 5, 2018)*	1/4	1/3	–	0/3
LU Zhiqiang *(resigned on September 7, 2018)*	1/4	–	0/1	0/3
Independent Non-executive Directors				
MA Weihua	4/4	–	1/1	1/3
ZHANG Xuebing	2/4	1/3	–	3/3
HAO Quan	4/4	3/3	1/1	3/3

Note: Given the conditions that each member of the Nomination Committee made his own judgment based on sufficient reference materials and was provided with channels and enough opportunities to raise questions and to discuss different views in advance, during the processes of their reviews and assessments, the members of the Nomination Committee resolved matters in writing in lieu of holding a meeting during the year.

Board of Supervisors

The Board of Supervisors comprises three members. The Chairman of the Board of Supervisors is Mr. LI Qin (representative of the employees), and the other two members are Mr. LUO Cheng (representative of a shareholder) and Ms. FENG Ling (representative of a shareholder).

At the annual general meeting of the Company held on June 5, 2018, Mr. SUO Jishuan ("Mr. Suo") did not offer himself for re-election of shareholder representative Supervisor. Ms. FENG Ling was approved to act as the Supervisor in replace of Mr. SUO.

At the extraordinary general meeting of the Company held on January 16, 2018, Mr. QI Zixin ("Mr. QI") resigned his position as the Supervisor of the Company. Mr. LUO Cheng was approved to act as the Supervisor in place of Mr. QI.

In accordance with the Articles of Association of the Company, the Board of Supervisors is responsible for the Shareholders' general meeting, which is principally responsible for conducting supervision on compliance regarding the Directors, President and other senior management when carrying out their duties, reviewing the Company's financial situation and auditing financial information such as financial reports, business reports and profit distribution plan submitted to the general meeting and requiring for rectification when the behaviors acted by the Directors and senior management damage the interest of the Company, and proposing to convene extraordinary board meetings and general meetings.

During the Reporting Period, the Board of Supervisors performed its duties and safeguarded the legitimate interest of the Shareholders, Company and staff. For details of its work, please refer to the "Supervisor's Report" on page 75 of this annual report.

Communication with Shareholders

The Board is fully aware of the significance of maintaining clear, timely and effective communication with the Shareholders and potential investors of the Company. With the publication of annual reports, interim reports, announcements, circulars and press releases, the Group is committed to ensuring that the Shareholders and potential investors receive the information in a timely manner. All relevant contacts are made available to the Shareholders through publication on the Company's website.

The Company is of view that the general meetings provides a good opportunity for direct communication between the Board and the Shareholders. The Company encourages and welcomes the questions raised at the general meetings. The Company has formulated the Shareholders' Communications policy, ensuring to maintain ongoing communication between the Company and the Shareholders.

Investor Relations

We attach great importance to the communication with investors. We maintain good interactions with the capital market and investors through a variety of means, such as results presentations, non-deal roadshows, participation in strategy conferences of investment banks and other investor communication activities, acceptance of survey by analysts and investors, immediate delivery of the Company's updates, etc.

The investor relations team of the Company is committed to connecting the Company with the capital market, promoting the Company's value and facilitating its capitalization. In 2018, the investor relations team focused on becoming the first pilot enterprise under the H share full circulation reform, organized special meetings through strategic meetings of investment banks, introduced the background of reform to investors, and explained the significance of the successful pilot project to the Company. The team intensified the active communication with analysts from leading investment banks at home and abroad to broaden the coverage of intermediary resources. It kept up with the business development by updating the latest news of the Company frequently to ensure the investors' understanding of the business development of the Company. In 2018, the investor relations team gained positive feedback from the capital market for its work. In the future, we aim to maintain adequate and smooth communication and establish deep trust with investors through clear strategies, efficient implementation, impressive operating results, transparent information disclosure, extensive channel coverage and innovative contents and means.

Articles of Association

During the year, the Company amended the Articles of Association twice in total:

The Shareholders approved the first amendment to the Articles of Association of the Company at the extraordinary general meeting of the Company held on January 16, 2018. Please refer to the appendix 7 set out in the circular of the Company dated November 24, 2017 for the relevant amendments.

The Shareholders approved the second amendment to the Articles of Association of the Company at the extraordinary general meeting of the Company held on December 27, 2018. Please refer to the appendix set out in the circular of the Company dated November 12, 2018 for the relevant amendments.

The revised Articles of Association has been published on the websites of the Hong Kong Stock Exchange and the Company.

Shareholders' Rights

Extraordinary General Meeting and Class Meeting Convened upon the Shareholders' Requests

Pursuant to the Articles of Association of the Company, Shareholders individually or collectively holding in aggregate 10% or more of the Shares carrying the voting right at the proposed meeting shall sign one or more written requisitions in the same format and with the same content, requiring the Board to convene an extraordinary general meeting or class meeting, and stating the matters to be discussed at the proposed meeting.

Written notice of general meeting stating proposed matters to be discussed and the date and venue of the general meeting shall be dispatched to all Shareholders listed in the register of members no less than 45 days prior to the date of such meeting. Shareholders who propose to attend the general meeting shall deliver a written reply on their participation in the meeting to the Company no less than 20 days prior to such meeting.

Proposing Motions at the General Meeting

When the Company convenes a general meeting, Shareholders individually or collectively holding in aggregate of 3% or more of the Shares carrying the voting rights shall be entitled to propose new motions to the Company and submitting the motions to the convener in writing no less than 10 days prior to such meeting. The convener shall serve a supplementary notice of general meeting within two days after receipt of such proposals, inform other Shareholders and list the motions which are within the authorities of the general meeting in the agenda of the meeting and submit them to the general meeting for consideration. The contents of the proposed motions shall fall into the authority of the general meeting, have definite topics and concrete issues for resolution and shall comply with relevant provisions of laws, regulations and the Articles of Association of the Company.

Shareholders' Proposals and Inquiries to the Board of Directors and Delivery Method

Shareholders can put forward proposals, inquiries and issues of concern to the Board and/or relevant specialized committees under the Board (if appropriate) in writing, state contact details and deliver to the registered office of the Company in Beijing, PRC (Room 1701, 17/F, Block 1, Court No. 2, Ke Xue Yuan Nanlu, Haidian District, Beijing 100190, PRC) or the principal place of business in Hong Kong (27/F, One Exchange Square, Central, Hong Kong). The investor relations team of the Company assists the Board to handle inquiries from the Shareholders and potential investors. The Company's website also contains the contact details of the Company for the Shareholders and potential investors to put forward inquiries. In 2019, under the continuously updating regulatory requirements, development trends of the Company and the feedback from the Shareholders, the Company will continue to focus on enhancing the Company's governance, ensuring steady development of the Company and creating values for the Shareholders.

About the Report

Scope

The ESG Report aims to provide investors and other stakeholders with disclosures regarding the efforts of Legend Holdings and some of its subsidiaries on corporate culture and management, employee development, supply chain management, environmental protection, social responsibility and social welfare initiatives in 2018. Given the fact that Legend Holdings has completed the acquisition of BIL on July 2, 2018, relevant information on BIL[1] is thus contained in the ESG Report for the year. For the purpose of presenting information on the subsidiaries that are considered to have significant environmental and social impacts on the Company, the ESG Report highlights Lenovo, Levima Advanced Materials, BIL and Raycom Property which manages Raycom Info Tech Park where Legend Holdings is headquartered.

Unless otherwise stated, the information contained in the ESG Report covers the period from January 1, 2018 to December 31, 2018. Please refer to pages 76 to 90 for detailed information on corporate governance.

Directions

The Company complies with the applicable laws and regulations that have a significant impact on us. Detailed information is contained in Appendix I to this Report. Indexes to the content of the Environmental, Social and Governance Reporting Guide of Hong Kong Stock Exchange are contained in Appendix II of this Report. Details on corporate governance and financial data are contained in other sections of the Report.

References for Preparation

At Legend Holdings, the Board of Directors is generally responsible for developing the Company's sustainability strategy, assessing and identifying the risks associated with sustainability, and ensuring the improvement and implementation of an appropriate and effective risk management and internal monitoring system for environment, society and governance. The Management has submitted to the Board of Directors the affirmation that whether related system is effective. Under the leadership of the President, the Executive Committee of the Company ensures that the decision-making of Legend Holdings on any significant matter is always premised on the compliance with the legal and regulatory requirements of the region in which it operates. At the same time, Legend Holdings holds all the employees accountable to the implementation of international laws, regulations, standards and best practices and those in the regions where they operate in terms of formulating the articles of association, policies and procedures.

The ESG report was prepared in compliance with the disclosure requirements of the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to *The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited* published by Hong Kong Stock Exchange.

Source of Data and Information

The data and information disclosed in the ESG Report are extracted from the official documents and statistics reports of the Company. The ESG Report has been approved by the Board of Directors in March 2019.

Corporate Culture and Management

Corporate culture has a profound and comprehensive implication for an enterprise. A well-aligned match between culture and strategy is key to the long-term development of an enterprise. As an investment company that views the employees as core assets, Legend Holdings regards it of vital importance to maintain a shared philosophy and vigorous morale within the Company.

Legend Holdings' cultural and managerial assets represent its core competitiveness and form the key foundation that empowers Legend Holdings to achieve sustainability and build ever more great enterprises.

1 The ESG information on BIL covers the period from July 2, 2018 to December 31, 2018.

The corporate culture of Legend Holdings has evolved in the course of development and consists of core values, methodology and manifestations. The core values and methodology of Legend Holdings are drawn from past successful practices, and have been proven to be effective and generally applicable in the course of development.

Core values are the key beliefs upheld by Legend Holdings over the long-term development, representing the essence of its culture.

- **Corporate interests first** – Realization of corporate interests is a prerequisite for realization of other interests; whenever there is a conflict of interests, corporate interests should always be prioritized over other interests, and personal interests should be aligned with those of the team while team interests with those of the Company as a whole.

- **Truth** – Be practical and realistic, be honest and accountable and walk the talk.

- **Ambition** – Aim high, go beyond immediate interests and past experience, be imaginative and creative, surpass one's limits and strive for challenging ambitions.

- **Employee-oriented** – Appreciate employees' efforts, respect employees' needs, and create opportunities for employees' development.

At Legend Holdings, the methodology refers to the ways its people think and solve problems under the guidance of its core values.

- **Purpose-driven** – Purpose always comes first, and one should figure out the reason in advance, so as to "aim accurately" instead of "shooting blindly". During the process, one needs to think in big-picture terms from time to time and figure out the role each individual task plays in the attainment of the final goal without deviating from the original aspiration.

- **Phased implementation** – Goals cannot be achieved overnight. One should not treat a marathon as a 100m dash, and has to figure out priorities, allocate resources, analyze boundaries and limits, set sub-goals and milestones and realize them in stages.

- **Review** – One should conduct work review and summary, keep examining and fine-tuning goals, analyze successes and failures and draw lessons therefrom. In essence, the review methodology of Legend Holdings is self-reflection embedded in its core values, which emphasizes "open-mindedness, frankness, truth, self-reflectiveness and collective wisdom".

In 2017, to adapt to the changes in strategy, business and personnel as a diversified investment holding company, Legend Holdings proposed the specific forms in which the corporate culture is revealed. The manifestations include "Accountable, Professional, Innovative and Collaborative". What's more, Legend Holdings also launched a culture-rebuilding campaign aimed at carrying out those cultural requirements among all the employees.

The manifestations of corporate culture are specific cultural requirements under the core values and the methodology, which are closely in line with the business characteristics of an investment company.

Accountable – Be highly-committed, self-motivated and responsible.

Professional – Pursue professional excellence and foster high-level professionalism.

Creative – Embrace changes and work creatively.

Collaborative – Have team spirit and collaborative capability.

Following the general law of cognition for corporate cultural development, i.e. translating knowledge into action, the Company placed focus on communicating with all the employees on the connotation of and specific requirements on self-reflection, and made the new cultural requirements take firm root among the employees through a suite of measures in 2017, e.g. releasing the Corporate Culture Reader, organizing self-reflection among all the employees and collecting stories of role models, and incorporating cultural requirements into the annual performance assessment.

In 2018, to link the culture with the actual work of the Company and inform the actual work of the cultural requirements "Accountable, Professional, Creative and Collaborative", all departments of Legend Holdings launched a culture review of specific cases in actual work to be consistent with the uniform requirements of the Company. Under the "review" guidance of Legend Holdings, they probed deeply into the causes and cultural motives of the problems, and worked out well-targeted remediation plans on the basis of the research findings. The "Culture Review" of each department was guided and participated by one member of the Company's Executive Committee for topic selection and discussions.

The "Culture Review" unified the understanding of employees on the significance and specific requirements of the "Rebuilding the Culture" initiative. According to a questionnaire survey of 116 employees participating in the Culture Review at the end of 2018, nearly 85% of the respondents believed the Culture Review had enhanced their application and understanding of the corporate culture, and nearly 82% commented that all the action plans of the Culture Review had been implemented satisfactorily and effectively.

2017

Jan
The Manifestations of Culture - "Accountable, Professional, Creative and Collaborative" were officially proposed

16 Jun
The "Rebuilding the Culture" Reader 1.0 was released

19 Sep
The "Innovation" themed workshop on post-investment management was held

Oct
The cases of "Cultural Models among My Fellow colleagues" were collected

2018

26 Jan
Legend Holdings held the "2017 Summary Meeting of Corporate Culture"

15 Jun
The 2018 "Rebuilding the Culture" Kick-off Meeting & Culture Review Training was held

Jun~Jul
The "Culture Review" was carried out among the staff

26 Dec
Legend Holdings held a cultural conference

2019

2019~
The cultural requirements were implemented in depth and the employees were advocated to become "Problem Shooters"

In 2019, the Company will take "continuously carrying out the accountable, professional, creative and collaborative cultural requirements and advocating development of employees into problem shooters" as its objective of culture building. It will keep exploring and improving the corporate culture that is compatible with the business of the investment holding company and the characteristics of the personnel.

Legend Holdings' management framework is divided into two aspects: operational and fundamental. The fundamental aspect consists of mechanisms, systems, corporate culture and Legend Holdings' "Three Elements of Leadership".

Three Elements of Leadership – Legend Holdings' management philosophy can be summed up as "leadership formation, strategy setting and team building."

Leadership formation – to select competent and upright management officers into the leadership panel which adopts both vertical and horizontal division of work and encourages "frank" and "friendly" discussions. The leadership panel pools the wisdom and efforts of its members to ensure rational decision-making and efficient execution while forming checks and balances on chief executives, thus heightening the prestige of the leadership of the Company.

Strategy setting – to follow the "seven-step" approach in developing strategies – define vision, develop strategies, set tactics, analyze methods, select leaders, adjust organizational structure and provide assessment and incentives.

Team building – to motivate and inspire team members to work with passion and skills in a well-organized way, thereby ensuring strong execution of strategies.

Lenovo

The culture of Lenovo unites the entire company tightly through joint commitment, sense of ownership and pioneering spirit. Integration of the unique culture and the supporting system of Lenovo helps it continuously realize breakthrough, innovation and delivery design for increasingly growing customers. Please refer to the *Lenovo 2017/18 Sustainability Report* published on the website of Hong Kong Stock Exchange for detailed information on its corporate culture.

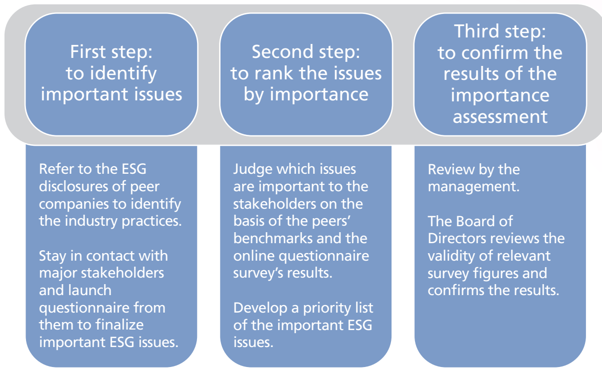
Communication with Stakeholders and Importance Evaluation

Legend Holdings values communication with stakeholders. We understand that listening to the needs and suggestions of our stakeholders will help to identify important issues of concern and are key to the continued success of our ESG efforts.

Through regular communication with stakeholders via questionnaires, performance evaluations, business exchanges and other communication channels, we have assessed the importance of different sustainability issues to stakeholders. This helps us to identify the major issues that need to be disclosed from the results of the surveys.

In 2018, we invited key stakeholders to participate in our online surveys to ensure that all important ESG issues of concern to all stakeholders were included in the ESG Report. The Company also entrusted an independent consultant to collect, count and quantify the data on key performance indicators.

Participating Stakeholders	**Important Issues**
• Employees • Subsidiaries • Investors/ shareholders • Suppliers • Partners	Corporate governance, compliance with laws and regulations, risk and crisis management, communication with stakeholders, investment return, privacy, labor standards and practice, talent management, on-the-job training, internal communication, energy efficiency, waste disposal and recycling, charity and public welfare and community work



Mission Statement

Legend Holdings endeavors to put into practice its values, namely people-oriented and investing in people. The Company stresses on having a "Mutual Commitment" with the employees, incorporating individual employee's pursuit into its long-term development. Through sharing the growth with its employees, the Company turns the commitment into a joint undertaking.

Employee Protection

Legend Holdings earnestly abides by various policy requirements on the protection of employee rights, practices equal employment, improves compensation and welfare, and strictly fulfills corporate responsibility for employees.

Employees and Labor Rules

The specifics of the *Code of Conduct and the Code of Ethics for Employees* of Legend Holdings are embodied in the *Employee Handbook*, which specifies the professional ethics that employees shall observe in terms of corporate culture, corporate ordinances, requirements for work style and requirements for work process. While the *Employee Handbook* and the *Code of Ethics for Employees* are both released at the Company's website, newly recruited employees will receive a copy of the *Employee Handbook* and learn about the corporate culture and *code of conduct* that should be followed in the new employee orientation. Meanwhile, in line with the "Rebuilding the Culture" campaign of Legend Holdings, the cultural conference is held to enable employees to truly understand the value standard the Company pursues, realize self-discipline and self-confidence according to the Company's requirements and integrate the corporate value and concepts into personal professional conduct. Each employee shall understand their own responsibilities and take the initiative to abide by the professional ethics specified in the *Code of Ethics for Employees* at daily work.

Compliance with Labor Laws

We strictly abide by the *Labor Law of the People's Republic of China*, the *Labor Contract Law of the People's Republic of China* and other relevant laws and regulations of the regions where we operate. We have signed labor contracts with all of our employees.

Legend Holdings will guide its subsidiaries to lay down the *Code of Conduct and the Code of Ethics for Employees* adapted to themselves according to their respective industrial and professional characteristics.

Equal Opportunity Employer

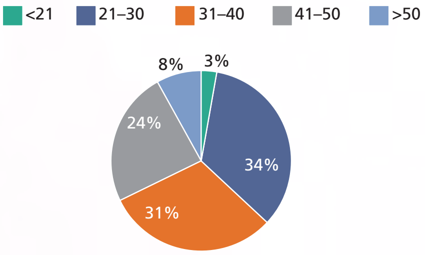
Adhering to open and equal employment, Legend Holdings follows an open and fair recruitment process and recruits employees based on job specifications and requirements, regardless of the age, gender or nationality of applicants or employees. In accordance with relevant laws and regulations of the regions where it operates, Legend Holdings has formulated internal policies and implemented rules such as the *Code of Conduct*, the *Code of Ethics for Employees*, the *Code of Ethics of BIL group*, and the *Remuneration Regulations of BIL group* for the purpose of regulating the salaries and dismissals, recruitments and promotions, working hours, holidays, equal opportunities, diversity, anti-discrimination as well as other entitlements and benefits for all job positions. Moreover, the Company strictly prohibits child and forced labor.

Lenovo

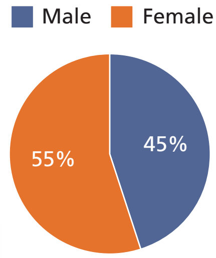
Labor practices and human rights are the core of the commitments made by Lenovo. Lenovo assesses all the applicants and employees by qualifications, skills displayed and achievements, regardless of race, color, religion, sex, gender identity or expression, nationality, ethnic identity, sexual orientation, sexual characteristics, age, physical disability, military service status, marital status or any other characteristics protected by local laws. Please refer to the *Lenovo 2017/18 Sustainability Report* published on the website of Hong Kong Stock Exchange for detailed information.

During the Reporting Period, the Company and its subsidiaries did not violate the laws and regulations related to the above. Please refer to Appendix I for the titles of relevant laws and regulations the Company complies with in respect to what is mentioned above and that has a significant impact on the Company.

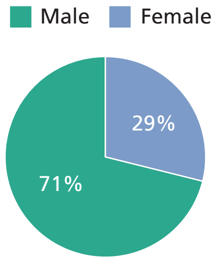
As of December 31, 2018, Legend Holdings and its subsidiaries had a headcount of 75,000 (60,000 in 2017), of which 21,000 (18,000 in 2017) were overseas employees.



Age composition (excluding Lenovo)



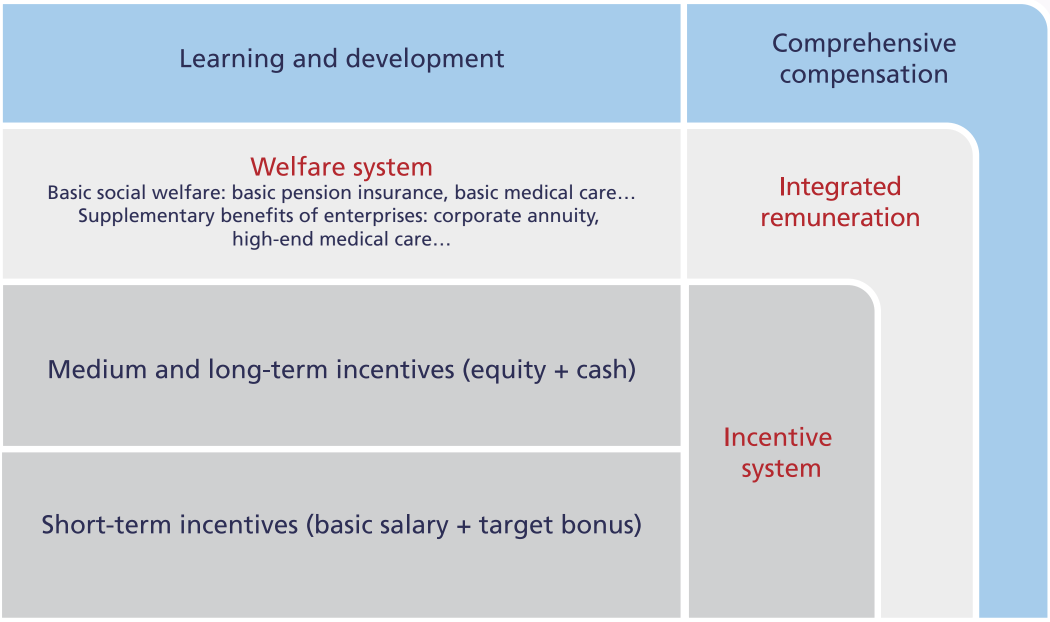
Gender composition of employees (excluding Lenovo)



Gender composition of senior management (excluding Lenovo)

Talent Retention

Diversified Incentives



Legend Holdings has an all-round diversified incentive mechanism, comprising short-term incentives (basic salary plus target bonus) and middle and long-term incentives (including pre-IPO equity incentives). Short-term incentives: basic salary and annual target bonus, based on the relative value of job functions. Middle and long-term incentives: based on the accomplishment of middle and long-term strategic goals, ensuring that the value creators can gain an incentive growth comparable to the overall value growth of the Company through a combination of stock ownership incentives and middle and long-term performance-linked bonus.

In addition to monetary incentives, Legend Holdings also motivates the employees with moral incentives. For the purpose of praising excellent performance and creating a truth-seeking and aggressive organizational atmosphere, Legend Holdings has set up grants and awards, such as Legend Holdings Awards, Professional Contribution Awards, Tripartite Joint Action Awards and Excellent Subsidiary Awards to encourage those teams and individuals making important contributions to the growth of the Company, being dedicated to their work and good at executing, and standing out in practicing the corporate culture. The awards program is carried out once a year. Each department recommends the candidates, and the Human Resources Committee selects winners through evaluation.

Diversified Welfare System

Legend Holdings has established a sound welfare system for the employees. In addition to the social insurance benefits such as basic pension, basic medical insurance, housing provident fund, unemployment insurance, work injury insurance and maternity insurance that are mandatory under relevant laws, employees are also entitled to medical leave in case of illnesses or non-work-related injuries. Employees who suffer from work-related injuries are entitled to benefits as mandatory under relevant national or local regulations.

Apart from the statutory welfare required under relevant PRC laws and regulations, Legend Holdings constantly enriches, improves and increases employee benefits and provides employees with diversified supplementary welfare benefits and commercial insurances including high-end medical insurance, supplementary medical insurance, critical illness insurance, accident injury insurance, life insurance and a medical care fund based on the business performance and the actual needs of employees. It is the Company's aim to ease the medical burden of employees and leave all their worries behind. In the meanwhile, Legend Holdings also sets up a competitive enterprise annuity plan for employees to ensure and enhance their basic living standard after retirement. The annuity fund is well managed to hedge against inflation and seek value appreciation.

Legend Holdings' welfare benefits also include various types of paid leaves, such as paid annual leave, paid sick leave and Spring Festival leave.

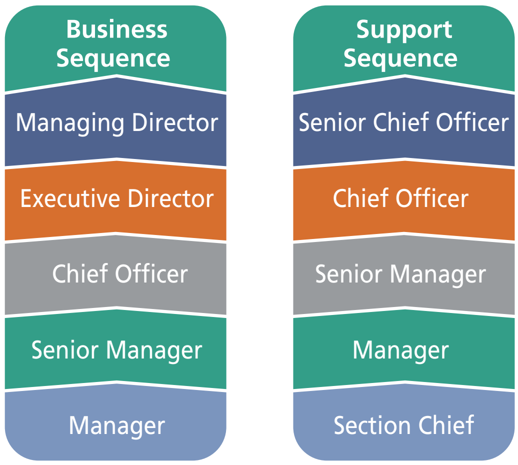
Talent Development

Career Development and Training

Legend Holdings recognizes the importance of employee development. We are committed to providing our employees with predictable career development paths and a sound training and development system so that employees can access to the development opportunities offered by the Company.

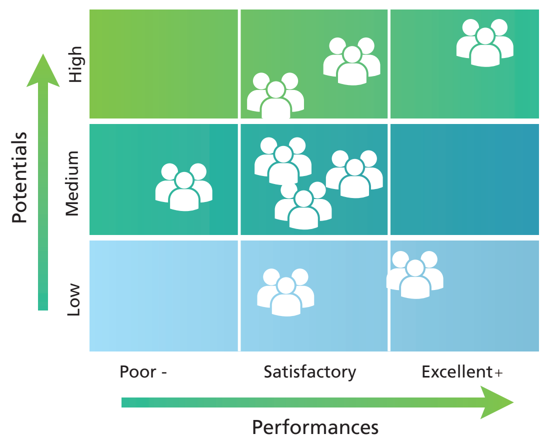
Career Development Paths

Legend Holdings advocates professional improvement and designs multiple career development paths for the employees based on the characteristics of different positions. With various career development paths in place, we help employees identify their status quo and future development directions, so that they can take targeted capability-building measures and further incorporate individual growth into the long-term development of the Company.



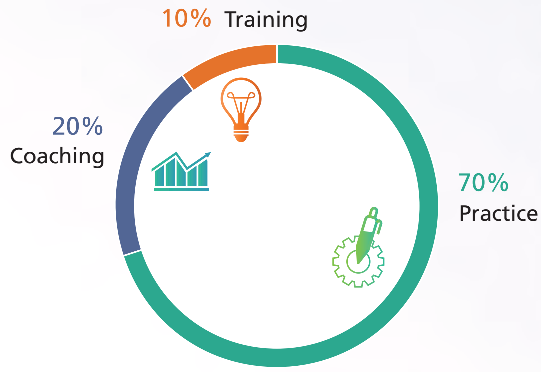
Talent Review

Through regular review on the quantity, quality and structure of employees, we discuss and analyze key aspects of talent management and collectively appraise the employees on the basis of their performance and potential. The results of the review not only offer the basis for formulation of talent development strategy, but also give clear guidance and help on future growth of employees.



"7–2-1" Principle for Talent Development

Legend Holdings emphasizes the cultivation of talents and facilitates their growth through a variety of internal training methods, e.g. real-world practice, coaching from professionals and classroom training. We also follow the "7–2-1" principle for talent development:



70% of employee capability enhancement arises from practice: Legend Holdings' strategic and business development provides employees with broad opportunities to practice. Heads of each business segment and department should assign challenging tasks, taking individual capabilities and characteristics into account, to the employees to enhance their capabilities.

20% from coaching: Legend Holdings has a coach system in place, in which experienced executives or senior employees act as coaches, and provide personalized guidance and experience sharing for employees in the course of career development.

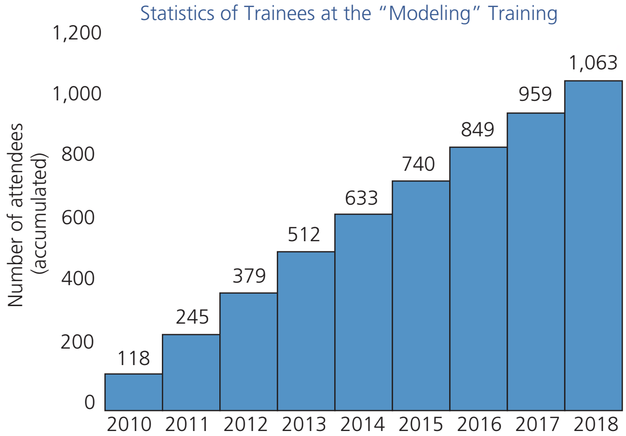
10% from training: In response to its business development and employee needs, Legend Holdings organizes and supports employees to attend all kinds of training programs so that they can improve competence and gain access to professional information.

Subsidiaries

As a professional investment holding company, Legend Holdings also attaches importance to sharing the corporate culture, operation philosophy and management experience with our portfolio companies. To this end, the Company has established the "Legend Management Institute".

Legend Management Institute adopts the "Modeling" training program to present the development history, business status and management culture requirements of the Company for all new recruits. More than half of the trainees come from subsidiaries. Such program is of great significance for the employees to understand the strategic goals, business models and cultural requirements of Legend Holdings. In 2018, totally 107 people attended the "Modeling" training organized by the Legend Management Institute.

Statistics of Trainees at the "Modeling" Training



CEO CLUB is a platform for exchange and learning organized and implemented by Legend Management Institute for the heads of member companies of Legend Holdings. The CEOs of each company can fully exchange and enhance mutual understanding around specific topics and promote the "Tripartite Joint Action". In 2018, CEO CLUB attracted leaders of 12 member companies to participate in exchange and seminar with the theme "Capital Operations and Enterprise Development".

For the purpose of better helping the management of member companies to improve leadership and management skills and expanding the horizontal links among member companies, the Legend Management Institute launched "L Learning Union" leadership workshop for two consecutive years in 2017 and 2018. 37 senior executives from 21 enterprises, including Legend Holdings, have finished study on modularized courses of the training sessions.

The Legend Management Institute also proactively introduces the management experience of the Company to member companies and effectuates the "empowerment" concept in response to the business demands through all kinds of trainings. According to statistics, in 2018, over 1,200 participants from Legend Holdings and our subsidiaries spent a total of 31 working days in attending the learning activities of the Legend Management Institute.

Relevant programs were as follows: briefing Better Education with "Strategic and Cultural Discussion" in Legend management culture, introducing the "OKR Management Workshop" for Golden Wing Mau and Raycom Property to enhance their organizational and strategic capabilities, and co-developing "Review" courses with Lenovo. Legend Holdings also leveraged its own resource advantages to build a platform for learning and communication, and to enhance the capabilities of member companies' professional teams in human resource management and organizational development. In 2018, the Legend Management Institute invited human resource managers and corporate culture team members of member companies, totally 34 people, to participate in the "Corporate Culture Training Camp", which arranged six online & offline learning activities. This helped the subsidiaries to solve the practical problems in improving their culture and enhancing their professional research capabilities.

Group picture of L Learning Union Leadership Workshop

Corporate Culture Training Camp

BIL

Talent development is at the core of the human resource policy of BIL, and it is also the foundation for forming its value creation and competitive advantages. To this end, BIL further strengthens the knowledge base of old and new employees through designing career plans and providing corresponding training for them. The Luxembourg Bankers' Association ("ABBL") has formulated the *Collective Bargaining Agreement for Bank Employees 2018-2020* for purposes of regulating the labor relationships between Luxembourg-based banks and their employees, maximizing the protection and enhancement of the interests of its members and supplementing the provisions of relevant laws and regulations. The "Employability and Training Program" of the Agreement aims to maintain and preserve the current knowledge and skills of employees, guide companies on how to assess and define the training needs of employees, and standardize the training resources provided by the ABBL members. Per this program, BIL provides customized training to employees and assists them in acquiring new knowledge and skills, thus optimizing the talent reserve, building and developing a highly-efficient workforce.

In 2018, BIL provided 54,000 hours of training for 1,840 employees.

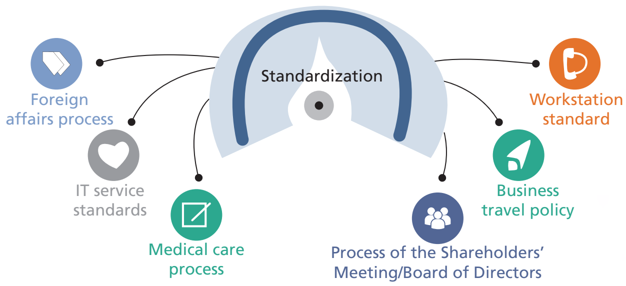
Healthy Workplace

Comprehensive Health-care Program

Each year, Legend Holdings organizes comprehensive physical examinations for employees. We have established a health service system to provide green channels for hospital visits, health and disease prevention consultation, and organize health-care events from time to time. We provide medical insurance for employees' underage children and spouses who have no medical insurance to ease their worries.

Healthy and Safe Working Environment

Legend Holdings continued to strengthen administrative process management and to streamline the standards and models for optimizing employee services. At the same time, we paid further attention to the working environment health index, and increased air purifiers and the frequency of inspections in a bid to create a safe and healthy working environment. The annual air quality level (PM2.5) was below 35. Legend Holdings has spacious and bright tea rooms, providing employees with afternoon tea refreshments and snack food.



Caring for the Employees

Legend Holdings is committed to passing on the Company's people-oriented care to all employees and creating a warm and happy working atmosphere through helping employees in difficulties and carrying out a variety of cultural and recreational activities.

Caring for Female Employees

At Legend Holdings (excluding Lenovo), female employees accounted for 55% of the workforce, while female senior executives accounted for 29% of all the senior executives. We create an equal and good working environment for female employees in strict accordance with the *Special Provisions on Labor Protection of Female Employees*. We strictly provide the labor insurance, medical treatment and other benefits for female employees in pregnancy, maternity leave and breastfeeding. Female employees have 128 days of paid maternity leave, gift money for child birth and one-hour breastfeeding leave per day, and we have nursing rooms. Female employees have special-purpose screening items during physical examinations.

Employment Care and Assistance Program

Legend Holdings provides employees with cash gift for their marriage, cash gift for giving birth, financial aid for their general injuries and diseases, and condolence money for their death or their immediate family members' death. In 2018, Legend Holdings issued the *Subsidy Measures for Employees in Difficulties.* Employees can apply for financial aid from the Company in case that employees, their spouses, children or parents have critical illnesses and their family cannot afford the medical expenses at their own expense, or their family is in serious difficulty due to material loss from natural disasters, accidents and other special causes. In this way, we can effectively address the urgent needs of employees in need, reflecting the care for employees.

Colorful Cultural and Recreational Activities

Legend Holdings encourages employees to participate in colorful cultural and sporting activities so as to enrich their spare time and raise their sense of belonging and unity.

- Special interest activities like badminton and tennis events are organized regularly, while fun sports day is organized from time to time so that our employees can enjoy the happiness of working and living healthily.

The Third Fun Sports Day (2018)

In order to increase the exchanges among colleagues, help new colleagues to integrate more quickly, enhance their sense of belonging and motivate the employees' "combat power", the Administration Department and the Trade Union jointly prepared and organized the Third Fun Sports Day event of Legend Holdings.

- Legend Holdings organizes the Family Day Event in the second half of each year. By the end of 2018, Legend Holdings has organized the event for 8 times. The Family Day provides both employees and their family members with a platform to understand the culture of Legend Holdings and come to know one another better.

2018 Family Day Activity

The "Code of Happiness"-themed 2018 family day event mainly took the form of carnival activities across a wide age group. Lots of employees participated in and spoke highly of the event.

- At the end of each year, Legend Holdings organizes a "New Year's Banquet". All employees at the headquarters of Legend Holdings, as well as management members and employee representatives from various member companies (as far as Europe and Australia) gather together to welcome the new year.

- In addition, at each holiday, Legend Holdings organizes themed activities, including the tree-planting activity, the Mid-Autumn Festival moon-cake baking activity, the book-donation on the Thanksgiving Day, the celebration of Children's Day and the gift-sending activity on the Christmas, sparing love and care to the employees

Employees' Health and Safety

Legend Holdings attaches great importance to employees' health and safety and strives to create a workplace environment that believes "the first wealth is health". The specifics of employees' work process are reflected by the *Employee Handbook* and routine regulations, and the *Employee Handbook* includes content on information safety, office environment and resource and office rules. Legend Holdings also pays for traffic accident insurance for each employee. Each subsidiary, taking its business characteristics into consideration and observing relevant laws and regulations, sets up a series of working procedures and safety mechanisms to safeguard the personal and property safety of the employees. In 2018, neither the Company nor any of the subsidiaries violated laws and regulations related to providing a safe workplace and protecting employees from occupational hazards. Please refer to Appendix I for the titles of relevant laws and regulations that have a significant impact on the Company and the Company complies with.

Levima Advanced Materials

Levima Advanced Materials, as a manufacturer of new chemical materials, insists on the policy of "Safety First, Prevention Foremost and Comprehensive Control" for its work safety management. It formulated the *Administration Measures on Safety Education and Training* to enhance employees' awareness about work safety, increase safety publicity and introduce knowledge about safety to more employees. This creates a work-safety supporting environment and allows the idea of safe development to fully permeate into the workforce.

Pursuant to the requirements of the safe production standard system and on the basis of its hierarchical risk control and hazard identification and management system, Levima Advanced Materials has formulated a number of work safety management rules, including the *Provisions on Potential Hazard Identification and Management*, the *Provisions on Safety Management of Special Operations and the Emergency Plan for Work Safety Accidents*, and also established a work safety management system and a long-term effective mechanism for identification and management of potential hazards in work safety, thus further strengthening the emergency-response ability. Levima Advanced Materials attaches great importance to the health of its employees. It follows the principles of "people first, prevention foremost, and a combination of prevention and control" to prevent, control and eliminate occupational hazards. With the focus on continuously improving workplace environment, Levima Advanced Materials seeks to constantly monitor occupational hazards in the workplace, contains and eliminates the triggers of occupational diseases through measures such as strengthening management, improving relevant rules, keeping employees' personal health records, and providing physical examinations to all employees in an effort to eliminate occupational diseases from the very beginning.

BIL

BIL takes pride in creating a working environment that benefits employees and prevents occupational risks from affecting their health. The Director of Health and Safety cooperates with the Human Resources Department and the Security Department, etc. to jointly fight against risks and launch prevention activities. By formulating the *Occupational Health and Safety Policy*, BIL provides employees with regular health and safety training sessions to further deepen their awareness of potential risks. It also requires contractors to follow the in-house health and safety rules, works hard to prevent accidents from occurring to contractors and strengthens the safety management of contractors, pooling efforts to build a safe, healthy and comfortable working environment.

Lenovo

At Lenovo, the safety and wellbeing of the workforce is an integral part of its long-term success. Lenovo strives to provide and continually improve company health and safety programs and processes throughout its global manufacturing locations. Its corporate policy – Responsibility for Employee Health and Safety – is the foundation for ensuring a safe and healthy work environment for all of its people worldwide. Please refer to the *Lenovo 2017/18 Sustainability Report* published on the website of Hong Kong Stock Exchange for detailed information.

Operating Practices

Supply Chain Management

Legend Holdings has established an equal, fair and effective long-term cooperative relationship with business partners with a sincere and responsible attitude, and actively boosts the sustainability of partners for common development and shared success.

Raycom Info Tech Park

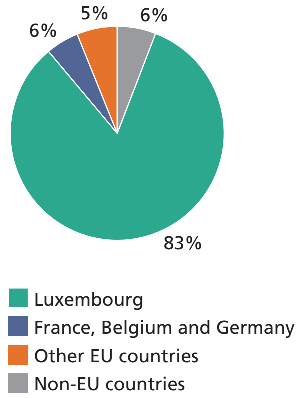
In order to manage the potential risks in the supply chain, Raycom Info Tech Park conducts annual review over fixed suppliers with suppliers' performance in abiding by laws and regulations, product quality and delivery timeliness as main evaluation factors and conducts routine work relating to supplier management according to the process stipulated in the *Administrative Measures for the Tenders and Bids*.

Levima Advanced Materials

Levima Advanced Materials chooses suppliers that can offer reasonable prices, make timely deliveries and warrant the quality and quantity of products, through scientifically evaluating the suppliers' performance, maintaining moderate competition among suppliers and establishing strategic partnerships with suppliers. In addition to requiring its suppliers to be a legally operating company, Levima Advanced Materials also asks them to obey its management rules and accept its inspections. Besides, it keeps supplementing, revising and improving the procurement & supplier management rules such as the *Supplier Management Measures* and the New *Supplier Management Measures* to make them more realistic. Each year, Levima Advanced Materials organizes annual supplier ratings and invites important suppliers to pay site visits, and deletes unqualified suppliers from the *Qualified Supplier List*. Strictly according to the New *Supplier Management Measures*, it increases new suppliers through appraisal, creates the *Annual New Supplier Ledger*, updates and checks related qualification documents and suppliers' requests from time to time, and manages the *Qualified Supplier List* dynamically. Through the website of the National Enterprise Credit Information Publicity System, Levima Advanced Materials checks the suppliers' basic information, administrative penalty information and abnormal operation information, and updates its file data in time.

BIL

BIL encourages suppliers to adopt the best practices in human rights, health and safety, and environmental protection. BIL will send guidelines on how to respect and comply with laws and regulations related to human rights, labor, health and safety, ethics and the environment to its suppliers, and include an audit article in the supplier agreement, specifying that an audit should be performed in the place where the supplier operates if necessary. In addition, in order to ensure that suppliers comply with regulatory requirements and reduce the risk of engaging suppliers, BIL has developed the Outsourcing Regulations, which explicitly prohibits the outsourcing of strategic functions related to its core business to any third party for the purpose of mitigating the operating risk.



Suppliers of BIL (%)

BIL encourages its business offices to take the products of their local suppliers as the first choice, a move that will not only promote local employment and economic development, but also reduce the environmental impact of the procurement and transportation process. In 2018, most of the suppliers of BIL headquarters came from Luxembourg.

Lenovo

Lenovo has strong supplier contractual requirements, a comprehensive supplier *code of conduct* and extensive supplier validation programs. This includes rigorous implementation of the RBA *Code of Conduct*, respect for human rights and maintaining robust environmental and conflict minerals programs. On several aspects Lenovo requires direct and independent validation of supplier compliance. Overall supplier sustainability performance is tracked and reported via an extensive report card program. Besides, education and capability building practices are in place to eliminate sustainability risk in the supply chain. Please refer to the Lenovo 2017/18 Sustainability Report published on the website of Hong Kong Stock Exchange for detailed information.

Product Responsibility

Legend Holdings offers a consistent guarantee, for every industrial sector we participate in, that each operating procedure of our products (covering the entire life cycle from development, production, sale, utilization and recycling) is in full compliance with the requirements of laws and regulations of the regions where we operate. Meanwhile, the Company pays special attention to the energy efficiency, materials and packaging of products and devotes unremitting efforts to improving the environmental performance of products with a series of technological updates and practices, and strives to minimize the impacts of products on the environment. In 2018, neither the Company nor any of the subsidiaries recorded any event that constituted violation of the laws and regulations concerning providing and using products and services of the Company (including but not limited to information and labeling, promotional newsletters (such as advertising, promotional sales and sponsoring), customer privacy and intellectual rights relating to the products and services). Please refer to Appendix I for the titles of relevant laws and regulations that have a significant impact on the Company and the Company complies with.

BIL

Adhering to the principles of integrity, responsibility, fairness, transparency and prudence, BIL is committed to providing customers with a broad range of service channels, including the around-the-clock BILnet platform which offers both online and mobile banking services, telephone banking and 41 branches. BIL tries its best to provide the disadvantaged groups with more convenient services, such as the barrier-free access for people who are wheelchair-bound and others with reduced mobility, and provision of presentations and learning courses on how to use electronic tools for people who are less familiar with such tools. In addition, to get more valuable comments and suggestions from customers, BIL analyzes the customer feedbacks received by the account managers and the opinions given by customers in the satisfaction surveys to tailor the services and products that meet the customers' demands. In order to regulate the handling of customer inquiries and complaints, BIL has developed a complaint handling policy which defines the duties of the complaint handlers and the matters to be monitored and reported so as to take effective remedial actions and respond quickly. In 2018, BIL received 278 complaints about products and services.

Together with the government of Luxembourg, BIL is also one of the founding members of the Forestry and Climate Change Fund ("FCCF"), launched in 2017. The "FCCF" is a pioneering impact fund aiming to prevent deforestation via a sustainable forestry model and finance for companies, communities and small farmers that manage secondary and degraded tropical forests in Central America. BIL is also one of the partners in the Luxembourg Microfinance Development Fund (LMDF), which was launched in 2009 on the initiative of the Appui au Développement Autonome (ADA), a non-profit organisation and the Luxembourg government. Finally, considering a growing demand for sustainable investment solutions, BIL stays proactive in developing client solutions complying with ESG standards.

Lenovo

Lenovo delivers superior quality products and is committed to ensuring that its products are safe throughout their life cycle. Product Life Cycle Assessment principles guide Lenovo in ensuring that every stage of the product's life is taken into consideration, including manufacturing, transportation, installation, use, service and recycling. Lenovo's global Quality Management System has earned ISO 9001 (International Organization for Standardization) certification. Please refer to the Lenovo 2017/18 Sustainability Report published on the website of Hong Kong Stock Exchange for the information of Lenovo on product materials, packaging, environmental certification, logistics and recycling.

Anti-Corruption

Legend Holdings requires the management members and all the employees to strictly comply with the laws and regulations of the PRC and other countries where our portfolio companies operate as well as the Anti-Corruption Management Policy, the *Code of Ethics for Employees* and other internal control rules of the Company. This is to guarantee the law-abiding and compliance operation of the Company and guard against individual corruption behaviors. In 2018, neither the Company nor any of the subsidiaries violated the laws and regulations related to the fight against bribery, extortion, fraud and money laundering. Please refer to Appendix I for the titles of relevant laws and regulations that have a significant impact on the Company and the Company complies with.

Besides, the Company sets an anti-corruption whistleblowing mailbox according to the Anti-Corruption Management Policy. If an employee finds any fraudulent or unethical practice in the business of the Company, or his/her interests are infringed upon due to the Company's violation of relevant laws and regulations and *code of conduct*, he/she is entitled to complain and report such misconduct via the anti-corruption whistleblowing mailbox. The Company will handle the complaint or report subject to the permission of laws and regulations and in compliance with effective investigation. The Company keeps strictly confidential the personal information and all the data provided by the informer, and prohibits any retaliation against the informer in any form. Relevant personnel will be held accountable in case of a retaliation.

The Company pays consistent attention to cultural development and employee education in an attempt to prepare in advance for any possible calamity. The Company has had "conclusive requirements" in place since 1990, which set forth certain unchallengeable bottom-lines for the employees including "strictly forbidden to take advantage of their work to seek personal gains". In addition, in order to raise the employees' sense of integrity, the Company requires all new recruits to attend the training course on the *Code of Ethics for Employees* and other on-boarding training, and further expands the training contents in the form of case studies on a regular basis.

BIL

BIL upholds the strictest standards of transparency. BIL has been a signatory to the Charter of the International Capital Market Association. All its employees must abide by the *Code of Conduct* for BIL group, the Anti-Bribery and Corruption Regulations of BIL group, the *Code of Ethics for BIL group*, and the Financial Crime Prevention Regulations of BIL group. They are also subject to very strict procedures, whether it involves tax transparency, fight against money laundering, combating of terrorism financing, security and confidentiality, or anti-discrimination. In order to ensure that employees at all levels have a deep understanding of and comply with the procedures, BIL provides relevant training to employees and arranges regular reviews to ensure the applicability of the procedures.

Lenovo

Lenovo has a global ethics and compliance program, which is guided by its *Code of Conduct*. The Ethics and Compliance Office of Lenovo oversees ethics and compliance across the organization. Each newly hired employee receives training and information about the ethics and compliance program of Lenovo, and all employees are required to participate in subsequent mandatory training sessions held on a regular basis to reinforce Lenovo's commitment to compliance and to conducting business with integrity. In keeping with best practices, Lenovo has developed and implemented an Anti-Bribery and Anti-Corruption Policy, which reinforces provisions in the *Code of Conduct*. Please refer to the Lenovo 2017/18 Sustainability Report published on the website of Hong Kong Stock Exchange for other information on ethics and compliance.

Our Environment

Environmental Policy

The Company and its subsidiaries are committed to environmental protection, energy conservation and emission reduction and reasonable and efficient utilization of resources and energy in day-to-day operational activities and ensure the observation of local environmental laws and regulations and relevant industry emission standards in different regions. We are committed to constantly practicing environmental management and improving corresponding measures, including establishing a complete environmental emergency response system for specific business, providing feasible support for prevention and control of environmental accidents, and improving factory production process and equipping resource recycling system to effectively reduce energy consumption. In the meantime, we attach great importance to the environmental management in the office area. We actively cultivate staff's awareness of protecting the environment and saving office resources and energy and actively promote greening layout in plant areas and green building rating of office buildings. The Company and its subsidiaries will continue to strictly abide by relevant regulations on environmental protection, develop sustainability policies and design and strive to strike a balance among economic, social and environmental benefit.

As Legend Holdings makes strategic investments on all fronts, the environmental impact of the Company's activities has also become an increasingly important factor considered by investors. Legend Holdings requires its subsidiaries in all strategic investment sectors to ensure their strict compliance with local environmental laws and regulations where they operate. During the reporting period, the Company and its subsidiaries did not violate any laws and regulations relating to waste gas and greenhouse gas emissions, discharges into water and land, and generation of hazardous and nonhazardous waste. Please refer to Appendix I for relevant laws and regulations that have a significant impact on the Company and the Company complies with.

In order to carry out environmental management and continuously improve relevant measures, Legend Holdings requires its subsidiaries in all strategic investment sectors to establish a sound environmental emergency system for specific businesses, provide solid support for prevention and control of environmental emergencies, and improve the factory processes and establish waste recycling system to reduce energy consumption. As for environmental management of office spaces, we have fostered employees' awareness of protecting the environment and saving office resources and energy, and vigorously promoted the landscaping of factory sites and the green building rating of office buildings. In addition, we also have formulated and implemented more detailed environmental protection policies in line with the local conditions of subsidiaries in all strategic investment, so as to achieve the harmony among economic, social and environmental benefits.

Green buildings

Illumination source replaced with an energy-saving LED light source

Energy Conservation and Emission Reduction

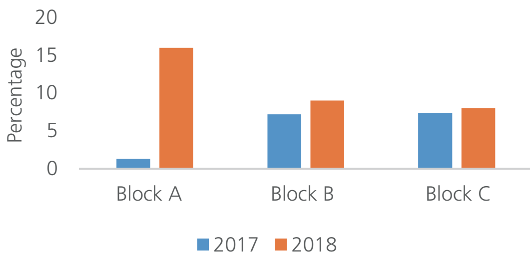
As climate change is increasingly affecting the world, Legend Holdings acts in an "environmentally responsible" manner and strongly supports diversified and effective energy conservation and emission reduction measures in various investment activities, in a bid to reduce the carbon footprint of operations. The environmental section of this ESG Report will primarily describe the performance of Legend Holdings' financial services (Banque Internationale à Luxembourg), investment property (Raycom Info Tech Park) and strategic investment (Levima Advanced Materials) in energy conservation and emission reduction.

Raycom Info Tech Park

Energy conservation and emission reduction measures

Raycom Info Tech Park, where Legend Holdings is headquartered, is managed by Raycom Property Investment. To reduce greenhouse gas emissions, Raycom Property Investment upgraded the public area lighting, restroom lighting and lobby lighting on all floors of Block C of Raycom Info Tech Park with energy-saving LED lighting. A total of 2,657 floor downlights, 2,278 meters of light strips and 448 elevator car spotlights were replaced. After the upgrade, the overall lighting power was reduced while illuminance was improved, resulting a substantial drop in electricity consumption in public areas. In order to cope with the increasingly serious climate problem and improve the ambient air quality, Raycom Property Investment added 10,010 square meters of green area near Raycom Info Tech Park in 2018. The total green area was 24,660 square meters, representing a 10.2% in green area relative to the total constructed floor area of Raycom Info Tech Park, and a 68.3% increase in total green area relative to 2017.

Greening area as % of gross floor area of Raycom Info Tech Park



Measures to reduce waste

Raycom Property Investment has signed a solid waste disposal agreement with Beijing Eco-Island Science and Technology Co., Ltd. According to relevant notices, policies and guidelines such as the *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution Caused by Solid Waste*, the *Notice on Strengthening the Management of Chemical Hazardous Substances, the Notice on Strengthening the Environmental Management of Waste Electrical and Electronic Equipment*, and the *Administrative Measures for the Prevention and Control of Environmental Pollution Caused by Electronic Waste*, hazardous waste is centrally collected and managed, and waste is regularly transferred for disposal. In 2018, Raycom Property Investment transferred and disposed 200 kg of mercury-containing lamps. In addition, Raycom Property Investment improved the waste sorting facilities on floors of Blocks A, B and C of Raycom Info Tech Park in 2018. The waste sorting criteria were further standardized and detailed, adjusted to three categories (non-recyclable, recyclable and hazardous waste) from two categories of waste in 2017, and more than 30 new sorting points were added.

Three categories of waste sorting criteria

Increasing utilization rate of resources

Raycom Property Investment attaches great importance to environmental protection, energy conservation and emission reduction and reasonable and efficient use of resources and energy. In accordance with the *Circular of the State Council on Issuing the Comprehensive Work Plan for Energy Conservation and Emission Reduction for the 13th Five-Year Plan Period*, the *Water Law of the People's Republic of China and other relevant laws and regulations, it formulated the Environmental Energy Efficiency Plan*. Running water and water-consuming equipment was repaired and replaced in a timely manner through real-time monitoring of water consumption and inspection of sanitary ware. In addition, Raycom Property Investment also strengthened the staff training on awareness of water conservation and carried out energy conservation publicity to tenants to ensure the reasonable use of resources. In 2018, a total of 100 sets of water-saving faucets were installed in selected restrooms in Block C of Raycom Info Tech Park, an approximately 46.7% of water conserved compared before replacement.

The environmental performance data of Raycom Info Tech Park[1] are summarized as follows:

Emissions	**Type**	**Unit**	**2018**	2017
Greenhouse Gas Emissions	Scope 1 (Direct Emissions)[2]	t CO_2e	**107.66**	106.32
		t CO_2e/m^2 [3]	**1.57×10^{-3}**	1.18×10^{-3}
	Scope 2 (Indirect Emissions)[4]	t CO_2e	**24,533.30**	23,690.84
		t CO_2e/m^2	**0.36**	0.26
Air Pollutant Emissions[5]	Nitrous Oxides (NO_X)	kg	**41.54**	25.63
		kg/m^2	**6.07×10^{-4}**	2.85×10^{-4}
	Sulphur Oxides (SO_X)	kg	**0.70**	0.40
		kg/m^2	**1.03×10^{-5}**	4.00×10^{-6}
	Carbon Monoxide (CO)	kg	**304.60**	142.44
		kg/m^2	**4.45×10^{-3}**	1.59×10^{-3}
	Particulate Matter (PM)	kg	**2.73**	1.57
		kg/m^2	**3.99×10^{-5}**	1.80×10^{-5}
Non-hazardous Waste	Construction Waste	t	**6,000.00**	6,700.00
	Domestic Waste	t	**1,600.00**	1,643.00
	Paper	sheets	**620,500.00**	600,000.00
Hazardous Waste	Discarded Tubes with Mercury	pieces	**1,708.00**	1,384.00
	Discarded Batteries	pieces	**2,214.00**	2,540.00

Resource used	**Type**	**Unit**	**2018**	2017
Energy	Purchased Electricity	MWh	**34,873.20**	33,675.68
		MWh/m^2	**0.51**	0.38
	Petrol	L	**45,369.00**	34,511.00
		L/m^2	**0.66**	0.38
	Diesel	L	**1,200.00**	1,200.00
		L/m^2	**1.75×10^{-2}**	1.33×10^{-2}
Water	Tap Water[6]	m^3	**253,759.00**	244,815.00
		m^3/m^2	**3.71**	2.72
Packaging Materials		Not Applicable[7]		

[1] As the headquarters of Legend Holdings are located at Raycom Info Tech Park, the environmental performance key performance indicators of Legend Holdings' headquarters are included in that of Raycom Info Tech Park.

[2] Requirements of the greenhouse gas emissions accounting and reporting – land transportation enterprise and Industrial greenhouse gas emissions accounting and reporting- other industries issued by the National Development and Reform Commission of the People's Republic of China; and Greenhouse gas inventory guidance – direct emissions from mobile combustion sources issued by the United States Environmental Protection Agency (USEPA). Scope 1 greenhouse gas emissions came from the operation of vehicles and diesel backup generators owned by Raycom Info Tech Park.

[3] The calculation for m^2 is based upon Raycom Info Tech Park's area which excludes the area leased to tenants. This year's non-leased area was 21,473.19 m^2 less than the previous year, hence the change in intensity figures.

[4] 2011-2012 Regional Power Grid Average CO_2 Emission Factors in China guidelines published by the National Development and Reform Commission of the People's Republic of China. Scope 2 emissions came from Raycom Info Tech Park's purchased electricity.

[5] Non-road mobile source air pollutant emission inventory preparation technical guide and Road vehicles air pollutant emission inventory preparation technical guide issued by the National Development and Reform Commission of the People's Republic of China. NO_X, SO_X, CO and PM emissions came from the operation of vehicles and diesel backup generators owned by Raycom Info Tech Park.

[6] Raycom Info Tech Park sources its water from the municipal pipeline, and has no issues in sourcing water that is fit for purpose.

[7] Raycom Info Tech Park does not use packaging material for finished products, and thus, this is not applicable.

Levima Advanced Materials

As a high-tech manufacturer of new materials, Levima Advanced Materials persistently upholds the philosophy of sustainable development. Levima Advanced Materials, through innovations in production process, industrial organization, industrial layout and management mode, leads the green industries with green technology and tries its best to maintain harmony with the environment. Levima Advanced Materials is dedicated to becoming a green, efficient and environmentally friendly corporate citizen and creating more valuable products and services for the society, its customers and partners.

Environmental Monitoring System

Based on the actual demands in conducting environmental protection work, Levima Advanced Materials established an environmental monitoring and management body covering the whole plant and established the Health and Safety Executive (HSE) department. The department is in the charge of a senior vice president of Levima Advanced Materials and all the operation divisions are manned by environmental staff responsible for the operation of environmental facilities, environmental monitoring and wastewater discharge. In order to strengthen the wastewater management, Levima Advanced Materials established a wastewater treatment station with a treatment capacity of $300m^3/h$. The wastewater is not directly discharged after treatment, but goes through an in-depth treatment at wastewater treatment stations in the park before discharge.


Reclaimed water treatment facilities

Meanwhile, Levima Advanced Materials established a three-level emergency prevention and control system based on the production characteristics of chemical plants and relevant requirements, such as the 12,000 m^3 emergency catch basin and the 10,000 m^3 rainwater monitoring pool. Levima Advanced Materials regularly revises the Safety and Environmental Monitoring and Administration Policy, the Assessment Regulations on the Safety and Environmental Responsibility System and other special policies, including the Waste Gas Management Regulations, the Radiation Safety Management Regulations, the Solid Waste Management Regulations, the Environmental Facilities Management Regulations, the Environmental Monitoring Management Regulations, the Sewage Management Regulations and the Potential Environmental Risks and Hazardous Scrutiny Management Regulations. Levima Advanced Materials ensures that safety and environmental engineers or professional machinery and equipment administrators are responsible for managing and controlling environmental risks. Levima Advanced Materials further improved the management of environmental archives by establishing a reward and punishment system on environmental protection.

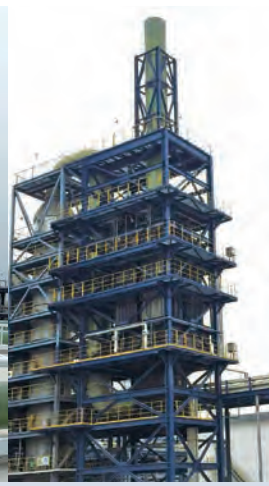

Authorizing a third party to carry out self-monitoring

In addition, Levima Advanced Materials is also equipped with real-time online monitoring and various monitoring functions, including video surveillance, the Distributed Control System (DCS) centralized control system, the Laboratory Information Management System (LIMS) quality analysis and testing system, inflammables/toxics alarming monitors, online monitoring and sampling monitoring on environmental emissions as well as other routine management. Levima Advanced Materials conducts risk assessment on environmental emergencies and prepared, revised on an annual basis and filed the overall environmental emergency plan and the onsite preparedness plan of departments in an orderly way.

Measures to reduce emissions of air pollutants and discharge of wastewater

Levima Advanced Material has completed its boiler upgrades for ultra-low flue-gas emissions in accordance with the seven notices of standard revisions, including the General Standards for Water Pollutants Discharge along the South-to-North Water Diversion Line in Shandong Province approved and issued by Shandong Provincial Environmental Protection Department and Shandong Provincial Bureau of Quality and Technical Supervision, and the Shandong Provincial Standards for Boiler Air Pollutants Emissions (L.Z.J.B.F. (2016) No. 46). In 2018, the emissions of sulfur dioxide, nitrogen oxides and dusts from boiler flue gas decreased by 68.8%, 14.3% and 54.2% respectively compared with 2017. In addition, Levima Advanced Materials continued to carry out the factory-wide Leak Detection and Repair (LDAR) work, achieving an emission reduction of Volatile Organic Compounds by 4,780 kg/year. With a reconstruction of reclaimed water treatment facilities, the reclaimed water of Levima Advanced Material increased by 48.16% from 2017, and the COD and ammonia nitrogen emissions fell by 23.63% and 15.39% respectively compared with 2017. During the reporting period, Levima Advanced Materials added flocculation, sterilization, multi-media filtration and other treatment equipment to the wastewater treatment station to improve the effectiveness of wastewater treatment, cutting annual waste discharge by about 1.2 million tons.

Sewage treatment plant



Boiler ultra low emission device

DMTO device exhaust dust removal facility

Waste disposal

Levima Advanced Materials conducted the identification, storage, plan application and handling measures on hazardous waste to ensure they were all legally and appropriately handled. The sludge from the treatment of wastewater is categorized as general waste according to the environmental assessment. It is temporarily placed at the sludge depository at the wastewater treatment station and is taken to boilers for incineration once a month. There is a special temporary storage site for hazardous wastes in the south of the plant area, covering an area of about 400 square meters. Levima Advanced Materials entrusts qualified agencies with the disposal and comprehensive utilization of boiler slag and flue-gas gypsum. Domestic wastes are placed at a designated place and are collected together. Local environmental authorities will clear and conduct harmless treatment in time and regularly sterilize and clear the waste storage place to prevent the breeding of bacteria and the transmission of diseases.

Improving the efficiency of resource use

Levima Advanced Materials continuously examines feasible strategies and measures to save energy and seeks opportunities to improve resource efficiency. In 2018, a new crossover line was added to the inlet and outlet pipelines of ethylene compressors through technical revamp, saving about 160,000 kWh of power consumption in one year. In addition, the company improved the effluent discharge process of quench water clear liquid in the Dimethyl Ether/Methanol to Olefins (DMTO) unit and reduced the feeds to the sewage stripper, reducing the steam consumption at the bottom of the tower to 7 tons per hour, and cutting the monthly steam consumption by more than 5,000 tons. The environmental performance data of Levima Advanced Materials are summarized as follows:

Emissions	Type	Unit	2018	2017
Greenhouse Gas Emissions	Scope 1 (Direct Emissions)[1]	t co_2e	**432,867.00**	591,859.52
		t co_2e/revenue (millions of RMB)[2]	**72.81**	121.38
	Scope 2 (Indirect Emissions)[3]	t co_2e	**645,215.00**	405,324.92
		t co_2e/revenue (millions of RMB)	**108.53**	83.13
Air Pollutant Emissions[4]	Nitrous Oxides (NO_X)	t	**144.38**	166.35
		t/revenue (millions of RMB)	**2.43×10^{-2}**	3.41×10^{-2}
	Sulphur Oxides (SO_X)	t	**23.91**	77.56
		t/revenue (millions of RMB)	**4.02×10^{-3}**	1.59×10^{-2}
	Carbon Monoxide (CO)	kg	**625.37**	666.15
		kg/revenue (millions of RMB)	**0.11**	0.14
	Dust (PM_{75})[5]	t	**5.64**	13.61
		t/revenue (millions of RMB)	**9.49×10^{-4}**	2.79×10^{-3}
	Dust (PM_{10})	kg	**34.36**	36.82
		kg/revenue (millions of RMB)	**5.78×10^{-3}**	7.55×10^{-3}
Wastewater Discharge and Emissions from Other Pollutants	Wastewater Discharge	t	**2,229,284.00**	2,094,778.00
		t/revenue (millions of RMB)	**374.98**	429.61
	Chemical Oxygen Demand (COD)	t	**309.54**	394.75
		t/revenue (millions of RMB)	**5.21×10^{-2}**	8.10×10^{-2}
	Ammonia Nitrogen	t	**3.16**	2.20
		t/revenue (millions of RMB)	**5.32×10^{-4}**	4.51×10^{-4}

Emissions	Type	Unit	2018	2017
Non-hazardous Waste	Not Applicable[6]			
General Waste	Wastewater Treatment Sludge	t	**686.00**	875.00
		t/revenue (millions of RMB)	**0.12**	0.18
Hazardous Waste	VA Refined Residual Liquid, Waste Lubricating Oil, Waste Initiator, Waste Packaging, etc.	t	**1,706.54**	1,401.91
		t/revenue (millions of RMB)	**0.29**	0.29

Use of resources	Type	Unit	2018	2017
Energy	Purchased Electricity	MWh	**492,357.00**	458,356.00
		MWh/revenue (millions of RMB)	**82.82**	94.00
	Coal	t	**246,426.00**	225,084.00
		t/revenue (millions of RMB)	**41.45**	46.16
	Diesel	L	**23,977.00**	21,004.00
		L/revenue (millions of RMB)	**4.03**	4.31
	Petrol	L	**20,969.00**	24,579.00
		L/revenue (millions of RMB)	**3.53**	5.04
Water	Tap Water[7]	m^3	**4,611,066.00**	3,892,639.00
		m^3/revenue (millions of RMB)	**775.62**	798.33
Packaging Materials	FFS Film	t	**628.00**	728.42

1 *Guidelines for the Accounting and Reporting of Greenhouse Gas Emissions of China's Petrochemical Enterprises (Trial), Guidelines for the Accounting and Reporting of Greenhouse Gas Emissions of China's Power Generation Enterprises (Trial) and the National MRV Question and Answer Platform Questions and Answers – Power Generation Industry Issues (2016 Edition)* issued by the National Development and Reform Commission of the People's Republic of China. Scope 1 greenhouse gas emissions came from Levima Advanced Material's fuel combustion (coal, diesel (diesel generators, vehicles), liquefied petroleum gas (forklifts), DMTO units that produce fuel gas and torch emissions) and emissions from industrial processes (continuous burnt flue gas emissions from DMTO units, emissions from EO units, desulphurized calcium carbonate emissions). The 2017 greenhouse gas emissions have been appropriately adjusted based on third-party audited greenhouse gas emission figures published in *Levima Advanced Materials Carbon Emissions Report 2016-2017* on May 28, 2018.

2 This figure is the 2018 revenue of Levima Advanced Materials.

3 *2011-2012 Regional Power Grid Average CO_2 Emission Factors in China Guidelines and the Requirements of the greenhouse gas emissions accounting and reporting – industrial enterprises in other industries (trial)* published by the National Development and Reform Commission of the People's Republic of China. Scope 2 emissions came from Levima Advanced Material's purchased heat/electricity. The 2017 greenhouse gas emissions have been appropriately adjusted based on third-party audited greenhouse gas emission figures published in *Levima Advanced Materials Carbon Emissions Report 2016-2017* on May 28, 2018.

4 *Road vehicles air pollutant emission inventory preparation technical guide* published by the National Development and Reform Commission of the People's Republic of China. NO_x, SO_x, CO and PM_{10} emissions came from the operation of production facilities and vehicles owned by Levima Advanced Materials. Levima Advanced Materials uses a Continuous Emissions Monitoring System (CEMS) to track air pollutant emissions from production facilities on a real-time basis.

5 The scope of this data covers dust (PM_{75}) generated by production facilities, and dust (PM_{10}) generated by vehicles owned by Levima Advanced Materials during the reporting period of this environmental, social and governance report.

6 Non-hazardous waste generated during the reporting period was less material compared to generated hazardous waste and pollutant emissions, hence this has not been disclosed.

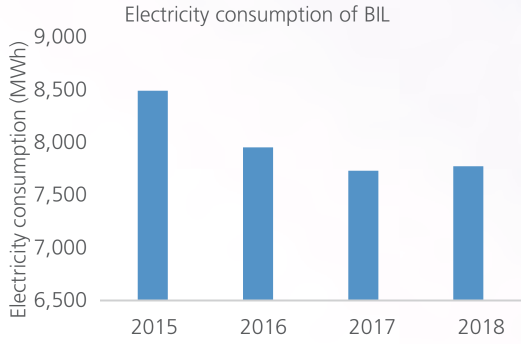
7 Levima Advanced Material's water is sourced from the municipal pipeline network, and has no problems in sourcing water fit for purpose.

BIL

BIL attaches great importance to environmental management and strives to take measures to reduce electricity consumption and waste generation, thereby fulfilling its environmental responsibilities.

Energy conservation and emission reduction measures

Energy consumed at the headquarters of BIL is mainly electricity. During the Reporting Period, the headquarters of BIL replaced 90% of the traditional halogen lamps with LED lamps to reduce power consumption. In addition, BIL has updated the motors of the headquarters' HVAC system and optimized the cooling, heating and dehumidification processes to reduce the consumption of electricity and natural gas. The *Commercial Transportation Policy* prepared by BIL encourages employees to use teleconferencing or video conferencing to reduce their frequency of air, train or car travels. In addition, BIL also subsidizes employees' annual public transportation to encourage them to use public transportation.



Measures to reduce waste

Since 2008, BIL has adopted the *SuperDrecksKëscht Fir Betriber* labeling method for waste management. According to this method, wastes are sorted into 43 types for storage and disposal, thereby increasing the amount of recycled waste and minimizing the amount of waste. BIL examines and verifies whether the measures under this method have been fully implemented each year to correct mistakes and omissions in a timely manner, giving full play to its role in waste reduction.

Improving the efficiency of resource use

For higher power efficiency of air conditioners in summer, we remind employees to keep windows closed where possible through our internal network information system. In addition, the windows are also equipped with automatic sunshade curtains to isolate the office from solar heat and keep the temperature stable in offices. Since 2008, BIL has installed 110 measurement points to monitor the consumption of electricity, natural gas and water resources on an ongoing basis. It prepares monthly monitoring data reports and compare them with past data to better identify and correct abnormities, thus using resources more efficiently.

The environmental performance data of BIL's headquarters are summarized as follows:

Emissions	**Type**	**Unit**	**2018**
Greenhouse Gas Emissions	Scope of Emissions (Direct Emissions)[1]	$t\ co_2e$	**19.02**
		$t\ co_2e/m^2$ [2]	**5.35×10^{-4}**
	Scope 2 (Indirect Emissions)[3]	$t\ co_2e$	**5,880.35**
		$t\ co_2e/m^2$	**0.17**
Air pollutant Emissions[4]	Nitrogen Oxides (NO_x)	kg	**48.15**
		kg/m^2	**2.58×10^{-4}**
	Sulphur Dioxides (SO_x)	kg	**0.12**
		kg/m^2	**1.36×10^{-3}**
	Carbon Monoxide (CO)	kg	**9.16**
		kg/m^2	**2.78×10^{-5}**
	Dust (PM)	kg	**0.99**
		kg/m^2	**3.30×10^{-6}**

Emissions	Type	Unit	2018
Non-hazardous Waste	Paper and Cardboard Boxes	kg	**90,520.00**
	Paper and Cardboard Boxes Recycled		
	Domestic Waste		**85,580.00**
	Food Residue		**29,771.00**
	Recycled Food Residue		
	Glass		**13,360.00**
	Recycled Glass		
	Mixed Packaging		**4,549.00**
	Recycled Mixed Packaging		
Hazardous Waste	Waste Bulbs and Lamps	pieces	**72.00**

Use of resources	Type	Unit	2018
Energy	Purchased Electricity	MWh	**7,772.80**
		MWh/m^2	**0.22**
	Natural Gas	m^3	**304,396.00**
		m^3/m^2	**23.30**
	Coal Gas	m^3	**178.00**
		m^3/m^2	**2.15×10^{-3}**
	Diesel	L	**7,051.00**
		L/m^2	**0.20**
Water	Tap Water[5]	m^3	**39,895.00**
		m^3/m^2	**1.12**
Packaging Materials	Not Applicable[6]		

1 *EMEP/EEA air pollutant emission inventory guidebook 2016* issued by the European Monitoring and Evaluation Programme (EMEP) and the European Environment Agency (EEA). Scope 1 greenhouse gas emissions came from vehicles owned and operated by BIL.

2 m^2 calculations are based on the net internal floor area of BIL's headquarter offices. This year's net internal floor area was 35,530 m^2.

3 A report *(Bilan énergétique)* on BIL's energy consumption and energy-savings plans published by a third-party consultant, within which emission factors for BIL's headquarters were included. This report has been provided to the Luxembourg Ministry of Environment. Scope 2 greenhouse gas emissions came from BIL headquarters' purchased electricity, natural gas and coal gas.

4 *EMEP/EEA air pollutant emission inventory guidebook 2016* issued by the EMEP and EEA. NO_X, SO_X, CO and PM emission came from the operation of vehicles owned by BIL's headquarters.

5 BIL has no issues in sourcing water that is fit for purpose.

6 BIL does not use packaging material for finished products, and thus, this is not applicable.

Lenovo

As a global enterprise, Lenovo attaches great importance to its environmental performance. It fully monitors the environmental management, ranging from manufacturing sites and offices to the design and recycling of products and to the end of product lifecycle. Environmental KPIs affecting Lenovo are disclosed in its annual sustainability report. For details and KPIs, please refer to the "Lenovo 2017/18 Sustainability Report" published on the website of Hong Kong Stock Exchange.

Environment and natural resources

As Legend Holdings is mainly engaged in investment business, businesses under its direct operation barely have any impact on the environment and natural resources. Nonetheless, the Company actively supports the green and sustainable development projects. Raycom Info Tech Park and BIL have adopted energy-efficient LED lights and introduced a waste sorting system aiming to reduce impacts on the environment and natural resources. Levima Advanced Materials, in addition to improving its productivity, has also effected the sustainable development concept featuring energy conservation and emission reduction. Levima Advanced Materials aims at sharing a win-win result through its technological innovation practice.

Assuming Social Responsibility

Legend Holdings has remained deeply engaged in public welfare activities for 15 years through systematic designs

Legend Holdings has incorporated public welfare work into its overarching corporate strategy, focusing its public welfare undertakings on "supporting education", "fostering startups" and "promoting social integrity". 2018 marked the 40th anniversary of China's reform and opening-up. Over the past 40 years, China's pro-development environment, the historic opportunities of reform and opening-up and the stable social environment nurtured a large number of outstanding enterprises. Growing big from a small start, these enterprises have always cherished the concept of family and country, actively participated in public welfare undertakings in various fields and jointly promoted social advancement.

Legend Holdings is exactly such an enterprise. For more than 30 years, it has adhered to the spirit of "being a good person that does the right things and sets a good example for the society". While running its business well, Legend Holdings has also actively explored the pathway to public welfare. In 2004 marking its 20th anniversary, Legend Holdings incorporated public welfare work into its overarching corporate strategy, focusing its public welfare undertakings on "supporting education", "fostering startups" and "promoting social integrity".

Helping children with their dreams

On October 26, 2018, Ningxia Liupanshan Senior High School held the opening ceremony for the first Legend Progress Class. It was the 14th year the Legend Progress Class has passed. Ningxia Liupanshan Senior High School joined the Legend Progress Class family as a new member.

Ningxia Liupanshan Senior High School is a full-time boarding school sponsored by Ningxia Autonomous Region and the Ministry of Education. It is a model school sourcing students from extremely poor areas (all national poor counties) of Liupanshan in southern Ningxia. The school is located in Yinchuan City. Since its establishment in 2003, the school has enrolled 27,000 students in the extremely poor mountainous areas in southern Ningxia (including 9 national poor counties such as Xiji County, Jingyuan County and Haiyuan County). The enrollment rate for second-tier universities has remained above 70% for 15 consecutive years, and exceeded 60% for key universities every year. A total of 39 students have entered Peking University and Tsinghua University. The school plays an important role in "alleviating poverty through education" in poor areas in Ningxia.

Registration of high school freshmen from Ningxia Liupanshan Senior High School

Given the school's solid foundation, coupled with the Company's experience in successfully running the Legend Progress Class over the past 14 years, we have reason to believe that the Legend Progress Class at Ningxia Liupanshan Senior High School will definitely give us more surprises in the future. While helping these children change their fate, we are also contributing to alleviating poverty through education.

Since 2004, Legend Holdings has decided to focus its dedication to public education on the senior secondary education stage. The Company set up the Legend Progress Class in many extremely poor areas to help financially stressed but academically excellent students to realize their dreams. Over the past 14 years, Legend Holdings set up Legend Progress Classes in Beijing Yanqing No.2 Middle School, Guizhou Duyun No.2 Middle School, Gansu Huining No.2 Middle School, Sichuan Beichuan Middle School, and Ningxia Liupanshan High School successively, with a total investment of over RMB30 million. The Company has funded all tuition and living expenses of over 2,000 students in poverty from the freshman year to the junior year, helping these children receive senior secondary education at zero financial cost without worries. Furthermore, as Chairman of the Board of Legend Holdings and founder of Lenovo Mr. LIU Chuanzhi said, he hoped to make a little contribution at the critical stage of junior secondary school, "(if we) hold them up and help them take the first step, their limit will be the blue sky".

Education is an important cornerstone for national rejuvenation and social advancement. In particular, senior secondary school is a critical stage for forming one's values and fostering one's qualities. In addition to financial support, the Legend Progress Class also provides students with a variety of realistic "value-added services" to help students enhance their moral quality, acquire knowledge and skills and broaden their horizon.

Legend Holdings' charity team goes to Guizhou, Gansu and Ningxia every year to show Legend's care and support for these children. In 2012, the charity team invited Olympic champion boxer ZOU Shiming from Guizhou Province to visit the Legend Progress Class and share his story about "progress". In 2014, an American teacher, White Jesse, was invited to Duyun, Guizhou Province, to teach children how to study English like native speakers. In 2016, Dale Carnegie Training's top-ranking teachers Mr. HOU and Mr. GE and volunteers from Legend Holdings together taught students how to express themselves confidently and how to deal with interpersonal relationships, helping them build self-confidence. In 2017, Legend Holdings invited Madam WANG Xiulan, a nationally reputed senior high school career planner and college admission consultant to give face-to-face guidance to the students and advisers of Legend Progress Class for the three grades. To build a platform for the Legend employees to give to charity directly, the Company organized the "Legend Progress Class Crowd-funding" program in 2018 for the fourth consecutive year, with RMB400,000 raised in the year and donated to students in extreme poverty. Volunteers from Legend Holdings directly participated in the opening ceremony for the first Legend Progress Class and the Thanksgiving Day event of Ningxia Liupanshan Senior High School, passing their care directly to the school children.

Employee volunteers interact with students of the Legend Progress Class

Broadening horizon is also a necessary part of children's growth. Legend Holdings' employee volunteers led the children and local teachers to the Great Wall, Tiananmen Square and flag-raising ceremonies once seen only in books. These children were also organized to watch the Olympics, participate in discussions at Peking University and visit the offices of Lenovo and Sina, so as to enrich their extracurricular life. On June 30, 2018, a "Legend Progress Class" symposium was held at the headquarters of Legend Holdings in Zhongguancun. The meeting was full of joy and laughter. Mr. LIU Chuanzhi talked with children affectionately and encouraged them to work hard and be upright, patriotic and open-minded.

Letters from children receiving support

My parents want me to fly away from the poverty-stricken mountainous areas like Kun Peng (an enormous legendary bird). Now what the Legend Progress Class does is just like giving me wings to fly. I can fly higher, and higher.

– TIAN Peng, Year 2016, Huining No.2 Middle School

Poverty is not a stumbling block to excellence. I will make excellence a habit. I want to make it the slogan of our Legend Progress Class.

– TIAN Wenhai, Year 2017, Duyun No.2 Middle School

"Legend Progress Class is a responsibility, and also a pride. We will repay the society with a grateful heart and pass on the spirit of progressing."

– Letter from a sophomore of Legend Progress Class, Year 2017, Duyun No.2 Middle School

Mr. LIU Chuanzhi with students of the Legend Progress Class

The students were quite reserved in their freshmen year, but when they graduated from high school, they talked confidently and behaved calmly, demonstrating excellence in college entrance examination, quality of character and vision of values. In the 14 years from 2005 to 2018, a total of 1,551 students graduated from the Legend Progress Class of Duyun No.2 Middle School and Huining No.2 Middle School, with a university enrollment rate staying above 98% and a first-tier university enrollment rate of 96.2%. In particular, over 20 students were admitted to Tsinghua University and Peking University. 696 ethnic minority students graduated from the Legend Progress Class of Duyun No.2 Middle School, accounting for 76.5% of its total graduates.

Sunny and optimistic children bravely pursue the future, but also sincerely care for the society. After entering their universities, many students sponsored the "Association of College Students from Legend Progress Class". Since its formal establishment in April 2012, with the financial support from Legend Holdings and donations from students, the association carried out 10 teaching support events during winter and summer vacations, benefiting 3,000 primary school students in 40 schools in remote and poor areas. The association endeavors to bring strength and hope to more children deep in the mountains, and to establish a firm belief that "knowledge changes fate, and progress makes the future".

College students from the "Association of College Students from Legend Progress Class" who volunteer to teach children in least developed areas and the children they teach

The excellent school performance and students' strong sense of progressing have made Legend Progress Class a reputed brand among local senior high schools. "The Legend Progress Class in No.2 Middle School and the Hongzhi Class in No.1 Middle School are as reputed as Tsinghua University and Peking University among our people in Huining", said, Mr. CHANG Shouyuan, former head of the Huining County's CPC Committee.

At the Central Conference on Poverty Alleviation, President Xi Jinping pointed out that "we should alleviate poverty by eliminating the illiteracy and enhancing the skills of the impoverished population" and that "none of the ethnic minorities should be left behind in the building of a moderately prosperous society in all respects". When the Legend Progress Class helps a poverty-stricken student in an ethnic minority area or western region to accomplish senior high school, it plants a seed for poverty alleviation. In the past more than ten years, over 2,000 Legend Progress Class students have entered universities or started their career, and some of them have lifted their families out of poverty. Some have passed on love and care to more people. Some have used their expertise to build their hometowns after graduation from college, which will have a far-reaching influence. These "seeds" come together to spur infinite hope in barren land and to strengthen the confidence in eradicating poverty imperceptibly across the entire local area.

Exploring new paths of poverty alleviation and helping re-employment

Legend Holdings, as the sponsor and director of Leping Social Entrepreneur Foundation, also keeps an eye on the entrepreneurship of the poor. In 2018, Legend Holdings Charity Foundation donated another RMB1 million to Leping Social Entrepreneur Foundation, raising the cumulative donation to nearly RMB10 million. Leping Social Entrepreneur Foundation aims to help the poverty-stricken population to improve their job and entrepreneurship capabilities, promote public welfare innovation and build a harmonious society. It focuses on the development of rural micro loans, education of kids from low-income households, training of migrant workers, training of innovative talents and "Ecological and Trusty Agriculture (ETA)". Its principal activities include entrepreneurship education and vocational education for low-income population, poverty-related research and exchange, cultivation of public welfare talents and the building of harmonious communities.

Leping Social Entrepreneur Foundation provides skill training to migrant women workers

Legend Holdings – Maternal Entrepreneurship Revolving Fund

To further help more people to shake off poverty on their own, Legend Holdings Charity Foundation invested RMB2 million to set up the Legend Maternal Entrepreneurship Revolving Fund in cooperation with China Women's Development Foundation in July 2018. The fund provides interest-free micro loans to rural women in poor areas helping them start their own micro business and shake off poverty as soon as possible. Pengshui County, a national poverty-stricken county in Chongqing, and Shuangjiang Lahu-Va-Blang-Dai Autonomous County, a national poverty-stricken county in Lincang City, Yunnan Province are the first two counties supported by Legend Holding's "Maternal Entrepreneurship Revolving Fund" program, benefiting 120 poverty-stricken families and nearly 500 people.

Be good persons, do right things and deliver positive energy

In addition to its charity practice under the philosophy of "being a good person that does the right things and sets a good example for the society", Legend Holdings has also noticed, and persistently cared for and supported, the ordinary people who are "good persons doing the right things". Legend Holdings firmly believes that if they feel the true love and warmth of the society, they will subtly nourish the social soil and deliver positive energy.

Legend Capital Heroic Models and Good Samaritans Fund

In 2004, Legend Holdings and Mr. LIU Chuanzhi jointly established the "Legend Capital Heroic Models and Good Samaritans Fund" as its sponsors. As of December 2018, the total size of the fund exceeded RMB17 million. The fund aims to inherit the Chinese nation's good tradition of honoring the heroic models, to uphold their spirit of selfless dedication, and to enhance the public awareness of caring for heroic survivors and the good Samaritans.

Moist Initiative

Furthermore, Legend Holdings looks broadly at the general public. Since 2013, Legend Holdings has carried out the "Moist Initiative" eyeing and supporting those who are typically courageous and full of love. Of these supported people, some help others regardless of their own safety. Some are financially stressed but still insist on subsidizing the vulnerable populations, bringing hope to others. Some are brave enough to fight knife-wielding gangsters and safeguard social justice. They are the typical of "good persons doing the right things", and they are also ordinary people. Legend Holdings encourages, supports and calls for more attention to these courageous acts, contributing to the social justice.

Visits to the good Samaritans

In 2018, Legend Holdings remained dedicated to public welfare in a down-to-earth manner. No small streams, no seas. Legend Holdings has made its contribution to ethical advancement and harmony of the entire society.

Social investment from subsidiaries

Legend Star CEO Special Training Program

The Company holds the Legend Star CEO Special Training Program to implement China's innovation and entrepreneurship strategy for business development. Legend Star CEO Special Training Program is a free public program co-sponsored by the Chinese Academy of Sciences and Legend Holdings in 2008. This free program is committed to bringing up technological entrepreneurial leaders and in turn promoting the industrialization of technological achievements by free training and entrepreneurship alliance.

On October 19, 2018, a total of 53 applicants registered for Legend Star membership, starting their journey in the 11th session of Legend Star CEO Special Training Program. The lecturer team for entrepreneurship trainings, led by LIU Chuanzhi, the Chairman of Legend Holdings, is comprised of a group of field-specific and experienced entrepreneurs and executives. In the past over ten years, Legend Star trained more than 900 business starters. Trainers have received free training related to business startup and management through various platforms and events.

The 11th session of Legend Star CEO Special Training Program

As of December 2018, the trainees of the Legend Star CEO Special Training Program raised a total of RMB46.6 billion from investors, up 160% from the previous year, with the financing concentrated in TMT, artificial intelligence and medical industry.

Legend Star Entrepreneurship Alliance

The "Entrepreneurship Alliance" sponsored by Legend Star in 2011 is a platform to provide business starters with services and shared resources. The alliance carries out a variety of startup counseling activities to facilitate the growth and development of numerous startups. As of December 31, 2018, the "Entrepreneurial Alliance" had brought up 13 listed companies, more than 50 NEEQS-listed enterprises and over 190 enterprises with a valuation of more than USD100 million. The aggregate valuation of all supported enterprises exceeded RMB630 billion. Having brought forth social financing capital of over RMB150 billion, the program has built up a sustainable entrepreneurial ecosphere that provides in-depth services and products for business startups.

"Legend Star Entrepreneurship Alliance Zhenjiang Tour" Conference

Since 2008, the Legend Star Entrepreneurial Training Program has had investments of RMB104.48 million in aggregate, of which investment in 2018 amounted to RMB15.32 million (2017: RMB10.65 million).

BIL

BIL's CSR policy focuses on four main areas: arts and culture, education, innovation and health care. In terms of arts and culture, BIL established the Foundation Indépendance in 1999 and regularly held free and open art exhibitions in the foundation's galleries. In terms of education, BIL believes that education is the pillar of personal achievement and, more broadly, a crucial prerequisite for social, human and economic development. In 2018, BIL made a charitable donation to SOS Kannerduerf Lëtzebuerg, an organization that provides fair and quality education for children from financially disadvantaged households. In terms of innovation, BIL aims to provide services that can bring value and practicality to customers and actively promote local economic development and innovation through cooperation with Luxembourg-based enterprises in incubation. In terms of health care, BIL believes that health and well-being are fundamental to human advancement. While encouraging employees to take measures, it also supports non-governmental organizations working in this field, such as the World Medical Association and the World Cancer Research Fund International. In 2018, the CSR team of BIL donated money, drugs and hygiene supplies to the World Medical Association to help it provide patients with the supplies they need.

Lenovo

Lenovo actively partners with charitable organizations, educational institutions and civic organizations to amplify the influence of Lenovo's social investments around education, connecting employee expertise and talent with students and community members who will benefit from exposure to tech talent and providing resources to enhance education and the advancement of technology to enlighten the next generation of tech talent and community leaders. Please refer to "Lenovo 2017/18 Sustainability Report" published on the website of Hong Kong Stock Exchange for more details.

pwc 羅兵咸永道

To the Shareholders of Legend Holdings Corporation
(incorporated in the People's Republic of China with limited liability)

Opinion

What we have audited

The consolidated financial statements of Legend Holdings Corporation (the "Company") and its subsidiaries (the "Group") set out on pages 138 to 304, which comprise:

- the consolidated balance sheet as at December 31, 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 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") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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 matters identified in our audit are summarised as follows:

- Impairment assessment of goodwill and other intangible assets with indefinite useful lives
- Classification of investments
- Fair value measurement using of level 3 inputs for financial assets and financial liabilities
- Recognition of deferred income tax assets
- Measurement of expected credit loss of loans to customers of subsidiaries engaged in banking business

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill and other intangible assets with indefinite useful lives Refer to note 4.1(b) and note 19 to the consolidated financial statements As at December 31, 2018, the Group had goodwill of RMB37,692 million and other intangible assets with indefinite useful lives of RMB10,205 million, and in respect of which management is required to perform annual impairment assessment. For the purpose of assessing impairment, the management reviewed business performance of each business lines, identified the cash generating units ("CGUs") or the groups of CGUs, allocated the goodwill and other intangible assets with indefinite useful lives to the lowest level at which such assets is monitored for internal management purpose, and compared the recoverable amount with the carrying value of each CGUs as at December 31, 2018. The recoverable amount of CGU is determined by the higher of the fair value less disposal cost and value in use. Management has concluded that there is no impairment in respect of the goodwill and other intangible assets with indefinite useful lives, except the animal protein business of the agriculture and food segment which recognised goodwill impairment of RMB414 million due to the recoverable amount measured by fair value minus disposal cost was less than the book value. This conclusion was based on the recoverable amount of CGUs determined by the higher of the fair value less disposal cost and value in use. When the model of fair value less disposal cost was used, management made significant judgement over the active market price or the adjusted amount based on the observable data. When the model of value in use was used, management made significant assumptions and judgements, including forecast revenue growth rates, forecast operating margins and discount rates of each business line.	Our procedures included: • We obtained the management's calculation sheets of impairment assessment to assess reasonableness of the classification of CGUs or groups of CGUs by business lines and allocation of goodwill and other intangible assets with indefinite useful lives by CGUs at suitable level. • In the cases of impairment assessment using the model of fair value less disposal cost, we agreed the fair value to observable unadjusted price in the active market, and agreed the input data to observable referenced data in the active market. • In the cases of impairment assessment using the model of value in use calculation, we challenged the appropriateness of the key assumptions including expected revenue growth rates, expected profit margins and discounted rates, with reference to the business and industry circumstances. We reconciled the input data of expected revenue growth rates and expected profit margins to the management's future profit forecast and strategic plans, and compared the input data with the history data. We compared the discounted rate with the comparable companies in the open market to assess reasonableness of the input data used. • We assessed management's sensitivity analysis around the key assumptions, to ascertain the extent to which adverse changes within a reasonable range, both individually and in aggregate, might impact on the outcome of the impairment assessment of the goodwill and other intangible assets.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill and other intangible assets with indefinite useful lives (Continued) We focused on this area, because management made significant judgements to perform impairment assessments of goodwill and other intangible assets with indefinite useful lives under different models.	• We tested the accuracy of management's calculation sheet of impairment assessment. • We examined the adequacy of the Group's disclosure of goodwill and other intangible assets with indefinite useful lives. We found that the judgements made by management in relation to the assessment of impairment of goodwill and other intangible assets with indefinite useful lives were supported by the evidence we obtained.
Classification of investments Refer to note 4.2(a), 13, 20, 21 and 30 to the consolidated financial statements The Group holds a number of strategic and financial investments, amounting to RMB36,770 million of investment in associates and joint ventures (note13), RMB2,605 million of derivative financial instruments (note 20), RMB12,892 million of financial assets at fair value through other comprehensive income (note 21), and RMB20,604 million of financial assets at fair value through profit or loss (note 30) at December 31, 2018. The classification of an investment is based on the commercial substance of the contractual arrangement, the purpose of the investment and the fact as to whether the Group is determined to have control, joint control or significant influence. In addition, the classification of an investment could also be influenced by certain terms stipulated in the investment agreements which may result in complex accounting treatments. We focused on this area because the classification requires significant management's judgement.	Our procedures included: • We examined significant investment agreements using audit sampling method. We focused on the key terms and contractual arrangements such as power in the board and the governance who charged, investment exit mechanism and whether priority rights exist, such as anti-dilution rights and liquidation priority rights, etc. We assessed management's analysis and determination on the classification of the investments in line with accounting policies adopted in the preparation of the consolidated financial statements, together with assessment over the management's influence level and the purpose of investment. • We examined the adequacy and accuracy of the Group's disclosure in respect of the classification of investments in the consolidated financial statements. We found that the judgements made by the management in relation to the classification of investments were supported by the evidence we obtained.

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value measurement using of level 3 inputs for financial assets and financial liabilities Refer to note 3.3, 4.1(c) and 4.1(d) to the consolidated financial statements As at December 31, 2018, the Group had financial assets measured at fair value with level 3 inputs of RMB35,758 million, mainly including associates measured at fair value through profit or loss, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income; financial liabilities measured at fair value with level 3 inputs of RMB3,386 million, including contingent considerations, derivative financial liabilities and financial liabilities at fair value through profit or loss. Level 3 inputs for financial assets and liabilities were not based on active market prices, nor based on observable market data. Management assessed and measured the level 3 fair value of financial assets and financial liabilities using particular valuation techniques, with assistance from external valuers, if any, by using the models of fair value less disposal cost and value in use calculation. The determination of the model adopted, input data and key assumptions require significant management judgement and estimation. We have therefore focused on this area.	Our procedures included: • We obtained the calculation sheets of fair value estimation of financial assets and financial liabilities measured at fair value of level 3 inputs, evaluated the appropriateness of the model used and tested the accuracy of the calculation sheets. • We evaluated the independent external valuers' competence, capability and objectivity, if any. • In the cases of fair value estimation using the model of fair value less disposal cost, we assessed the appropriateness of the methodologies and key assumptions adopted by management through comparing with fair value used in the latest financing activities, etc. • In the cases of fair value estimation using the model of value in use calculation, we challenged the appropriateness of the key assumptions. We reconciled the input data of expected revenue growth rates and expected profit margins to the management's future profit forecast and strategic plans, and compared the input data with the history data. We compared the discounted rate with the comparable companies in the open market to assess whether reasonableness of the key input data used. We found that the valuations made by management in the fair value assessment using of level 3 inputs for financial assets and financial liabilities were supported by the evidence we obtained.

Key Audit Matter	How our audit addressed the Key Audit Matter
Recognition of deferred income tax assets Refer to note 4.1(e) and note 44 to the consolidated financial statements As at December 31, 2018, the Group had deferred income tax assets of RMB14,537 million. In addition, the Group had unrecognized temporary difference and tax loss of RMB7,930 million and RMB15,633 million respectively as at December 31, 2018. The recognition of deferred income tax assets involves significant management judgement as to the likelihood of its realization that is dependent on a number of factors, including whether there will be sufficient taxable profits and reversals of taxable temporary differences in future periods. Management has performed its assessment on the recognition of deferred income tax assets as at December 31, 2018 and consider that the realization of such assets is probable. We focused on this area because of significant judgement and estimation involved in forecasting future taxable profits and period of future reversals of taxable temporary differences.	Our procedures included: • We obtained management's calculation sheets of deferred income tax assets and tested the accuracy of the calculation sheets. • We tested and agreed available deductible tax losses, including the respective expiry periods, to the tax returns and tax correspondences of the relevant subsidiaries. • We challenged the appropriateness of the input data, including the significant assumptions of forecast revenue growth rates and forecast profit. We reconciled the input data of forecast revenue growth rates and forecast profit margins to the management's future profit forecast, strategic plan and tax planning strategies, and compared the input data with the historic data and industry data. We tested the reasonableness of management's reconciliations of forecasted profits to forecasted taxable profits. • We evaluated the reasonableness of the deferred tax assets by comparing the estimation of taxable profits in future periods to the deductible temporary differences and tax losses as at December 31, 2018, with the consideration of the expiry periods of the deductible tax losses. • We tested the calculation of deferred income tax assets by reference to tax rates enacted or substantively enacted at the balance sheet date. We found that the forecast of taxable profits in future periods, calculation of taxable temporary differences and the estimation of reversal periods of such deferred income tax were supported by the evidence we obtained.

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit loss of loans to customers of subsidiaries engaged in banking business Refer to note 3.1(b) and 25(i) to the consolidated financial statements.	
As at 31 December 2018, the gross balance of loans to customers of the subsidiaries engaged in banking business of RMB107,590 million against which a corresponding allowance for expected credit loss ("ECL") of RMB2,105 million was recorded. The measurement of ECL allowance under IFRS 9 "Financial Instruments" involved complex and subjective judgments and estimation by the management. The subsidiaries engaged in bank business used the following methods to assess the ECL allowance: • The ECL allowance was measured for all loans based on the principles laid down by IFRS 9 and adapted by the subsidiaries engaged in banking business in its ECL calculation process, model and tool; • For defaulted and credit-impaired loans, impairment was assessed individually on a regular basis;	We evaluated and tested the design and operating effectiveness of key controls across the processes relevant to the ECL calculation, included: • Entity level controls over the ECL modelling process, including model review and governance; • Controls over allocation of loans into stages, including quarterly movements between stages, and the identification of defaulted and credit-impaired loans; • Inputs and assumptions used to estimate the impact of multiple economic scenarios and related weightings; • Controls over data accuracy and completeness.

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit loss of loans to customers of subsidiaries engaged in banking business (Continued) The determination of ECL against loans to customers required judgments and estimation: • Designation and setup of the internal rating system and the basis of the allocation of loans to customers within the 3 stages; • Accounting interpretations and modelling assumptions used to build the models that serve as a basis to calculate the ECL; • Assumptions and inputs used to estimate the impact of multiple economic scenarios and related weightings; • The amount and timing of future cash flows as well as the value and recoverability of related collateral for defaulted and credit-impaired loans. We focused on this area because the measurement of ECL under IFRS 9 required complex and subjective judgments and estimation by the management.	We also performed the following substantive audit procedures: • With the support of our internal modelling specialists, we tested the assumptions, key inputs and formulas used in ECL models. This included assessing the appropriateness of model design and formulas used, as well as challenging the forward looking macro-economic scenarios; • We verified that the data used as a basis to calculate the ECL were complete and accurate, tested extractions of data used in the model on a sample basis, and recalculated the Probability of Default, Loss Given Default and Exposure at Default; • We tested the allocation of loans to customers on a sample basis (including rating of loans, movements between various ratings and an extended sample of loans included into the Credit Watchlist) to form our own assessment as to whether they are classified in the appropriate stage; • We performed an overall assessment of the ECL provision levels by stage considering the Group's portfolio, risk profile, credit risk management practices and the macroeconomic environment; • We performed substantive audit procedures on defaulted and credit-impaired loans on a sample basis. We examined in a critical manner the assumptions used by the management to determine expected cash flows and estimated recovery from any underlying collateral. We found that the models, key assumptions, related significant judgement and estimation and the calculated ECL were supported by the evidence we obtained, considering the inherent uncertainty in the measurement of ECL of loans to customers of subsidiaries operated in banking business.

Other Information

The directors are responsible for the other information. The other information comprises all of the information included in the annual report other than 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 the other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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.

The Audit Committee 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. We report our opinion solely to you, as a body, 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 scepticism 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 the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with the Audit Committee, 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 this independent auditor's report is Leung Wai Kin.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 28, 2019

Consolidated Income Statement

For the year ended December 31, 2018

	Note	Year ended December 31, 2018 RMB'000	2017 RMB'000
Sales of goods and services	5	**354,835,826**	313,924,177
Interest income		**5,401,298**	2,968,438
Interest expense		**(1,317,445)**	(629,701)
Net interest income	5	**4,083,853**	2,338,737
Total revenue	5	**358,919,679**	316,262,914
Cost of sales and services	8	**(303,813,715)**	(269,706,423)
Gross profit		**55,105,964**	46,556,491
Selling and distribution expenses	8	**(18,985,479)**	(20,529,397)
General and administrative expenses	8	**(26,335,388)**	(23,166,913)
Impairment losses for financial assets	8	**(1,200,700)**	(853,450)
Investment income and gains	6	**4,648,201**	7,667,683
Other (losses)/income and gains	7	**(616,975)**	335,057
Finance income	11	**915,288**	830,719
Finance costs	11	**(5,306,315)**	(4,482,966)
Share of profit of associates and joint ventures accounted for using the equity method		**676,205**	1,074,656
Profit before income tax		**8,900,801**	7,431,880
Income tax expense	14	**(1,359,827)**	(2,574,187)
Profit for the year		**7,540,974**	4,857,693
Profit attributable to:			
– Equity holders of the Company		**4,361,525**	5,047,826
– Perpetual securities holders		**355,897**	284,639
– Other non-controlling interests		**2,823,552**	(474,772)
		7,540,974	4,857,693
Earnings per share for the profit attributable to the equity holders of the Company *(expressed in RMB per share)*			
Basic earnings per share	15	**1.87**	2.16
Diluted earnings per share	15	**1.85**	2.14

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2018

	Note	Year ended December 31, 2018 RMB'000	2017 RMB'000
Profit for the year		**7,540,974**	4,857,693
Other comprehensive loss			
Items that will not be reclassified to income statement:			
Change in fair value of equity securities measured at fair value through other comprehensive income, net of taxes	14	**(583,364)**	–
Share of other comprehensive loss of associates using equity accounting, net of taxes	14	**(353,699)**	–
Remeasurements of post-employment benefit obligation, net of taxes	14, 45	**(194,435)**	262,908
Revaluation of investment properties upon reclassification from property, plant and equipment, net of taxes	14,18	**38,977**	91,982
Items that may be reclassified subsequently to income statement:			
Change in fair value of debt securities measured at fair value through other comprehensive income, net of taxes	14	**(83,023)**	–
Currency translation differences	14	**(84,911)**	(1,103,612)
Share of other comprehensive income of associates using equity accounting	14	**121,627**	51,127
Change in fair value of available-for-sale financial assets, net of taxes	14	**–**	(232,546)
Investment revaluation reserve reclassified to consolidated income statement on disposal of available-for-sale financial assets, net of taxes	14	**–**	(1,636,599)
Share of other comprehensive income reclassified to consolidated income statement on disposal of associates using equity accounting	14	**(76,469)**	–
Fair value change on cash flow hedges, net of taxes	14	**131,013**	(509,360)
Other comprehensive loss for the year, net of taxes		**(1,084,284)**	(3,076,100)
Total comprehensive income for the year		**6,456,690**	1,781,593
Attributable to:			
– Equity holders of the Company		**4,144,600**	2,157,881
– Perpetual securities holders		**355,897**	284,639
– Other non-controlling interests		**1,956,193**	(660,927)
		6,456,690	1,781,593

Consolidated Balance Sheet

As at December 31, 2018

		As at December 31,	
		2018	2017
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Leasehold land and land use rights	16	**3,802,332**	4,158,468
Property, plant and equipment	17	**21,212,687**	19,864,687
Investment properties	18	**11,707,510**	11,107,111
Intangible assets	19	**64,186,472**	59,534,705
Associates and joint ventures using equity accounting	13	**18,700,363**	14,345,636
Associates measured at fair value through profit or loss	13	**18,069,535**	17,970,881
Financial assets at fair value through other comprehensive income	21	**12,198,089**	–
Available-for-sale financial assets	21	**–**	9,173,534
Financial assets at fair value through profit or loss	30	**8,210,584**	1,896,354
Loans to customers	25	**66,877,679**	1,751,857
Loans to credit institutions	26	**2,598,660**	–
Derivative financial assets	20	**457,356**	–
Financial assets at amortised cost	27	**38,181,924**	–
Deferred income tax assets	44	**14,537,358**	9,671,997
Other non-current assets	22	**8,968,805**	12,038,312
		289,709,354	161,513,542
Current assets			
Inventories	28	**27,862,003**	27,857,888
Properties under development	29	**439,355**	547,053
Accounts and notes receivables	23	**54,189,146**	46,149,326
Prepayments, other receivables and other current assets	24	**43,656,633**	42,879,069
Loans to customers	25	**53,518,460**	10,652,303
Loans to credit institutions	26	**3,734,588**	–
Derivative financial assets	20	**2,147,800**	130,495
Financial assets at fair value through profit or loss	30	**12,393,559**	5,369,086
Financial assets at fair value through other comprehensive income	21	**693,949**	–
Available-for-sale financial assets	21	**–**	423,950
Financial assets at amortised cost	27	**1,712,559**	–
Restricted deposits	31	**6,504,353**	1,338,000
Bank deposits	31	**333,304**	6,010,552
Cash and cash equivalents	31	**60,023,193**	32,202,477
		267,208,902	173,560,199
Completed properties held for sale	18	**1,348,635**	–
		268,557,537	173,560,199
Total assets		**558,266,891**	335,073,741

		As at December 31,	
		2018	2017
	Note	***RMB'000***	*RMB'000*
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital	33	**2,356,231**	2,356,231
Reserves		**55,116,523**	52,077,092
Total equity attributable to equity holders of the Company		**57,472,754**	54,433,323
Perpetual securities	34	**6,807,157**	6,807,157
Other non-controlling interests		**23,762,430**	19,084,567
Put option written on non-controlling interests	39(iii)	**(5,024,368)**	(1,343,399)
Total equity		**83,017,973**	78,981,648
LIABILITIES			
Non-current liabilities			
Borrowings	43	**68,548,293**	64,454,075
Amounts due to credit institutions	40	**6,275,997**	–
Amounts due to customers	41	**4,233,726**	–
Derivative financial liabilities	20	**1,965,909**	–
Deferred revenue	36	**4,667,751**	4,165,396
Retirement benefit obligations	45	**2,995,928**	2,573,867
Provisions	46	**2,045,103**	1,899,452
Financial liabilities at fair value through profit or loss	42	**5,221,173**	801,000
Deferred income tax liabilities	44	**6,044,310**	4,809,127
Other non-current liabilities	39	**10,106,305**	3,990,979
		112,104,495	82,693,896
Current liabilities			
Trade and notes payables	35	**59,786,285**	56,730,615
Other payables and accruals	37	**76,031,797**	78,371,700
Amounts due to credit institutions	40	**16,840,728**	–
Amounts due to customers	41	**131,201,865**	–
Financial liabilities at fair value through profit or loss	42	**2,112,274**	–
Derivative financial liabilities	20	**2,490,615**	387,100
Provisions	46	**5,591,777**	5,808,816
Advance from customers	38	**1,878,270**	2,827,577
Deferred revenue	36	**5,237,006**	4,191,807
Income tax payables		**2,297,002**	1,957,052
Borrowings	43	**59,676,804**	23,123,530
		363,144,423	173,398,197
Total liabilities		**475,248,918**	256,092,093

		As at December 31,	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Total equity and liabilities		**558,266,891**	335,073,741
Net current (liabilities)/assets		**(94,586,886)**	162,002
Total assets less current liabilities		**195,122,468**	161,675,544

The financial statements on pages 138 to 304 were approved by the Board of Directors on March 28, 2019 and were signed on its behalf.

LIU Chuanzhi
Director

ZHU Linan
Director

	Attributable to the equity holders of the Company													
	Share capital *RMB'000*	Share premium *RMB'000*	Statutory surplus reserve *RMB'000*	Revaluation reserve *RMB'000*	Share-based compensation reserve *RMB'000*	Shares held for restricted share scheme *RMB'000*	Hedging reserve *RMB'000*	Exchange reserve *RMB'000*	Other reserve *RMB'000*	Retained earnings *RMB'000*	Perpetual capital securities *RMB'000*	Other non-controlling interests *RMB'000*	Put option written on non-controlling interests *RMB'000*	Total *RMB'000*
As December 31, 2017	2,356,231	11,281,940	385,655	73,154	2,075,511	(259,842)	(10,767)	(2,842,279)	4,215,903	37,157,817	6,807,157	19,084,567	(1,343,399)	78,981,648
Change in accounting policy *(Note 2.1.1(a))*	–	–	–	226,721	–	–	–	–	–	(846,263)	–	(106,835)	–	(726,377)
As January 1, 2018	2,356,231	11,281,940	385,655	299,875	2,075,511	(259,842)	(10,767)	(2,842,279)	4,215,903	36,311,554	6,807,157	18,977,732	(1,343,399)	78,255,271
Profit for the year	–	–	–	–	–	–	–	–	–	4,361,525	355,897	2,823,552	–	7,540,974
Other comprehensive (loss)/income														
Fair value changes on financial assets at fair value through other comprehensive income	–	–	–	(514,340)	–	–	–	–	–	–	–	(152,047)	–	(666,387)
Reclassified to income statement on disposal of associates using equity accounting	–	–	–	(76,469)	–	–	–	–	–	–	–	–	–	(76,469)
Share of other comprehensive loss of associates using equity accounting	–	–	–	(212,944)	–	–	–	–	–	–	–	(19,128)	–	(232,072)
Fair value changes on forward foreign exchange contracts	–	–	–	–	–	–	361,973	–	–	–	–	898,728	–	1,260,701
Reclassified to income statement on forward foreign exchange contracts	–	–	–	–	–	–	(328,763)	–	–	–	–	(800,925)	–	(1,129,688)
Currency translation differences	–	–	–	–	–	–	–	600,429	–	–	–	(685,340)	–	(84,911)
Remeasurement of post-employment benefit obligation	–	–	–	–	–	–	–	–	(85,788)	–	–	(108,647)	–	(194,435)
Revaluation of investment properties upon reclassification from property, plant and equipment	–	–	–	38,977	–	–	–	–	–	–	–	–	–	38,977
Total comprehensive (loss)/income for the year	–	–	–	(764,776)	–	–	33,210	600,429	(85,788)	4,361,525	355,897	1,956,193	–	6,456,690
Transfer to retained earnings	–	–	–	356,847	–	–	–	–	–	(356,847)	–	–	–	–
Total transactions with owners, recognised directly in equity														
Acquisition of subsidiaries *(Note 54)*	–	–	–	–	–	–	–	–	–	–	–	3,606,490	–	3,606,490
Disposal of subsidiaries	–	–	–	(26,368)	–	–	–	–	–	–	–	582,105	–	555,737
Transaction with other non-controlling interests *(Note 53)*	–	–	–	–	–	–	–	–	(318,216)	–	–	(722,307)	–	(1,040,523)
Contribution from other non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	295,514	–	295,514
Put option written on non-controlling interests *(Note39 (iii))*	–	–	–	–	–	–	–	–	–	–	–	–	(5,024,368)	(5,024,368)
Termination of put option written on non-controlling interests *(Note 37 (iv))*	–	–	–	–	–	–	–	–	22,951	–	–	55,914	1,343,399	1,422,264
Transfer to reserve	–	–	–	–	–	–	–	–	55,000	(41,425)	–	3,434	–	17,009
Share of other reserve of associates	–	–	–	–	–	–	–	–	13,698	–	–	–	–	13,698
Share-based compensation *(Note 32)*	–	–	–	–	381,425	63,490	–	–	–	–	–	921,379	–	1,366,294
Transfer to statutory surplus reserve	–	–	75,197	–	–	–	–	–	–	(75,197)	–	–	–	–
Dividends paid *(Note 47)*	–	–	–	–	–	–	–	–	–	(636,182)	–	(1,914,024)	–	(2,550,206)
Distribution to perpetual securities holders	–	–	–	–	–	–	–	–	–	–	(355,897)	–	–	(355,897)
Total transactions with owners, recognised directly in equity	–	–	75,197	(26,368)	381,425	63,490	–	–	(226,567)	(752,804)	(355,897)	2,828,505	(3,680,969)	(1,693,988)
As December 31, 2018	2,356,231	11,281,940	460,852	(134,422)	2,456,936	(196,352)	22,443	(2,241,850)	3,903,548	39,563,428	6,807,157	23,762,430	(5,024,368)	83,017,973

	Attributable to the equity holders of the Company													
	Share capital *RMB'000*	Share premium *RMB'000*	Statutory surplus reserve *RMB'000*	Revaluation reserve *RMB'000*	Share-based compensation reserve *RMB'000*	Shares held for restricted share scheme *RMB'000*	Hedging reserve *RMB'000*	Exchange reserve *RMB'000*	Other reserve *RMB'000*	Retained earnings *RMB'000*	Perpetual securities *RMB'000*	Other non-controlling interests *RMB'000*	Put option written on non-controlling interests *RMB'000*	Total *RMB'000*
As at January 1, 2017	2,356,231	11,281,940	311,807	1,718,251	1,724,078	(269,831)	155,659	(1,681,059)	3,888,806	32,780,274	–	18,069,455	(1,343,399)	68,992,212
Profit /(loss) for the year	–	–	–	–	–	–	–	–	–	5,047,826	284,639	(474,772)	–	4,857,693
Other comprehensive (loss)/ income														
Fair value changes on available-for-sale financial assets	–	–	–	(261,638)	–	–	–	–	–	–	–	29,092	–	(232,546)
Reclassified to income statement on disposal of available-for-sale financial assets	–	–	–	(1,526,568)	–	–	–	–	–	–	–	(110,031)	–	(1,636,599)
Share of other comprehensive income of associates using equity accounting	–	–	–	51,127	–	–	–	–	–	–	–	–	–	51,127
Fair value change on forward foreign exchange contracts	–	–	–	–	–	–	(464,195)	–	–	–	–	(985,836)	–	(1,450,031)
Reclassified to income statement on forward foreign exchange contracts	–	–	–	–	–	–	297,769	–	–	–	–	642,902	–	940,671
Currency translation differences	–	–	–	–	–	–	–	(1,161,220)	–	–	–	57,608	–	(1,103,612)
Remeasurement of post-employment benefit obligations	–	–	–	–	–	–	–	–	82,798	–	–	180,110	–	262,908
Revaluation of investment properties upon reclassification from property, plant and equipment	–	–	–	91,982	–	–	–	–	–	–	–	–	–	91,982
Total comprehensive (loss)/income for the year	–	–	–	(1,645,097)	–	–	(166,426)	(1,161,220)	82,798	5,047,826	284,639	(660,927)	–	1,781,593
Total transactions with owners, recognised directly in equity														
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	582,555	–	582,555
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	4,555	–	4,555
Transaction with other non-controlling interests *(Note 53)*	–	–	–	–	–	–	–	–	243,607	–	–	(478,104)	–	(234,497)
Contribution from other non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	2,839,333	–	2,839,333
Issue of perpetual securities *(Note 34)*	–	–	–	–	–	–	–	–	–	–	6,701,175	–	–	6,701,175
Issue of bonus warrants	–	–	–	–	–	–	–	–	(12,587)	–	–	(30,665)	–	(43,252)
Transfer to reserve	–	–	–	–	–	–	–	–	27,239	(26,227)	–	1,332	–	2,344
Share of share option reserve of an associate	–	–	–	–	1,376	–	–	–	–	–	–	–	–	1,376
Share of other reserve of associates	–	–	–	–	–	–	–	–	(13,960)	–	–	–	–	(13,960)
Share-based compensation *(Note 32)*	–	–	–	–	350,057	68,480	–	–	–	–	–	786,195	–	1,204,732
Purchase of restricted shares under share scheme *(Note32)*	–	–	–	–	–	(58,491)	–	–	–	–	–	–	–	(58,491)
Transfer to statutory surplus reserve	–	–	73,848	–	–	–	–	–	–	(73,848)	–	–	–	–
Dividends paid *(Note 47)*	–	–	–	–	–	–	–	–	–	(570,208)	–	(2,029,162)	–	(2,599,370)
Distribution to perpetual securities holders	–	–	–	–	–	–	–	–	–	–	(178,657)	–	–	(178,657)
Total transactions with owners, recognised directly in equity	–	–	73,848	–	351,433	9,989	–	–	244,299	(670,283)	6,522,518	1,676,039	–	8,207,843
As at December 31, 2017	2,356,231	11,281,940	385,655	73,154	2,075,511	(259,842)	(10,767)	(2,842,279)	4,215,903	37,157,817	6,807,157	19,084,567	(1,343,399)	78,981,648

Consolidated Cash Flow Statement

For the year ended December 31, 2018

	Note	Year ended December 31, 2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash generated from/(used in) operations	48	**5,716,588**	(1,795,667)
Income tax paid		**(2,955,238)**	(3,574,454)
Net cash generated from/(used in) operating activities		**2,761,350**	(5,370,121)
Cash flows from investing activities			
Purchases of property, plant and equipment and intangible assets		**(5,006,604)**	(6,442,351)
Proceeds from sale of property, plant and equipment and intangible assets		**858,694**	252,639
Purchase of financial assets at fair value through profit or loss		**(4,897,697)**	(1,617,346)
Proceeds from the disposal of financial assets at fair value through profit or loss		**1,689,696**	1,198,244
Dividends from financial assets at fair value through profit or loss		**213,826**	241,495
Capital injection in associates measured at fair value through profit or loss		**(1,529,718)**	(3,330,371)
Distributions from associates measured at fair value through profit or loss		**1,456,596**	2,036,523
Acquisition of and capital injection in associates and joint ventures using equity accounting		**(2,895,738)**	(1,472,178)
Proceeds from disposal of associates using equity accounting		**111,712**	3,187,977
Distributions from associates using equity accounting		**246,160**	498,804
Purchase of financial assets at fair value through other comprehensive income		**(26,670)**	–
Disposal of financial assets at fair value through other comprehensive income		**863,535**	–
Dividends from financial assets at fair value through other comprehensive income		**4,722**	–
Purchase of available-for-sale financial assets		**–**	(2,797,072)
Disposal of available-for-sale financial assets		**–**	1,416,227
Dividends from available-for-sale financial assets		**–**	398,293
Acquisition of subsidiaries, net of cash acquired		**19,668,239**	(1,053,851)
Disposal of subsidiaries, net of cash disposed		**547,877**	427,441
Loans granted to related parties and third parties		**(2,606,794)**	(897,271)
Repayment of contingent consideration and deferred consideration		**(218,330)**	(11,285,235)
Interest received		**442,695**	248,574
Decrease in fixed deposits for more than 3 months		**5,766,469**	4,669,153
Prepayment to proposed transactions		**–**	(354,195)
Proceeds from disposal of discontinued operations		**–**	12,878,311
Net cash generated from/(used) in investing activities		**14,688,670**	(1,796,189)

		Year ended December 31,	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Cash flows from financing activities			
Proceeds from borrowings		**86,713,579**	80,074,333
Repayments of borrowings		**(81,084,034)**	(81,124,828)
Repurchase of shares		**–**	(58,491)
Issue of perpetual securities	34	**–**	6,701,175
Issue of financial liabilities at fair value through profit or loss		**15,532**	801,000
Capital contributions from other non-controlling interests		**862,234**	2,950,744
Distribution to perpetual securities holders		**(355,897)**	(178,657)
Distribution to other non-controlling interests		**(1,891,292)**	(2,029,162)
Transaction with other non-controlling interests		**(1,207,848)**	(234,497)
Cash proceeds from issuance of bonds ,net of issuance costs		**13,677,842**	8,256,070
Dividends paid to equity holders of the Company	47	**(636,182)**	(570,208)
Interest paid		**(6,637,402)**	(4,171,439)
Net cash generated from financing activities		**9,456,532**	10,416,040
Net decrease in cash and cash equivalents		**26,906,552**	3,249,730
Cash and cash equivalents at beginning of year		**32,202,477**	30,059,402
Exchange gains/(losses) on cash and cash equivalents		**914,164**	(1,106,655)
Cash and cash equivalents at end of year	31	**60,023,193**	32,202,477

1. General information

Legend Holdings Corporation (the "Company") is a joint stock company with limited liability under Company Law of the PRC. It was incorporated in November 1984 under the name of Chinese Academy of Sciences Computer Technology Research Institute New Technology Development Company (中國科學院計算技術研究所新技術發展公司), as an enterprise owned by the whole people (全民所有制企業).Since then, the Company has completed a series of reorganizations and was converted into a joint stock limited liability company on February 18, 2014, the registered capital is RMB2,356 million now.The Company's shares have been listed on the Main Board of the Hong Kong Stock Exchange since June 29, 2015.

The address of the Company's registered office is Room 1701, 17/F, Block 1, Court No. 2, Ke Xue Yuan Nanlu, Hai Dian District, Beijing, PRC.

The Company operates businesses through two principal business platforms, strategic investments and financial investments.

The strategic investments consist of operations in (a) Information technology ("IT") industry, which is primarily engaged in the development, manufacturing and marketing high-quality and easy-to-use technology products and services for customers and enterprises; (b) financial services industry, which offers services including banking, short-term financing, credit guarantees, entrusted loans, financial leasing, insurance brokerage services, third party payment, internet finance, trusts and customised financial solutions to customers; (c) innovative consumption and services industry, which operates mainly to provide comprehensive medical and health service, car rental business, digital marketing solutions of enterprises internet healthcare services and education for kids; (d) agriculture and food industry, which are mainly engaged in planting and sales of premium fruit and tea products in agriculture business, producing and selling Chinese liquor; supplying seafood and accessory products, agriculture-oriented e-commerce platform and liquor direct sales chain; and (e) advanced manufacturing and professional services industry, which includes fine chemicals, energy materials production services, logistics services and aviation logistic related business services.

The financial investments platform conducts investment in private equity funds ("PE Funds") and venture capital funds ("VC Funds") as a limited partner and holds interest in the general partners of certain funds. The Group also makes early stage or "angel" investments in technology start-ups and minority investments in other entities. It also provides office rental services.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and requirements of the Hong Kong Companies Ordinance (Cap. 622) under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, associates measured at fair value through profit or loss and investment properties.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or the areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 New standards and interpretations adopted

The Group has adopted the following amendments and interpretations to standards which are mandatory for the accounting period beginning on January 1, 2018:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 2 (Amendment)	Share-based Payment Transaction
Annual Improvement to IFRSs 2014–2016 cycle*	
IAS 40 (Amendment)	Investment properties
IFRIC-Int 22	Foreign Currency Transactions and Advance Consideration

* It includes amendment to IFRS 12 "Disclosure of interests in other entities" which was effective in January 1, 2017 and does not have a material impact on the Group.

The adoption of above amendments and interpretations to standards does not have any significant financial effect on the consolidated financial statements except the IFRS 9 and IFRS 15 disclosed respectively in the following 2.1.1(a) and 2.1.1(b).

(a) IFRS 9 "Financial Instruments" – Impact on the financial statements

IFRS 9 replaces the provisions of International Accounting standard (IAS) 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 "Financial Instruments" from January 1, 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note 2.14 and 2.20 below. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the balance sheet as of December 31, 2017, but are recognised in the opening balance sheet on January 1, 2018.

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 New standards and interpretations adopted (Continued)

(a) IFRS 9 "Financial Instruments" – Impact on the financial statements (Continued)

The following table shows the impact of adoption of new IFRS on the consolidated balance sheet of the Group as of January 1, 2018.

	Note	**As at December 31, 2017** *RMB'000*	**New IFRS impact as at January 1, 2018** *RMB'000*	**Adoption of new IFRS as at January 1, 2018** *RMB'000*
Non-current assets				
Associates and joint ventures using equity accounting	2.1.1(a)(II)	14,345,636	(256,118)	14,089,518
Financial assets at fair value through other comprehensive income (FVOCI) (designated)	2.1.1(a)(I)	–	3,709,090	3,709,090
Available-for-sale financial assets (AFS)	2.1.1(a)(I)	9,173,534	(9,173,534)	–
Financial assets at fair value through profit or loss (FVPL) (shall be classified here)	2.1.1(a)(I)	1,896,354	4,199,415	6,095,769
Loans to customers		1,751,857	(102,256)	1,649,601
Deferred income tax assets		9,671,997	60,470	9,732,467
Other non-current asset items		124,674,164	(46,817)	124,627,347
		161,513,542	(1,609,750)	159,903,792

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 New standards and interpretations adopted (Continued)

(a) *IFRS 9 "Financial Instruments" – Impact on the financial statements (Continued)*

	Note	As at December 31, 2017 RMB'000	New IFRS impact as at January 1, 2018 RMB'000	Adoption of new IFRS as at January 1, 2018 RMB'000
Current assets				
Accounts and notes receivables		46,149,326	(47,882)	46,101,444
Available-for-sale financial assets	2.1.1(a)(I)	423,950	(423,950)	–
Loans to customers		10,652,303	(333,774)	10,318,529
Derivative financial instruments		130,495	–	130,495
Financial assets at fair value through profit or loss (shall be classified here)	2.1.1(a)(I)	5,369,086	1,688,979	7,058,065
Other current assets items		110,835,039	–	110,835,039
		173,560,199	883,373	174,443,572
Total assets		335,073,741	(726,377)	334,347,364
Total liabilities		256,092,093	–	256,092,093
Equity attributable to equity holders of the Company				
Share capital		2,356,231	–	2,356,231
Revaluation reserves		73,154	226,721	299,875
Other reserve items		14,846,121	–	14,846,121
Retained earnings		37,157,817	(846,263)	36,311,554
Total equity attributable to equity holders of the Company		54,433,323	(619,542)	53,813,781
Other equity items		24,548,325	(106,835)	24,441,490
Total equity		78,981,648	(726,377)	78,255,271

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 New standards and interpretations adopted (Continued)

(a) IFRS 9 "Financial Instruments" – Impact on the financial statements (Continued)

The total impact on the Group's retained earnings as of January 1, 2018 is as follows:

	Note	**Retained earnings** *RMB'000*
Closing retained earnings 31 December, 2017 – IAS 39		37,157,817
Reclassify investments from available-for-sale to FVPL (shall be classified here)	2.1.1(a)(I)	(226,721)
Increase in provision for accounts and notes receivables and loan to customers	2.1.1(a)(II)	(418,028)
Increase in deferred tax assets relating to impairment provisions	2.1.1(a)(II)	54,604
Retained earnings adjustments related to associates and joint ventures using equity accounting	2.1.1(a)(II)	(256,118)
Adjustment to retained earnings from adoption of IFRS 9 on January 1, 2018		(846,263)
Opening retained earnings January 1, 2018 – IFRS 9		36,311,554

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 New standards and interpretations adopted (Continued)

(a) IFRS 9 "Financial Instruments" – Impact on the financial statements (Continued)

(I) Classification and measurement

On January 1, 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. The main effects resulting from this reclassification are as follows:

Financial assets	**FVPL (shall be classified here)** *RMB'000*	**FVOCI (designated) (Available-for-sale 2017)** *RMB'000*
Closing balance as at December 31, 2017 – IAS 39 *	7,265,440	9,597,484
Reclassify investments from available-for-sale to FVPL (shall be classified here) *(i)*	5,888,394	(5,888,394)
Opening balance as at January 1, 2018 – IFRS 9	13,153,834	3,709,090
Including: Current portion	7,058,065	–
Non-current portion	6,095,769	3,709,090

* The closing balances as of December 31, 2017 show available-for-sale financial assets under fair value through other comprehensive income. These reclassifications have no impact on the measurement categories.

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 New standards and interpretations adopted (Continued)

(a) IFRS 9 "Financial Instruments" – Impact on the financial statements (Continued)

(I) Classification and measurement (Continued)

The impact of these changes on the Group's equity is as follows:

	Effect on reserves		Effect on retained earnings
	Effect on AFS reserves	**Effect on FVOCI reserve**	
	RMB'000	*RMB'000*	*RMB'000*
Closing balance as at December 31, 2017 – IAS 39	(373,181)	–	37,157,817
Reclassify investments from available-for-sale to FVPL (shall be classified here) *(i)*	226,721	–	(226,721)
Reclassify non-trading equities from available-for-sale to FVOCI (designated) *(ii)*	146,460	(146,460)	–
Total	373,181	(146,460)	(226,721)
Opening balance as at January 1, 2018 – IFRS 9	–	(146,460)	36,931,096

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 New standards and interpretations adopted (Continued)

(a) *IFRS 9 "Financial Instruments" – Impact on the financial statements (Continued)*

(I) Classification and measurement (Continued)

Notes:

(i) Reclassification from available-for-sale to FVPL

Certain equity investments were reclassified from available-for-sale to financial assets at FVPL (RMB5,888 million as of January 1, 2018).

Related fair value loss of RMB227 million were transferred from the available-for-sale financial assets reserve to retained earnings on January 1, 2018.

(ii) Fair value loss of equity investment previously classified as AFS

The Group elected to present in other comprehensive income changes in the fair value of all its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments and for the purpose other than to generate investment returns. As a result, assets with a fair value of RMB3,709 million were reclassified from available-for-sale financial assets to financial assets designated as FVOCI and fair value loss of RMB146 million were reclassified from the available-for-sale financial assets reserve to the FVOCI reserve on 1 January 2018. There is no longer any reclassification of accumulated amounts from reserves to profit or loss on the disposal of these investments.

(iii) Available-for-sale debt instruments classified as FVPL

As the listed debt instruments is held for trading at the date of transition and the contractual cash flows of the unlisted debt instruments are not solely payments of principle and interest, these investments are reclassified to FVPL. The related fair value changes transferred from the available-for-sale financial assets reserve to retained earnings is not material on January 1, 2018.

(iv) Trade receivables

The trade receivables of Lenovo Group Limited ("Lenovo"), a subsidiary of the Company, are to be classified as FVOCI since the financial assets are held for collecting contractual cash flow and for selling the financial assets. Trade receivables of others subsidiaries are held for collection of contractual cash flows, thus continue to measure at amortised cost using effective interest rate method.

(v) Other financial assets

Equity securities – held for trading are required to be held as FVPL under IFRS 9. There was no impact on the amounts recognised in relation to these assets from the adoption of IFRS 9.

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 New standards and interpretations adopted (Continued)

(a) IFRS 9 "Financial Instruments" – Impact on the financial statements (Continued)

(II) Impairment of financial assets

The Group has several types of financial assets that are subject to IFRS 9's new expected credit loss ("ECL") model:

- trade receivables and notes receivables,
- other receivables, and
- loans to customers, receivables arising from finance leases and other non-current assets.

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in the table in note 2.1.1(a) above.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

(i) Trade receivables and notes receivables

The Group applies the IFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables and note receivables. Impairment provision of trade receivables and notes receivables at January 1, 2018 has a increase of RMB48 million.

(ii) Other receivables

Other receivables main include receivables from parts subcontractors and amounts due from related parties, etc., see note 24. All of the entity's other receivables are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months expected losses. Other receivables are considered to be low credit risk when they have a low risk of default and the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term.

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 New standards and interpretations adopted (Continued)

(a) IFRS 9 "Financial Instruments" – Impact on the financial statements (Continued)

(II) Impairment of financial assets (Continued)

(iii) Loans to customers, receivables arising from finance leases and other non-current assets

Financial services segment of the Group offers services including banking, short-term financing, credit guarantees, entrusted loans, financial leasing, insurance brokerage services, third party payment, internet finance, trusts and customised financial solutions to customers. The estimation of credit exposure for risk management purposes of certain financial services businesses is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD"). See note 3.1(b) for more information about related accounting estimates and judgements.

The loss allowances for related assets as at 31 December 2017 reconcile to the opening loss allowances on 1 January 2018, the loss allowances increased by RMB418 million and RMB113 million through opening retained earnings and non-controlling interests respectively.

The Associates of the Group also use the above-mentioned method to calculate the ECL, as of January 1, 2018, the amount of associates and joint ventures using equity accounting was decreased RMB256 million through opening balance of retained earnings.

As for receivables and other non-current assets generated from loans to customers and finance leases (including guaranteed loans and commitments), the Group would classify assets into different categories which sets allowance for ECL for 12 months and from acquisition date based on whether expected credit risk has significantly increased or if the assets has already incurred credit loss. Please see note 2.14.4 for more information on credit risk related policy.

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 New standards and interpretations adopted (Continued)

(b) IFRS 15 "Revenue from Contracts with Customers"

The Group has adopted IFRS 15 from 1 January 2018 which may result in changes in accounting policies and adjustments to the amounts recognized in the financial statements. In accordance with the transition provisions in IFRS 15, the Group has adopted the new rule under the modified retrospective approach and the comparative figures have not been restated. Based on the Group's assessment, the adoption of IFRS 15 will not have material impact on the retained earnings as at January 1, 2018 and there is no need to make adjustment. Beside, based on assessment, the adoption of IFRS 15 will not have material impact on the time and amount in revenue recognition in 2018. Please refer to note 2.30 for the Group's accounting policies of revenue recognition under IFRS 15.

2.1.2 New standards and interpretations not yet adopted

The following are new standards and amendments to standards that have been issued but are not yet effective for the financial year beginning on January 1, 2018 and have not been early adopted.

IFRS 16	Lease(1)
IFRS 17	Insurance Contracts(2)
IFRS 10 and IAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture(3)
IAS 19 (Amendment)	Employee Benefit(1)
IFRS 23	Uncertainty over Income Tax Treatments(1)
IAS 28 (Amendment)	Investment in Associates(1)
Annual Improvement to IFRSs 2015–2017 cycle	(1)

(1) Effective for the accounting period beginning on January 1, 2019
(2) Effective for the accounting period beginning on January 1, 2021
(3) To be determined

The Group will apply the above new standards and amendments to standards when they become effective.

Impact of new standard released not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.2 New standards and interpretations not yet adopted (Continued)

IFRS 16 "Leases"

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The Group has reviewed all of the Group's leasing arrangements over 2018 in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases. As at December 31, 2018, the Group has non-cancellable operating lease commitments of RMB4,071 million (note 52(b)). Of these commitments, short-term leases and low value leases related parts will be recognised on a straight-line basis as expense in profit or loss. For the remaining lease commitments the group expects to recognise right-of-use assets and lease liability (adjusted for any prepaid or accrued lease expenses as at December 31, 2018).

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified approach and that the accumulated impact will be recognised in retained earnings as at January 1, 2019 and will not restate comparative figure.

The Group is in the assessment on the impact of the adoption of this new standard on the Group's profit and cash flow in 2019.

2.2 Subsidiaries

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

(a) Business combination

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. The seller in a business combination may contractually indemnify the acquirer for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability. The acquirer shall recognise an indemnification asset at the same time that it recognises the indemnified item measured on the same basis as the indemnified item, subject to the need for a valuation allowance for uncollectible amounts. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis at the non-controlling interest's proportionate share of the acquiree's net assets.

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

2. Summary of significant accounting policies (Continued)

2.2 Subsidiaries (Continued)

(a) Business combination (Continued)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group will report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group will retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the Group will also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period does not exceed one year from the acquisition date.

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (Note 2.10). If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the identifiable net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements have the same reporting date.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid/received and the relevant share acquired/disposed of the carrying value of net assets of the subsidiary is recorded in equity.

The potential cash payments related to put options issued by the Group over the equity of a subsidiary are accounted for as financial liabilities when such options may only be settled other than by exchange of a fixed amount of cash or another financial asset for a fixed number of shares in the subsidiary. The amount that may become payable under the option on exercise is initially recognised at fair value as a written put option liability with a corresponding charge directly to equity.

Written put option liability is subsequently re-measured as a result of the change in the expected performance at each balance sheet date, with any resulting gain or loss recognised in income statement. In the event that the option expires unexercised, the written put option liability is derecognised with a corresponding adjustment to equity.

2. Summary of significant accounting policies (Continued)

2.2 Subsidiaries (Continued)

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset at fair value. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may cause amounts previously recognised in other comprehensive income reclassified to income statement.

(d) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable. Impairment testing of the investments in subsidiaries accounted for at cost is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associates

Associates are all entities 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 of those policies.

(a) Equity method of accounting

Investments in associates other than those investments in VC Funds, PE Funds and preferred shares investments of the Group are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the income statement of the investee after the date of acquisition. The Group's investment in associates using equity accounting includes goodwill identified on acquisition, net of any accumulated impairment losses.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to income statement where appropriate.

The Group's share of its associates' post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in the associates' other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of profit of associates and joint ventures accounted for using the equity method" in the consolidated income statement.

2. Summary of significant accounting policies (Continued)

2.3 Associates (Continued)

(a) Equity method of accounting (Continued)

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's consolidated income statement only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

(b) Fair value through profit or loss

The Group has invested as a limited partner in certain VC Funds and PE Funds and exerted significant influence. The Group has applied the measurement exemption within IAS 28 "Investment in Associates and Joint Ventures" for mutual funds, unit trusts and similar entities and such investments are measured at fair value through profit or loss, and presented as "associates measured at fair value through profit or loss" in the balance sheet.

The Group has invested in preferred shares of associates, which are designated at fair value through profit or loss at initial recognition and presented as "financial assets at fair value through profit or loss" in the balance sheet.

2.4 Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income of the joint ventures. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as Board of Directors that makes strategic decisions.

2. Summary of significant accounting policies (Continued)

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to monetary assets and liabilities denominated in foreign currency are presented in the consolidated income statement within "other (losses)/income and gains".

Changes in the fair value of monetary securities denominated in foreign currency classified as fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in income statement, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as fair value through other comprehensive income, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

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

2. Summary of significant accounting policies (Continued)

2.6 Foreign currency translation (Continued)

(e) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity owners of the Company are reclassified to income statement.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in income statement. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to income statement.

2.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and accumulated impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation of buildings, building-related equipment and leasehold improvements is calculated using the straight-line method to allocate their costs to their estimated residual values over the unexpired periods of the leases or their expected useful lives to the Group whichever is shorter.

Depreciation of other property, plant and equipment is calculated using the straight-line method to allocate their costs to their estimated residual values over their estimated useful lives to the Group. The principal annual rates used for this purpose are:

–	Land and buildings	10–50 years
–	Machinery and equipment	2–12 years
–	Motor & Vehicles	2–6 years
–	Furniture	3–10 years
–	Bearer plants	20–30 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

Gains or losses on disposals of assets are determined by comparing the proceeds with the carrying amount and are recognised within "other (losses)/income and gains" in the consolidated income statement.

2. Summary of significant accounting policies (Continued)

2.8 Construction-in-progress

Construction-in-progress represents buildings, plant and machinery and internal use software under construction and pending installation and is stated at historical cost, less any accumulated impairment losses. Historical cost comprises all direct and indirect costs of acquisition or construction or installation of buildings, plant and machinery or internal use software as well as interest expenses and exchange differences on the related funds borrowed during the construction, installation and testing periods and prior to the date when the assets were available for use. No depreciation or amortization is provided for construction-in-progress. On completion, the carrying values of the buildings, plant and machinery or internal use software are transferred from construction-in-progress to property, plant and equipment or intangible assets.

2.9 Investment property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases.

Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the consolidated income statement as part of a valuation gain or loss in "other (losses)/income and gains".

Property that is being constructed or developed as investment property is carried at fair value. Where fair value is not reliably determinable, such property under construction is measured at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market condition.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the consolidated income statement during the financial period in which they are incurred.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

When the owner-occupied properties transferring to investment properties, a revaluation surplus is credited to other comprehensive income and accumulated in equity under the heading of revaluation surplus. The revaluation surplus included in equity may be transferred directly to retained earnings when the surplus is realised.

2. Summary of significant accounting policies (Continued)

2.10 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Group's interest in net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree and the non-controlling interest in the acquiree. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and joint ventures is included in investments in associates and joint ventures.

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

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

(b) Trademarks

Separately acquired trademarks and licences are shown at historical cost. Trademarks acquired in a business combination are recognised at fair value at the acquisition date. As for intangible assets like trademarks and fishing rights that have conclusive evidence that the useful life can not be estimated, they are subject to impairment testing annually. The Group have indefinite use rights to these trademarks and fishing rights.

(c) Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. Customer relationships have a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over their estimated lives, which are not more than 15 years.

(d) Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;

2. Summary of significant accounting policies (Continued)

2.10 Intangible assets (Continued)

(d) Computer software (Continued)

- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and

- The expenditure attributable to the software product during its development can be reliably measured.

Development costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Acquired computer software licences costs and computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed 5 years.

(e) Patents, technology and marketing right

Expenditures on acquired patents, technology and marketing rights are capitalised at historical cost which is the fair value at acquisition and amortised using the straight-line method over their estimated useful lives of not more than 10 years.

2.11 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less disposal cost and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash flows (CGUs). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.12 Biological assets

Bearer plants of the Group consist of blueberry and kiwi trees, which are recognised as property, plant and equipment and measured at cost less accumulated depreciation and impairment.

Agricultural products harvested from bearer plants is measured at its fair value less costs to sell at the point of harvest and recognised as inventory subsequently. The fair value of agricultural products is based on market prices of agricultural products of similar size and weight or alternative estimates of fair value

2.13 Non-current assets held-for-sale

Non-current assets (or disposal groups) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets (except for certain assets as explained below), (or disposal groups), are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries and associates) and investment properties, which are classified as held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

2. Summary of significant accounting policies (Continued)

2.14 Investment and other financial assets

2.14.1 Classification and measurement

From 1 January 2018, the Group classifies its financial assets depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows:

- those to be measured at amortised cost
- those to be measured subsequently at fair value through OCI
- those to be measured subsequently at fair value through profit and loss

The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL.

Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated

The contractual cash flow characteristics of financial assets refer to contractual terms as agreed in the financial instrument contracts that reflect the economic characteristics of the financial assets, i.e., the contractual cash flows arising at a specified date from the financial assets are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Of which, the principal is the fair value of the financial asset at initial recognition, and the amount of the principal may change over the life of the financial asset, if, e.g., there are repayments of principal; and the interest includes consideration for the time value of money, and credit risk, other basic lending risks and costs associated with holding the financial asset for a particular period of time.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

At initial recognition, the Group measures a financial asset at its fair value. For financial assets that are at FVPL, the transaction costs are expensed in profit or loss; for financial assets with other categories, the transaction costs are recognised in the initial carrying amounts. For trade and other receivables arising from rendering goods or services with no significant financing component, the Group measures their initial carrying amount as the cash flows that the Group is entitled and expected to receive.

2. Summary of significant accounting policies (Continued)

2.14 Investment and other financial assets (Continued)

2.14.1 Classification and measurement (Continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent SPPI are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "other (losses)/income and gains" together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent SPPI, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in "other (losses)/income and gains". Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in "other (losses)/income and gains" and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within "investment income and gains" in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at FVPL, except where the Group has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. he Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is made, fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value.

For the Group's equity instruments not held for trading purposes and those designated at FVOCI, when they are derecognised, the difference between the carrying amount and the consideration is recognised in retained earnings, also, the cumulative gains or losses previously recognised in other comprehensive income are recycled to the retained earnings; for other financial assets measured at FVOCI, the difference between the carrying amount and the consideration is recognised in profit and loss, also, the cumulative gains or losses previously recognised in other comprehensive income are recycled to profit and loss.

2. Summary of significant accounting policies (Continued)

2.14 Investment and other financial assets (Continued)

2.14.2 Recognition and de-recognition

The Group derecognises a financial asset if one of the following conditions is met:

- The contractual rights to receive the cash flows from the financial asset expire;
- The financial asset has been transferred and the Group transfers substantially all the risks and rewards of ownership of such financial asset;
- The financial asset has been transferred, the Group has not retained any control over the financial asset, even if the Group neither transfers nor retains substantially all the risks and rewards of ownerships of the financial asset.

For the Group's equity instruments not held for trading purposes and designated at FVOCI, when they are derecognised, the difference between the carrying amount and the consideration is recognised in retained earnings, also, the cumulative gains or losses previously recognised in other comprehensive income are recycled to the retained earnings; for other financial assets measured at FVOCI, the difference between the carrying amount and the consideration is recognised in profit and loss, also, the cumulative gains or losses previously recognised in other comprehensive income are recycled to profit and loss.

The de-recognition of financial assets sold on condition of repurchase is determined by the economic substance of the transaction. If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a reasonable return, the Group will not derecognise the asset. If a financial asset is sold together with an option to repurchase the financial asset at its fair value at the time of repurchase (in case of transferor sells such financial asset), the Group will derecognise the financial asset.

2.14.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2.14.4 Impairment

The Group assesses on a forward-looking basis the ECL associated with its financial assets at amortised cost, debt instrument assets carried at FVOCI, trade and other receivables, lease receivable, contract assets, loan commitments and financial guarantee contracts for the issuer which are not measured at fair value through profit or loss.

When calculating the probability-weighted present value of the difference between the contractual and forecasted cash flows to be received, the Group takes reasonable and supportable information such as the past events, current conditions and forecasts of future economic conditions into consideration and uses probabilities of default as the weightings. The difference is recognised as the ECL.

2. Summary of significant accounting policies (Continued)

2.14 Investment and other financial assets (Continued)

2.14.4 Impairment (Continued)

At each balance sheet date, the Group calculates the ECL of financial instruments in different stages. Stage 1 refers to financial instruments that have not had a significant increase in credit risk since initial recognition; Stage 2 refers to financial instruments that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment; Stage 3 refers to financial assets for which there are objective evidence of impairment at the reporting date since initial recognition. For these assets at Stage 1, 12-month ECL are recognised and for assets at stage 2 and 3, life-time ECL are recognised.

For financial assets in stage 1 and stage 2, interest income is calculated based on the gross carrying amount of the asset, that is, without deduction for credit allowance, and the effective interest rates. For financial assets in stage 3, interest income is calculated on the net carry amount, that is, net of credit allowances, and the effective interest rates.

The Group recognises the provision and reversal of ECL in profit or loss. For debt instrument at FVOCI, the Group makes relevant adjustments to other comprehensive income at the same time as recognizing ECL in profit and loss.

For trade receivables, whether there is significant financial component or not, the Group recognises life-time ECL.

2.14.5 Accounting policies adopted until 31 December 2017

The Group retroactively adopted IFRS 9 but chose not to restate comparative figure. Thus, the Group will still make accounting treatments on comparative figures under the previous accounting policies.

(a) *Classification*

The Group classifies its financial assets in the following categories: (i) at fair value through profit or loss, (ii) loans and receivables, and (iii) available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and those designated at fair value through profit or loss at initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

2. Summary of significant accounting policies (Continued)

2.14 Investment and other financial assets (Continued)

2.14.5 Accounting policies adopted until 31 December 2017 (Continued)

(a) Classification (Continued)

(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. They are included in current assets, except for the amounts that are settled or expected to be settled in more than 12 months from the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise trade, notes and other receivables, deposits, loans to customers, bank deposits and cash and cash equivalents in the balance sheet.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months after the end of reporting period.

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are transferred to the consolidated income statement as "investment income and gains".

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of "investment income and gains". Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of "investment income and gains" when the Group's right to receive payments is established.

(c) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2. Summary of significant accounting policies (Continued)

2.14 Investment and other financial assets (Continued)

2.14.5 Accounting policies adopted until 31 December 2017 (Continued)

(d) Impairment of financial assets

(i) Assets carried at amortised cost

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

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

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

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

2. Summary of significant accounting policies (Continued)

2.14 Investment and other financial assets (Continued)

2.14.5 Accounting policies adopted until 31 December 2017 (Continued)

(d) Impairment of financial assets (Continued)

(ii) Assets classified as available-for-sale

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

For debt securities classified as available for sale, if any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognized in consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the consolidated income statement.

For equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2.15 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
- hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge);
- hedges of a net investment in a foreign operation.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

2. Summary of significant accounting policies (Continued)

2.15 Derivative financial instruments and hedging activities (Continued)

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 20. Movements on the hedging reserve in shareholders' equity are shown in consolidated statements of changes in equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the consolidated income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement within "other (losses)/income and gains".

Amounts accumulated in equity are reclassified to income statement in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the consolidated income statement within "finance cost". The gain or loss relating to the ineffective portion is recognised in the consolidated income statement within "other (losses)/income and gains".

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss on the hedging instrument that has been recognised as other comprehensive income from the period when the hedge was effective shall remain separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss on the hedging instrument that has been recognised as other comprehensive income from the period when the hedge was effective shall be immediately reclassified from equity to the consolidated income statement within "other (losses) income/gains".

2. Summary of significant accounting policies (Continued)

2.15 Derivative financial instruments and hedging activities (Continued)

(c) Net investment hedges in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Gains and losses accumulated in equity are reclassified to profit or loss when the foreign operation is partially disposed of or sold.

Hedge of the interest-rate risk exposure of a portfolio

The Group performs an overall analysis of interest-rate risk exposure. This involves assessing fixed-rate exposure, taking into account all the exposure coming from balance sheet and off-balance sheet items. This global analysis may exclude certain components of the exposure, such as financial market activities, provided that the risk exposure stemming from the excluded activities is monitored on an activity-by-activity basis.

The Group applies the same methodology to select which assets and/or liabilities will be entered into the portfolio's hedge of interest-rate risk exposure. Assets and liabilities are included in all the time buckets of the portfolio. Hence, when they are removed from the portfolio, they must be removed from all the time buckets in which they had an impact. Demand deposits and savings accounts may be included in the portfolio, based on behavioural study to estimate expected maturity date. The Group may designate as qualifying hedged items different categories of assets or liabilities.

On the basis of this gap analysis, which is carried out on a gross basis, the Group defines, at conception, the risk exposure to be hedged, the length of the time bucket, the test method and the frequency of the tests.

The hedging instruments are a portfolio of derivatives, which may contain offsetting positions, The Group recognizes the hedging items at fair value with adjustments accounted for in the consolidated statement of income.

2. Summary of significant accounting policies (Continued)

2.16 Inventories, properties under development and completed properties held for sale

Inventories are stated at the lower of cost and net realisable value.

Cost of inventories is determined on a weighted average basis. The cost of finished goods (except for trading products) and work-in-progress comprises direct materials, direct labor and an attributable proportion of production overheads. For trading products, cost represents invoiced value on purchases, less purchase returns and discounts. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

Development cost of properties under development comprise land use rights, construction costs, borrowing costs and professional fees incurred during the development period. On completion, all development costs of the properties are transferred to completed properties held for sale. Net realisable value of properties under development is determined by reference to estimated sales proceeds of the properties sold in the ordinary course of business less costs to complete development and estimated selling expenses.

Completed properties held for sale are completed properties remaining unsold at year end and are stated at the lower of cost and net realisable values. Cost comprises development costs attributable to the unsold properties. Net realisable values are determined by reference to the estimated sales proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing marketing conditions.

2.17 Trade and other receivables

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

Receivables are initially measured at consideration amounts with no additional conditions, with the exception that accounts and notes receivable containing material financing component should be initially measured at fair value. Receivables' cash flows represent SPPI. Trade and notes receivables that are held for collection of contractual cash flows and for selling the assets shall be measured at FVOCL. Receivables that are held for collection of contractual cash flows are measured at amortised cost using effective interest rate method. For more information on accounting treatment of account receivables of the Group, please see note 23. For more information on accounting policies of impairment provision of the Group, please see note 3.1(b).

2.18 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

2. Summary of significant accounting policies (Continued)

2.19 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to equity holders of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.20 Financial liabilities

2.20.1 Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through the profit or loss include those classified as held for trading, and those designated by the Group upon recognition as at fair value through the profit or loss.

A financial liability is classified as held for trading if it is: (i) acquired or incurred principally for the purpose of repurchasing it in the near term; (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Financial liabilities are designated at fair value through the profit or loss upon initial recognition when: (i) the financial liabilities or are managed, evaluated and reported internally on a fair value basis; (ii) the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in measurement bases of the financial liabilities; or (iii) a contract contains one or more embedded derivatives, i.e. an entire hybrid (combined) contract, unless: (i) the embedded derivative does not significantly modify the cash flows that otherwise would be required by the hybrid (combined) contract; or (ii) it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative is prohibited.

2.20.2 Other financial liabilities

Financial liabilities, other than trading liabilities and those designated at fair value through profit or loss, are measured at amortised cost using the effective interest method.

2.21 Trade payables

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

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

2. Summary of significant accounting policies (Continued)

2.22 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.23 Borrowing costs

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

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

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

2.24 Current and deferred income tax

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

(a) Current income tax

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

2. Summary of significant accounting policies (Continued)

2.24 Current and deferred income tax (Continued)

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statement. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Outside basis differences

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

(c) Offsetting

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

2.25 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation can not be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

2. Summary of significant accounting policies (Continued)

2.26 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiaries or associates to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of

- the amount determined in accordance with the expected credit loss model under IFRS 9 Financial Instruments and

- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates and joint venture are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

2.27 Employee benefits

The Group operates various post-employment schemes. The schemes are generally funded through payments to insurance companies or trustee-administrated funds, which are measured by periodic actuarial calculation. The Group has both defined benefit and defined contribution plans.

(a) Pension obligations

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

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past service costs. Significant portion of the defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The current service cost of the defined benefit plan, recognised in the consolidated income statement in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation results from employee service in the current year, benefit changes, curtailments and settlements.

2. Summary of significant accounting policies (Continued)

2.27 Employee benefits (Continued)

(a) Pension obligations (Continued)

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the consolidated income statement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income/expenses in the period in which they arise.

Past service costs are recognised immediately in the income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee services in the current and prior periods. The contributions are recognised as employee benefit expense when they are due and are reduced by employer's portion of voluntary contributions forfeited by those employees who leave the scheme prior to vesting fully. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group's contributions to local municipal government retirement schemes in connection with retirement benefit schemes in the Mainland of China are expensed as incurred. The local municipal governments in the Mainland of China assume the retirement benefit obligations of the qualified employees.

(b) Post-employment medical benefits

The Group operates a number of post-employment medical benefit schemes, the largest being in the United States. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised as other comprehensive income expense in the period in which they arise. The obligations of these schemes in the United States are valued annually by independent qualified actuaries.

2. Summary of significant accounting policies (Continued)

2.28 Share-based payments

The Group operates a number of equity-settled compensation plans, including the long-term incentive program and share option plan adopted by a principal subsidiary, Lenovo Group Limited, and the restricted shares granted by the Company (collectively referred to as "Incentive Awards") under which the Group receives services from employees as consideration for the Incentive Awards granted. The fair value of the employee services received in exchange for the grant of the Incentive Awards is recognised as employ benefit expense.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the Incentive Awards granted, including any market performance conditions (for example, an entity's share price); excluding the impact of any service and non-market performance vesting conditions (for example, profitability and sales growth targets); and including the impact of non-vesting conditions. Non-market performance and service conditions are included in assumptions about the number of Incentive Awards granted that are expected to become exercisable/vested. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At each balance sheet date, the Group revises its estimates of the number of Incentive Awards granted that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to share-based compensation reserve under equity.

2.29 Provisions

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

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

(a) Warranty provision

The Group records warranty liabilities at the time of sale for the estimated costs that will be incurred under its basic limited warranty. The specific warranty terms and conditions vary depending upon the product and the country in which it was sold, but generally includes technical support, repair parts and labour associated with warranty repair and service actions. The period ranges from one to three years. The Group revaluates its estimates on a quarterly basis to assess the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

(b) Provision for financial guarantee losses

Provision for financial guarantee business are measured at balance sheet date. Provision for financial guarantee business are the best estimate of the losses for all undue guarantee risk exposure and the probability of potential default but not compensated. The Group makes the best estimates of contractual cash flow to be paid to fulfil the contractual obligations of all undue guarantee contracts according to the risk exposure and judgement of the probability of default and loss given default.

2. Summary of significant accounting policies (Continued)

2.29 Provisions (Continued)

(c) Other provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring costs provision comprises lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

2.30 Revenue recognition

The Group recognizes revenue at designated expected transaction considerations of goods or services when our client gains control over the underlining goods or services. The Group allocates transaction considerations to each underlining obligations based on stand-alone sale prices. Revenue generated from each obligation is recognized when the Group delivers promised goods or performs underlining services. The Group's allocation is based on past years' rebate performance considering client classification, transaction clusters and special features of each arrangement.

(a) Sales of goods

Revenue from sale of hardware, software and peripherals, mobile devices, chemicals and energy materials, agriculture products and other products is recognised, net of value-added tax, an allowance for estimated returns, rebates and discounts, when the right of control is effectively transferred to customer, generally when there is a persuasive evidence that a sales arrangement exists, the price is fixed or determinable, collectability is reasonably assured and delivery has occurred. The Group enters into different shipping terms with customers. Delivery is generally considered as occurred once the goods are shipped. For certain transactions, the Group defers the recognition of revenue and cost of shipped products until the goods are delivered to designated locations and the transfer of right of control is completed.

The contract liability will continue for a period, the related revenue will be deferred and amortised as earned over the contract period ranging from one to four years. At the end of the reporting period, the excess of the cumulative consideration received from the contracted customer over the cumulative revenue recognized is recognized as a contract liability recorded in deferred revenue. Please refer to note 36 for more information.

Revenue associated with undelivered elements is deferred and recorded when both delivery occurs and right of control transfers.

(b) Guarantee income

Guarantee income is determined based on the total agreed fee in the guarantee contracts and is recognised in the consolidated income statement over the period of guarantee.

(c) Rental income

Revenue is recognised on a time proportion basis over the lease terms.

2. Summary of significant accounting policies (Continued)

2.30 Revenue recognition (Continued)

(d) Provision of service

Revenues from the provision of logistic services, property management services, dental care services, consultancy and commission income and management fees are all recognised in the accounting period in which the services are rendered. Revenues from provision of system integration services and IT technical services are recognised over the term of contract or when services are rendered.

(e) Interest income

Interest income is recognised using the effective interest method. When a financial asset is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(f) Fee and commission income

Commissions and fees are recognised on an accrual basis over the life of the underlying transaction. Commissions and fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of loans, equity securities or other securities or the purchase or sale of businesses, are recognised when the significant act has been completed. For asset management operations, revenue consists principally of unit trust and mutual fund management and administration fees. Revenue from asset management is recognised as earned when the service is provided. Performance fees are recognized when all underlying conditions are met and thus acquired. Loan commitment fees are recognised as part of the effective interest-rate if the loan is granted, and recorded as revenue on expiry, if no loan is granted.

(g) Contractual assets/liabilities

The excess of the cumulative revenue recognized over the cumulative consideration received and due from the contracted customer is recognized as a contract asset on the consolidated balance sheet. On the contrary, the excess of the cumulative consideration received from the contracted customer over the cumulative revenue recognized is recognized as a contract liability recorded in deferred revenue (note 36) or advance from customers (note 38). As at December 31, 2018, the contract asset and the contract liability of the Group are classified as current and non-current portions based on their respective recovery or settlement periods. The time that the Group has the right to unconditionally obtain the consideration of the goods and service committed in the contract is almost the same as the time that right of control of the goods and service. Thus, as at December 31, 2018, the contract assets of the Group are not material.

2.31 Dividend income

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

2. Summary of significant accounting policies (Continued)

2.32 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised as "other (losses)/income and gains" in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to assets are recognised in the consolidated income statement on a systematic basis over the periods in which the entity recognises as expenses the related assets for which the grants are intended to compensate.

2.33 Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that this Group will obtain ownership at the end of the lease term.

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

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their natures.

2.34 Related party transactions

A related party transaction is a transfer of resources, services or obligations between the Group and a related party of the Group, regardless of whether a price is charged.

(a) A person, or a close member of that person's family, is related to the Group if that person:

- has control or joint control over the Group;
- has significant influence over the Group; or
- is a member of the key management personnel of the Group.

2. Summary of significant accounting policies (Continued)

2.34 Related party transactions (Continued)

(b) An entity is related to the Group if any of the following conditions applies:

- The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- One entity is an associate or joint venture of the Group (or an associate or joint venture of a member of a group of which the other entity is a member);
- One entity with one entity of the Group are both joint ventures of the same third party;
- One entity is a joint venture of a third entity and the other entity is an associate of the third party;
- The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- The entity is controlled or jointly controlled by a person identified in (a) above;
- A person, or a close member of that person's family, who has control or joint control over the Group, has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2.35 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group has implemented a unified and multi-tiered financial control management system. The Company guides and supervises major aspects of financial management of its subsidiaries and each subsidiary manages its financial risks locally. Certain subsidiaries of the Group use derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(I) Foreign exchange risk

The Group operates internationally and is exposed to foreign currency risk arising from various currency exposures, primarily with respect to United States dollar ("USD"), Renminbi ("RMB"), Euro ("EUR") and Swiss Franc ("CHF"). Foreign currency risk arises from the future business transactions, recognised assets and liabilities and net investment in foreign operations denominated in a currency other than the functional currency of the Group's subsidiaries. Each subsidiary of the Group monitors the amount of assets and liabilities and transactions denominated in foreign currencies closely in order to minimise the foreign exchange risk and enter into forward exchange contracts to mitigate the foreign currency risk as appropriate.

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(I) Foreign exchange risk (Continued)

The carrying amount in RMB equivalents of the financial assets and liabilities held by the Group denominated in the currencies other than their respective functional currencies are summarised below:

	As at December 31, 2018					
	USD	RMB	EUR	CHF	Other	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other receivables	3,153,578	239,113	261,046	–	47,931	3,701,668
Bank deposits and cash and cash equivalents	3,182,239	40,080	408,775	19,751,888	99,802	23,482,784
Loans to customers and credit institutions	9,414,821	–	–	1,051,668	5,944,004	16,410,493
Financial assets at amortized cost	4,667,531	–	–	–	–	4,667,531
Fair value assets through profit and loss	3,530,789	–	–	–	8,289	3,539,078
Fair value assets through other comprehensive income	2,483,924	–	–	51,231	2,235	2,537,390
Derivative financial assets	1,123,961	–	–	156,854	282,955	1,563,770
Other assets	43,436	–	–	227,318	58,137	328,891
Trade and other payables	(2,160,446)	(375,190)	(74,468)	–	(12,137)	(2,622,241)
Amount due to customers and credit institutions	(26,509,676)	–	–	(1,944,456)	(8,821,628)	(37,275,760)
Borrowings	(6,071,479)	(3,982,173)	(2,062,966)	(695,821)	(120,364)	(12,932,803)
Fair value liability through profit and loss	(1,517,070)	–	–	–	(424,896)	(1,941,966)
Derivative financial liability	(980,018)	–	–	(316,801)	(276,723)	(1,573,542)
Other liability	(79,863)	–	–	(32,770)	(54,322)	(166,955)
Intercompany balances before elimination	(22,389,460)	7,726,721	(3,011,263)	–	–	(17,674,002)
Gross exposure	(32,107,733)	3,648,551	(4,478,876)	18,249,111	(3,266,717)	(17,955,664)
Notional amounts of contracts used as economic hedge	38,801,666	–	3,386,259	(18,828,189)	3,589,599	26,949,335
Net exposure	6,693,933	3,648,551	(1,092,617)	(579,078)	322,882	8,993,671

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(I) Foreign exchange risk (Continued)

	As at December 31, 2017			
	USD *RMB'000*	RMB *RMB'000*	EUR *RMB'000*	Total *RMB'000*
Trade and other receivables	1,555,979	135,323	767,137	2,458,439
Bank deposits and cash and cash equivalents	232,631	87,807	451,072	771,510
Trade and other payables	(3,101,983)	(188,322)	(259,798)	(3,550,103)
Borrowings	(681,151)	(4,002,165)	–	(4,683,316)
Intercompany balances before elimination	(15,976,250)	5,766,412	(2,348,267)	(12,558,105)
Gross exposure	(17,970,774)	1,799,055	(1,389,856)	(17,561,575)
Notional amounts of forward exchange contracts used as economic hedge	17,731,120	–	1,903,916	19,635,036
Net exposure	(239,654)	1,799,055	514,060	2,073,461

As at December 31, 2018, if RMB had weakened/strengthened by 5% against the major currencies with all other variables held constant, the Group would generate extra exchange losses or gains of approximately RMB136 million (As at December 31, 2017, RMB76 million).

The analysis above is based on the assumption that RMB weakened or strengthened against all other currencies in the same direction and magnitude, but it may not be necessarily true in reality.

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(II) Interest risk

The Group's interest rate risk arises from the mismatches between contractual maturities or re-pricing dates of interest-generating assets and interest-bearing liabilities. Each of the Group's operating entities has formulated its own interest risk management policies and procedures covering identification, measurement, monitoring and control of risks. The Group manages interest rate risk to control potential loss from interest rate risk at an acceptable level.

The tables below summarize the contractual maturity or re-pricing date, whichever is earlier, of the Group's financial assets and liabilities at the end of each reporting period.

(a) Interest generating assets

	As at December 31, 2018						
	Less than 3 months *(i)*	3 months to 1 year	1 year to 5 years	Over 5 years	No due time	Adjustments *(ii)*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'001*	*RMB'000*
Cash and cash equivalent, bank deposit and restricted deposit	60,044,742	6,837,657	–	–	–	(21,549)	66,860,850
Financial assets at fair value through other comprehensive income	1,071,581	275,451	5,682,101	3,493,977	212,390	507,511	11,243,011
Financial assets at fair value through profit and loss	2,673,016	302,883	420,164	237,752	31,258	(20,802)	3,644,271
Financial assets at amortised cost	6,223,776	847,104	10,367,703	22,067,939	–	387,961	39,894,483
Loans to customers	43,087,314	11,234,508	14,119,144	54,896,253	–	(2,941,080)	120,396,139
Loans to credit institutions	6,246,819	–	–	27,215	–	59,214	6,333,248
Derivative financial instruments	–	–	–	–	–	2,278,177	2,278,177
Receivables *(iii)*	360,368	4,516,168	7,903,460	–	–	(896,024)	11,883,972
Total	119,707,616	24,013,771	38,492,572	80,723,136	243,648	(646,592)	262,534,151

	As at December 31, 2017						
	Less than 3 months *(i)*	3 months to 1 year	1 year to 5 years	Over 5 years	No due time	Adjustments *(ii)*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalent, bank deposit and restricted deposit	32,202,477	7,348,552	–	–	–	–	39,551,029
Financial assets at fair value through profit and loss	278,501	–	–	–	–	–	278,501
Loans to customers	4,213,716	6,948,852	1,707,168	44,689	–	(510,265)	12,404,160
Receivables *(iii)*	234,488	5,205,624	10,930,877	–	–	(869,367)	15,501,622
Total	36,929,182	19,503,028	12,638,045	44,689	–	(1,379,632)	67,735,312

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(II) Interest risk (Continued)

(b) Interest bearing liabilities

	As at December 31, 2018						
	Less than 3 months *(i)*	3 months to 1 year	1 year to 5 years	Over 5 years	No due time	Adjustments *(ii)*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Amount due to customers	128,789,264	2,323,570	4,275,833	15,543	–	31,381	135,435,591
Amount due to credit institutions	16,148,847	670,339	5,827,509	448,488	–	21,542	23,116,725
Financial liabilities at fair value through profit and loss	2,632,131	1,408,285	1,586,689	1,985,028	–	(278,686)	7,333,447
Borrowings	48,739,141	30,442,878	42,533,440	6,472,639	–	36,999	128,225,097
Derivative financial liabilities	–	–	–	–	–	3,948,634	3,948,634
Payables	627,327	3,083,807	–	–	–	–	3,711,134
Total	196,936,710	37,928,879	54,223,471	8,921,698	–	3,759,870	301,770,628

	As at December 31, 2017						
	Less than 3 months *(i)*	3 months to 1 year	1 year to 5 years	Over 5 years	No due time	Adjustments *(ii)*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financial liabilities at fair value through profit and loss	–	–	801,000	–	–	–	801,000
Borrowings	11,614,838	14,807,086	60,017,680	1,138,001	–	–	87,577,605
Payables	5,131,208	3,002,830	–	–	–	–	8,134,038
Total	16,746,046	17,809,916	60,818,680	1,138,001	–	–	96,512,643

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(II) Interest risk (Continued)

(c) Interest rate risk gap

	As at December 31, 2018				
	Less than 3 months *(i)* *RMB'000*	**3 months to 1 year *RMB'000***	**1 year to 5 years *RMB'000***	**Over 5 years *RMB'000***	**Undermined maturity *RMB'000***
Sensitivity gap	**(77,229,094)**	**(13,915,108)**	**(15,730,899)**	**71,801,438**	**243,648**

	As at December 31, 2017				
	Less than 3 months *(i)* *RMB'000*	3 months to 1 year *RMB'000*	1 year to 5 years *RMB'000*	Over 5 years *RMB'000*	Undermined maturity *RMB'000*
Sensitivity gap	20,183,136	1,693,112	(48,180,635)	(1,093,312)	–

(i) Including at sight and on demand.

(ii) Adjustments are mainly composed of fair value adjustment, accrued interest and impairment.

(iii) Receivables are mainly composed of accounts and notes receivables, other receivables and long-term receivables.

(iv) Payables are mainly composed of trade and notes payables, other payables and long-term payables.

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(III) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheets either at fair value through profit or loss or at fair value through other comprehensive income. The commodity price risk the Group exposed is not material. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio.

The Group's investments in equity of other entities that are publicly traded in the following capital markets: Hong Kong, China, Europe, US and Japan.

The table below summarises the impact of increases/decreases of the three capital markets on the Group's pre-tax profit and other comprehensive income for the year. The analysis is based on the assumption that the equity indexes had increased/decreased by 5% with all other variables held constant.

Listed equity securities at fair value through profit and loss	**Impact on pre-tax profit Year ended December 31,**	
	2018	2017
	RMB'000	*RMB'000*
Listed equity securities		
– Hong Kong	**22,946**	3,720
– China	**81,466**	58,297
– Europe	**7,157**	–
– US	**29,500**	–
Fair value change of listed equity securities	**141,069**	62,017

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(III) Price risk (Continued)

Listed equity securities at fair value through other comprehensive income	**Impact on other comprehensive income Year ended December 31, 2018** ***RMB'000***
Listed equity securities	
– China	**21,073**
– Japan	**6,625**
– Hong Kong	**3,626**
Fair value change of listed equity securities	**31,324**

Available-for-sale financial assets	Impact on other comprehensive income Year ended December 31, 2017 *RMB'000*
Listed equity securities	
– China	157,673
– Japan	5,311
– Hong Kong	15,116
Total	178,100

Pre-tax profit for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other comprehensive income would increase/decrease as a result of gains/losses on equity securities classified as at fair value through other comprehensive income.

Other market price risk also arises from the Group's investments in unlisted equity securities, including VC Funds and PE Funds.

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk

(I) Credit risk management

Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. Credit risk arises mainly from exposure of loans to customers raised by the subsidiaries engaged in banking business and non-banking business of financial investments segment and credit risk exposure of receivables.

The Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities including non-equity trading portfolio assets and derivatives as well as settlement balances with market counterparties and reverse repurchase agreements.

In addition, the Group provides off-balance sheet commitment and guarantee business to customers, so it is possible for the Group to make payment on behalf of the customer in case of customer's default and bear risks similar to the loan. Therefore, the Group applies similar risk control procedures and policies to such business to reduce the credit risk.

The Group uses internal credit risk ratings that reflect its assessment of the probability of default of individual counterparties. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgement from the credit risk officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The Group is also confronted with credit risk resulting from receivables that arising from sale of goods and rendering of services within the non-financial services segments. The relevant subsidiaries have established credit policies under which individual credit evaluations are performed on all customers to determine the credit limit and terms applicable to the customers. These evaluations focus on the customers' financial position, the external ratings of the customers and their bank credit records where available. For other receivables, the Group makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records, past experience and forward-looking information.

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(II) Expected credit loss measurement

Models

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'stage 1' and has its credit risk continuously monitored by the Group.

- If a significant increase in credit risk ('sICR') since initial recognition is identified, the financial instrument is moved to 'stage 2' but is not yet deemed to be credit-impaired.

- If the financial instrument is credit-impaired, the financial instrument is then moved to 'stage 3'.

- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(II) Expected credit loss measurement (Continued)

Models (Continued)

- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward- looking information.

- Purchased or originated credit-impaired financial assets are those financial assets that are credit- impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets).

Change in credit quality since initial recognition		
Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

Expected credit losses (ECL) are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

- The EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months or over the remaining lifetime.

- The LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of EAD. LGD is calculated on a 12-month or lifetime basis.

The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. – are monitored and reviewed on a periodic basis

Key Judgements and assumptions

As described in Note 2.14, the Group applies IFRS9 simplified approach to measuring ECL for all trade receivables and notes receivables. Different judgements and assumptions are adopted by the subsidiaries engaged in different business when ECL was measured under IFRS 9"Financial Instruments".

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(II) Expected credit loss measurement (Continued)

Key Judgements and assumptions (Continued)

(1) Subsidiaries engaged in banking business of the financial investments segment

A Significant increase in credit risk ("SICR")

A first way to assess a SICR event consists in comparing the credit rating grade of a given exposure that is observed at two different dates: (i) at the time of origination and (ii) at the reporting date where one has to calculate an IFRS 9 provisioning amount. More precisely, a SICR is considered to be effective if the difference between the two previous ratings – (ii) minus (i) – is higher (or equal) than a predetermined threshold which is conditional to the exposure type (e.g. retail, corporates, debt investments and so on). Such thresholds correspond to expected average downgrades that were quantitatively defined by means of historical credit rating grades.

Some qualitative indicators also complement the SICR assessment. These latter rely on internal credit risk management practices which aim at targeting exposures that are subject to (i) forbearance measures, (ii) a non-performing status and (iii) the occurrence of past-due events (between 30 and 90 days for moving from Stage 1 to Stage 2).

B Definition of default and credit-impaired assets

Default is defined as the inability of a borrower or guarantor to meet his/its obligations vis-à-vis one or more creditors at a given moment or on a lasting basis. The Bank must include all products and positions that are potentially at risk. A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place: (i) The Bank considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the bank to actions such as realizing security. (ii) The obligor is past due more than 90 days on any material credit obligation to the bank group. A material credit obligation for default purposes for BIL are considered for Retail as a past due of EUR125 with an exposure at default of EUR1,250 or above. For non-Retail exposures, the exposure is considered material when the past due is EUR2,500 on an exposure at default of EUR25,000 or above.

The subsidiaries engaged in banking business of the financial segment have setup of the internal rating system. A default is considered to have occurred when the loans classified as "Doubtful/Unlikely to Pay" or "Non-performing", which is subject to the final assessment by the as to the counterparty's repayment capacity.

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(II) Expected credit loss measurement (Continued)

Key Judgements and assumptions (Continued)

(1) Subsidiaries engaged in banking business of the financial investments segment (Continued)

B Definition of default and credit-impaired assets (Continued)

As for the SICR (or Stage 2) assessment, some qualitative or backstop indicators aim at identifying credit-impaired (or Stage 3) exposures. Basically, three cases can be distinguished: (i) the counterparty experiences both a non-performing status and forbearance measures, (ii) the exposure is either in a default or in a (pre-) litigation status and (iii) a past-due event (higher than 90 days) occurs.

C Forward-looking Information

The subsidiaries engaged in banking business of the financial investments segment has mainly identified strong dependencies between macroeconomic factors and historical default rates (or PD models) by distinguishing its high- and low-default portfolios. On one side, internal default rates were collected for both retail counterparts and small & medium sized enterprises (high-default portfolios) and for which the main relevant drivers are (i) labor market indicators (unemployment rate) and (ii) opinion surveys data amongst Luxembourgish private economic agents (households and manufacturing sector). On the other side, external data (source: Moody's) were used for low-default portfolios that are composed of two distinct types of exposures: large corporates and banking institutions. In this regard, the cyclical dynamics of corporate and banking default rates may be apprehended by means of equity prices measured at both the Eurozone and US levels, as well as by using monetary aggregates and market-based risk measures reflecting the buildup or the materialization of financial vulnerabilities in the euro area notably. The impact of these economic variables on the PD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of PD and LGD. In addition to providing a baseline economic scenario, the Group combines statistical analysis with experts' judgement to determine the weight of other possible scenarios. The weighted average credit loss is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario.

Additional forward-looking components are considered in the ECL modeling process, especially for addressing some credit risk mitigation effects in case of mortgage loans. Specifically, collateral valuation is directly impacted over time by residential property prices that are forecasted for five different countries (or zone): Luxembourg, Germany, France, Belgium and the euro area as a whole.

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(II) Expected credit loss measurement (Continued)

Key Judgements and assumptions (Continued)

(2) Subsidiaries not engaged in banking business of the financial investments segment

A Significant increase in credit risk ("SICR")

The Group considers a borrower to have experienced a SICR if the borrower meets one or more of the following criteria:

- Significant increase in credit spread
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default
- Early signs of cash flow/liquidity problems such as delay in servicing of trade creditors/loans
- Credit risk level falls 2 levels compared to the initial recognition of financial instruments

For the debtor's contractual payments (including principal and interest) that more than 30 days past due, the Group considers a financial instrument to have experienced a SICR and classifies it into Stage 2.

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(II) Expected credit loss measurement (Continued)

Key Judgements and assumptions (Continued)

(2) Subsidiaries not engaged in banking business of the financial investments segment (Continued)

B Definition of default and credit-impaired assets

The Group defines a financial instruments as in default, which is fully aligned with the definition of credit-impaired when one or more of the following criteria have been met. Evidence that a financial instrument is default/credit-impaired include observable data about the following events:

- Significant financial difficulty of the issuer or the debtor
- Death or bankruptcy of the issuer or the debtor
- The borrower is deceased or insolvent or in long-term forbearance
- The borrower is in breach of financial covenant(s)
- An active market for that financial asset has disappeared because of financial difficulties
- Concessions have been made by the lender relating to the borrower's financial difficulty
- It is becoming probable that the borrower will enter bankruptcy
- The borrower is more than 90 days past due on its contracted payments.

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(II) Expected credit loss measurement (Continued)

Key Judgements and assumptions (Continued)

(2) Subsidiaries not engaged in banking business of the financial investments segment (Continued)

C Forward-looking Information

The Group has performed historical analysis and identified the key economic variables impacting credit risk and ECL for each portfolio. These economic variables and their associated impact on the PD and LGD vary by financial instrument. Expert judgment has also been applied in this process. The impact of these economic variables on the PD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of PD and LGD.

In addition to providing a baseline economic scenario, the Group combines statistical analysis with experts' judgement to determine the weight of upside and downside scenarios. Following this assessment, the Group measures ECL as either a probability weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). The weighted average credit loss is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario.

(3) Other subsidiaries

The other subsidiaries of the Group applies the IFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables.

To measure the ECL, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. 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 concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the historical payment profiles of sales and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The other subsidiaries of the Group has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(III) Credit risk exposure

Maximum exposure to credit risk-Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

	Maximum exposure to credit risk of the Group					
	2018					2017
	Stage 1 12 months expected credit loss *RMB'000*	Stage 2 Expected credit loss since purchased *RMB'000*	Stage 3 Expected credit loss since purchased *RMB'000*	Trade and notes receivables Expected credit loss since purchased *RMB'001*	Total *RMB'000*	Total *RMB'000*
Receivables *(i)* *(Note 20, 23)*	41,680,031	3,727,129	503,959	50,451,823	96,362,942	88,849,502
Loans to credit institutions *(Note 26)*	6,259,149	74,543	–	–	6,333,692	–
Loans to customers *(Note 25)*	98,356,015	19,256,584	5,827,689	–	123,440,288	12,914,425
Financial assets at amortised cost *(Note 27)*	39,027,105	780,236	156,303	–	39,963,644	–
Financial assets at fair value through other comprehensive income *(Note 3.3)*	9,784,662	1,458,654	–	–	11,243,316	–
AFS *(Note 21)*	–	–	–	–	–	268,642
Gross balance	195,106,962	25,297,146	6,487,951	50,451,823	277,343,882	102,032,569
Allowance for impairment losses	(693,520)	(408,715)	(2,539,065)	(782,873)	(4,424,173)	(1,393,503)
Net balance	194,413,442	24,888,431	3,948,886	49,668,950	272,919,709	100,639,066

(i) Receivables mainly composed of trade and note receivable, receivables generated from finance leasing, other receivables, long-term receivables, other current assets and other non-current assets.

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(III) Credit risk exposure (Continued)

Maximum exposure to credit risk-Financial instruments subject to impairment (Continued)

IFRS 9 has been adopted by the Group to measure the exposure. As at December 31, 2018, the maximum exposure to credit risk of the commitments in respect of loans granted and commitments in respect of guarantee given is RMB36,232 million. ECL provision recognized is RMB72 million.

Maximum exposure to credit risk-Financial instruments not subject to impairment

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment:

	As at December 31, 2018 Maximum exposure to credit risk *RMB'000*
Debt instruments designated at fair value through profit or loss	**3,644,271**
Derivative financial assets	**2,605,156**

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(III) Credit risk exposure (Continued)

Collateral and other credit enhancements

The Group uses a series specific policies and practice to reduce credit risk, among which the most widely use is collateral. The Group makes policies related acceptance of specific collateral and slow release of credit risk.

The following table contains an aging analysis of past due loans and accounts receivables by natures of guarantee:

	As at December 31, 2018		
	Overdue 1–90 days *RMB'000*	**Overdue over 91 days** *RMB'000*	**Total** *RMB'000*
Unsecured	**212,886**	**234,961**	**447,847**
Guaranteed	**39,234**	**334,554**	**373,788**
Secured by collateral	**1,527,959**	**5,175,881**	**6,703,840**
Secured by pledge	**–**	**39,621**	**39,621**
	1,780,079	**5,785,017**	**7,565,096**

	As at December 31, 2017		
	Overdue 1–90 days *RMB'000*	Overdue over 91 days *RMB'000*	Total *RMB'000*
Unsecured	294,999	250,251	545,250
Guaranteed	11,632	97,495	109,127
Secured by collateral	41,359	505,276	546,635
Secured by pledge	21,701	2,582	24,283
	369,691	855,604	1,225,295

As at December 31, 2018 and 2017, the exposure covered by the fair value of collateral held of overdue loans is RMB3,161 million and RMB543 million, respectively.

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(IV) Write-off policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral is such that there is no reasonable expectation of recovering in full.

The Group may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2018 was RMB530 million. The Group still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery

(c) Liquidity risk

Cash flow forecasting is performed by each subsidiary of the Group. The Group monitors its subsidiaries' rolling forecasts of short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institution so that it does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

The following tables provide an analysis of financial assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year:

As at December 31, 2018	Less than 3 months *(i)*	3 months to 1 year	1 year to 5 years	Over 5 years	No due time	Adjustments *(ii)*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets							
Cash and cash equivalent, bank deposit and restricted deposit	62,238,759	4,623,549	5,232	14,859	–	(21,549)	66,860,850
Financial assets at fair value through other comprehensive income	315,474	427,655	6,286,004	3,493,977	212,390	507,511	11,243,011
Financial assets at fair value through profit and loss	239,359	2,725,616	440,423	241,858	–	(2,985)	3,644,271
Financial assets at amortised cost	582,961	1,114,294	13,529,184	24,280,083	–	387,961	39,894,483
Loans to customers	36,729,325	16,957,356	12,855,535	56,795,003	–	(2,941,080)	120,396,139
Loans to credit institutions	3,036,908	697,680	2,512,231	27,215	–	59,214	6,333,248
Receivables *(iii)*	474,523	81,288,651	14,091,898	–	139,733	(527,887)	95,466,918
Total	103,617,309	107,834,801	49,720,507	84,852,995	352,123	(2,538,815)	343,838,920
Liabilities							
Amount due to customers	128,846,976	2,331,353	4,210,336	15,545	–	31,381	135,435,591
Amount due to credit institutions	15,978,533	840,653	5,827,509	448,488	–	21,542	23,116,725
Financial liabilities at fair value through profit and loss	292,943	1,819,148	3,233,433	1,987,923	–	–	7,333,447
Borrowings	14,268,444	45,371,361	61,867,651	6,680,642	–	36,999	128,225,097
Payables *(iv)*	49,320,087	72,767,219	6,842,069	–	–	846,312	129,775,687
Total	208,706,983	123,129,734	81,980,998	9,132,598	–	936,234	423,886,547
Net liquidity gap	(105,089,674)	(15,294,933)	(32,260,491)	75,720,397	352,123		

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

As at December 31, 2017	Less than 3 months *(i)*	3 months to 1 year	1 year to 5 years	Over 5 years	No due time	Adjustments *(ii)*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets							
Cash and cash equivalent, bank deposit and restricted deposit	32,277,877	7,254,065	4,398	14,689	–	–	39,551,029
Available for sale financial assets	–	–	–	–	268,642	–	268,642
Financial assets at fair value through profit and loss	–	132,101	–	–	146,400	–	278,501
Loans to customers	3,798,803	6,853,501	2,217,433	44,689	–	(510,266)	12,404,160
Receivables *(iii)*	303,420	68,945,734	18,943,572	–	656,777	(883,239)	87,966,264
Total	36,380,100	83,185,401	21,165,403	59,378	1,071,819	(1,393,505)	140,468,596
Liabilities							
Financial liabilities at fair value through profit and loss	–	–	801,000	–	–	–	801,000
Borrowings	1,928,912	21,194,618	62,058,544	2,395,531	–	–	87,577,605
Payables *(iv)*	48,319,123	70,075,146	1,491,307	–	–	643,850	120,529,426
Total	50,248,035	91,269,764	64,350,851	2,395,531	–	643,850	208,908,031
Net liquidity gap	(13,867,935)	(8,084,363)	(43,185,448)	(2,336,153)	1,071,819		

(i) Including at sight and on demand.

(ii) Adjustment mainly composed of fair value adjustment, accrued interest and impairment.

(iii) Receivables mainly composed of account and note receivable, other receivables and long-term receivables.

(iv) Payables mainly composed of trade and notes payables, other payables and long-term payables.

3. Financial risk management (Continued)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of debt to equity ratio. Debt to equity ratio is calculated by dividing net debt by total equity at the end of each financial period. The Group's strategy remains unchanged and debt to equity ratios and net cash position of the Group as at December 31, 2018 and 2017 are as follows:

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Total borrowings *(Note 43)*	**128,225,097**	87,577,605
Less: cash and cash equivalents *(Note 31)*	**(60,023,193)**	(32,202,477)
	68,201,904	55,375,128
Total equity	**83,017,973**	78,981,648
Debt to equity ratio	**82.2%**	70.1%

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

3. Financial risk management (Continued)

3.3 Fair value estimation (Continued)

The following table presents the Group's financial assets and liabilities that are measured at fair value at December 31, 2018 and 2017.

	As at December 31, 2018			
	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
Assets				
Associates measured at fair value through profit or loss	–	–	18,069,535	18,069,535
Financial assets at fair value through profit or loss				
– Listed equity securities	2,812,824	8,553	–	2,821,377
– Unlisted equity securities	–	–	14,138,495	14,138,495
– Listed debt securities	562,981	646,014	–	1,208,995
– Unlisted debt securities	–	–	2,435,276	2,435,276
Derivative financial Instruments	–	2,512,794	92,362	2,605,156
Financial assets at fair value through other comprehensive income				
– Listed equity securities	550,484	76,002	–	626,486
– Unlisted equity securities	–	–	1,022,541	1,022,541
– Listed debt securities	9,764,426	1,478,585	–	11,243,011
Trade and notes receivables	–	45,085,342	–	45,085,342
	13,690,715	49,807,290	35,758,209	99,256,214
Liabilities				
Financial Liabilities at fair value through profit or loss	–	5,148,831	2,184,616	7,333,447
Derivative financial Instruments	23,562	4,019,766	413,196	4,456,524
Contingent considerations	–	–	788,415	788,415
	23,562	9,168,597	3,386,227	12,578,386

3. Financial risk management (Continued)

3.3 Fair value estimation (Continued)

	As at December 31, 2017			
	Level 1	Level 2	Level 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Associates measured at fair value through profit or loss	–	–	17,970,881	17,970,881
Financial assets at fair value through profit or loss				
– Listed securities	1,240,326	–	–	1,240,326
– Unlisted securities	–	–	6,025,114	6,025,114
Derivative financial instruments *(i)*	–	130,495	–	130,495
Available-for-sale financial assets				
– Listed securities	1,904,233	1,657,755	–	3,561,988
– Unlisted securities	–	–	5,342,904	5,342,904
– Listed corporate bond	268,642	–	–	268,642
– Bank's wealth management product	–	–	423,950	423,950
	3,413,201	1,788,250	29,762,849	34,964,300
Liabilities				
Financial liabilities at fair value through profit or loss	–	–	801,000	801,000
Derivative financial instruments	–	387,100	–	387,100
	–	387,100	801,000	1,188,100

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

3. Financial risk management (Continued)

3.3 Fair value estimation (Continued)

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.

- The fair value of interest rate swap is calculated as the present value of estimated future cash flow based on observable yield curves.

- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

As at December 31, 2018 and 2017, associates measured at fair value through profit or loss comprise investments in VC Funds and PE Funds which are subject to the terms and conditions of the respective fund's offering documentation. The investments in VC Funds and PE Funds are primarily valued based on the latest available consolidated financial statements provided by their General Partners. The VC Funds and PE Funds are not publicly traded; prior to maturity, an exit can only be made by the Group through a sale of its investment and commitment in a fund through a secondary market. The Group's objective is to invest in VC Funds and PE Funds with the intention to recover the capital invested through distributions funded through their realisation of their private equity and venture capital investment portfolios. As a result, the carrying values of VC Funds and PE Funds may be significantly different from the values ultimately realised on an exit via a secondary market sale.

All of the VC Funds and PE Funds in the investment portfolio are managed by investment managers who are compensated by the respective funds for their services. Such compensation generally consists of a commitment/investment-based management fee and a performance based incentive fee which is accounted for at VC Funds and PE Funds level. Such compensation is reflected in the valuation of the Group's investment in each of the funds.

For those funds that are not traded on an active market, their fair value is determined using valuation techniques. The value is primarily based on the latest available financial/capital account statement of VC Funds and PE Funds as reported by the General Partner of the funds, unless the Group is aware of reasons that such a valuation may not be the best approximation of fair value. The Group may make adjustments to the value based on considerations such as: the underlying investments of each fund, the value date of the net asset value provided, cash flows since the latest value date, geographic and sector exposures, market movements and the basis of accounting of the underlying funds. The unobservable inputs which significantly impact the fair value are the net asset value advised by the fund's general partner. No adjustment has been made by the Group on such value.

3. Financial risk management (Continued)

3.3 Fair value estimation (Continued)

The following table presents the changes in level 3 financial assets for the year ended December 31, 2018 and 2017, respectively.

	Associates measured at fair value through profit or loss *RMB'000*	Financial assets measured at fair value through profit or loss *RMB'000*	Financial assets measured at fair value through other comprehensive income *RMB'000*	Available-for-sale financial assets *RMB'000*	Derivatives *RMB'000*	Total *RMB'000*
At December 31, 2017	**17,970,881**	**6,025,114**	**–**	**5,766,854**	**–**	**29,762,849**
Change in accounting policy *(note 2.1.1(a))*	**–**	**4,815,819**	**951,035**	**(5,766,854)**	**–**	**–**
At January 1, 2018	**17,970,881**	**10,840,933**	**951,035**	**–**	**–**	**29,762,849**
Additions/capital contributions	**1,800,728**	**7,311,610**	**719,377**	**–**	**156,299**	**9,988,014**
Disposals/return of capital	**(699,025)**	**(3,449,776)**	**(614,421)**	**–**	**–**	**(4,763,222)**
Exchange adjustment	**440,458**	**253,807**	**29,097**	**–**	**4,361**	**727,723**
Transfers out to level 1/2	**–**	**(689,552)**	**–**	**–**	**–**	**(689,552)**
(Loss)/gains recognised in income statement	**(1,443,507)**	**2,306,749**	**95,583**	**–**	**(68,298)**	**890,527**
Loss recognised in other comprehensive income	**–**	**–**	**(158,130)**	**–**	**–**	**(158,130)**
At December 31, 2018	**18,069,535**	**16,573,771**	**1,022,541**	**–**	**92,362**	**35,758,209**
At January 1, 2017	15,515,436	4,046,279	–	3,672,459	–	23,234,174
Additions/capital contributions	3,524,724	1,052,639	–	8,892,344	–	13,469,707
Disposals/return of capital	(499,212)	(82,467)	–	(6,797,123)	–	(7,378,802)
Exchange adjustment	(592,938)	(81,832)	–	(157,341)	–	(832,111)
Transfers in from level 1/2	–	–	–	88,752	–	88,752
Gains recognised in income statement	22,871	1,090,495	–	–	–	1,113,366
Gains recognised in other comprehensive income	–	–	–	67,763	–	67,763
At December 31, 2017	17,970,881	6,025,114	–	5,766,854	–	29,762,849

3. Financial risk management (Continued)

3.3 Fair value estimation (Continued)

The following table presents the changes in level 3 financial liabilities of the Group for the year ended December 31, 2018 and 2017.

	Amounts
	RMB'000
At January 1, 2018	**801,000**
Additions	**204,694**
De-recognition	**(488,187)**
Exchange adjustment	**114,125**
Acquisition of a subsidiary	**2,764,999**
Recognised in condensed consolidated income statement	**(10,404)**
At December 31, 2018	**3,386,227**
At January 1, 2017	
Additions	801,000
At December 31, 2017	801,000

4. Critical accounting estimates and judgements

The Group continually evaluates the critical accounting estimates and key judgments applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

4.1 Critical accounting estimates and key assumptions

The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting year are outlined below:

(a) Expected credit loss

The measurement of the expected credit loss (ECL) allowance for debt instruments measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). ECL are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of financial instruments and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

4. Critical accounting estimates and judgements (Continued)

4.1 Critical accounting estimates and key assumptions (Continued)

(b) Estimated impairment of non-financial assets

The Group tests at least annually whether goodwill and other intangible assets that have indefinite useful lives have suffered any impairment. Other non-financial assets are also reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The assets are allocated to each of CGUs, or groups of CGUs. The recoverable amounts of CGUs have been determined based on the higher amount of fair value less disposal cost model and value in use model. These calculations require the use of estimates.

Under the fair value less disposal cost model, the management make estimates based on quoted prices of active markets or adjusted prices based on observable inputs. The value in use calculation primarily use cash flow projections based on financial budgets, in general covered five years, approved by management and estimated terminal values at the end of the five-year period. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and the estimated terminal value. Key assumptions include the expected growth rate in revenue, expected gross margin and selection of discount rates, to reflect the risks involved and the earnings multiple that can be realised for the estimated terminal value.

Management prepared the financial budgets reflecting actual and prior year performance and market development expectations. Judgment is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment reviews.

(c) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Group has used discounted cash flow analyses for various available-for-sale financial assets and financial assets measured at fair value through profit or loss that are not traded in active markets.

(d) Fair value of VC Funds and PE Funds

The fair value of investments in VC Funds and PE Funds that are not quoted in an active market is primarily valued based on the latest available consolidated financial statements provided by their general partners. The Group reviews the details of the reported information and may make adjustments to the reported net asset value based on considerations such as:

(i) the valuation of VC Funds and PE Funds' underlying investments;

(ii) the value date of the net asset value provided;

(iii) cash flows (calls/distributions) since the latest value date; and

(iv) the basis of accounting and, in instances where the basis of accounting is other than fair value, fair valuation information provided by fund's general partner.

The models used to determine fair values are validated and periodically reviewed by the Group. The carrying values of the VC Funds and PE Funds may be significantly different from the values ultimately realised on an exit via a secondary market sale.

4. Critical accounting estimates and judgements (Continued)

4.1 Critical accounting estimates and key assumptions (Continued)

(e) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The tax liabilities recognised are based on management's assessment of the likely outcome.

The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements.

Deferred income tax assets are mainly recognised for temporary differences such as warranty provision, accrued sales rebates, bonus accruals, fair value change on financial assets, and other accrued expenses, and unused tax losses carried forward to the extent it is probable that future taxable profits will be available against which deductible temporary differences and the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgment regarding the future financial performance of the particular legal entity or tax group in which the deferred income tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred income tax assets will ultimately be realised, such as the existence of taxable temporary differences, group relief, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred income tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilization periods to allow utilization of the carry forward tax losses or temporary difference, the asset balance will be reduced and the difference charged to the consolidated income statement.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions and deferred income tax assets and liabilities in the period in which such determination is made.

(f) Pension obligations

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate, expected return on assets and salary growth. Any changes in these assumptions will impact the carrying amount of pension obligations. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

The expected return on plan assets is based on market expectation for return over the life of the related assets and obligations. The salary growth assumption reflects the Group's long-term actual experience and future and near-term outlook. Actual results that differ from assumption are generally recognised in the year they occur.

4. Critical accounting estimates and judgements (Continued)

4.1 Critical accounting estimates and key assumptions (Continued)

(g) Fair value of contingent considerations and written put option liabilities

The Group's certain business combination activities involved post-acquisition performance-based contingent considerations. The Group recognises contingent considerations and the corresponding written put option liabilities at their fair values, which is determined based on the terms of agreements and with reference to the estimated post-acquisition performance of the acquired subsidiaries/businesses. Judgment is required to determine key assumptions (such as growth rate, margins and discount rate) adopted in the estimation of post-acquisition performance of the acquired subsidiaries/businesses. Changes to key assumptions can significantly affect the amounts of considerations to be paid. Contingent considerations shall be re-measured at their fair value resulting from events or factors emerge after the acquisition date, with any resulting gain or loss recognised in the consolidated income statement.

(h) Fair value of identifiable assets and liabilities acquired through business combinations

The Group records assets acquired and liabilities assumed in business combinations at fair value on the date of acquisition. Significant judgment is used to estimate the fair value of the assets and liabilities acquired, including estimating future cash flows from the acquired business, determining appropriate discount rates, asset useful lives and other assumptions.

(i) Principal assumptions underlying management's estimation of fair value of investment properties

The fair value of investment properties is determined by using valuation techniques. The key assumptions used in this determination and the sensitivity of the directors' estimates of these assumptions to the carrying amount of the investment properties are set out in Note 18.

(j) Depreciation and amortisation

Leasehold land and land use rights, property, plant and equipment (excluding land and construction in progress) and intangible assets (excluding goodwill and intangible assets with indefinite useful life) are depreciated and amortised using the straight-line method during the estimated useful lives of these assets to allocate the cost of the assets to their estimated net residual values. The Group reviews the estimated useful lives and estimated residual values periodically, to ensure that method and rate of depreciation/amortisation are consistent with the pattern how such assets' economic benefits are expected to be realised.

The Group makes estimates of the useful lives and residual values of such assets, based on historical experience and with reference to estimated technical improvement. In case of significant changes in estimated useful lives and residual values, depreciation and amortisation expenses will be adjusted accordingly.

(k) Provision for decline in the value of inventories

The Group measures inventories according to the lower of cost and net realisable value at the balance sheet date, and the calculation of net realisable value requires assumptions and estimates. If the management revises the estimated selling price and cost and expenses to be incurred till completion, the estimates of net realisable value will be impacted, and the difference from the original estimates will affect the provision for decline in the value of inventories.

4. Critical accounting estimates and judgements (Continued)

4.1 Critical accounting estimates and key assumptions (Continued)

(l) Warranty provision

Warranty provision is provided based on the estimated cost of product warranties when revenue is recognised. Factors that affect the Group's warranty liability include the number of units sold under warranty, historical and anticipated rates of warranty claims on those units, and cost expected to be incurred to satisfy warranty obligation of each reimbursement of the Group. The estimation basis is reviewed on an on-going basis and revised where appropriate. Certain of these costs are reimbursable from the suppliers in accordance with the terms of relevant arrangements with the suppliers. These amounts are recognised as a separate asset, to the extent of the amount received or receivable, when it is almost certain that reimbursement will be received if the Group settles the obligation.

4.2 Critical judgments in applying the accounting policies

(a) Classification of investments

The classification of an investment is based on the commercial substance of the contractual arrangement, and the fact whether the Group is determined to have control, joint control or significant influence, also, the purpose of the investment and moreover, it could also be influenced by the certain terms stipulated in the investment agreement which may lead to a complex accounting treatment. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Associates are all entities 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 of those policies. Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor.

The Group made its assessment on whether it has the level of power to govern the financial and operating policies of the VC Funds and PE Funds in accordance with the guidance of IFRS 10, given the significant exposure to variable returns from involvement with these funds. Pursuant to the investment agreements entered into between the Group and the general partners/management companies, the general partners/management companies have the power to direct the relevant activities of the funds and are functioning as principals. Therefore, the directors determined that the Group does not have control but only exercise significant influence over most VC Funds and PE Funds (Note 13(b)).

Investments in preferred shares of associates of the Group are designated as financial assets at fair value through profit or loss at initial recognition.

The investments over which the Group do not have control, joint control or significant influence are recognised as financial assets. The Group classifies its financial assets in the following categories: (a) at fair value through profit or loss, (b) financial assets at fair value through other comprehensive income, and (c) financial assets at amortised cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

4. Critical accounting estimates and judgements (Continued)

4.2 Critical judgments in applying the accounting policies (Continued)

(b) Revenue recognition

The Group needs to make judgments and estimates of the revenue recognition. Specifically, complex arrangements with non-standard terms and conditions may require significant contract interpretation to determine the appropriate accounting treatment, including whether the deliverables specified in a bundling arrangement should be treated as individual units for accounting treatment. Other significant judgments include determining whether the Group or a distributor is acting as the principal in a transaction and whether separate contracts are considered as part of one arrangement.

Revenue recognition of IT products

The Group's subsidiary, Lenovo sells the products to channels. Sales through channels are primarily made under agreements allowing for volume discounts, price protection and rebates, etc. Revenue recognition is also influenced by the estimated provision for volume discount, price protection and rebate. Lenovo calculates such provisions, taking into account various factors, which include specific transactions, historical experience, and market and economic situations. Lenovo monitors the channel's inventory level with reference to historical data, using systematic and consistent method, and defers the related excess revenue and costs of sales if channel's inventory exceeds the reasonable level.

(c) Consolidation of entities in which the Group holds less than 50% voting rights

Management consider that the Group has de facto control over Lenovo even though it has less than 50% of the voting rights based on the following factors: 1) as of December 31, 2018 and 2017 the Group is the single largest shareholder of Lenovo with a 29.10% and 29.10% equity interest; 2) the Company obtained an "acting in concert" undertaking from another shareholder; and 3) the rest of the voting rights of Lenovo is dispersed and since the date of Lenovo's listing, there has been no history of any other shareholders collaborating to exercise their vote collectively or to out vote the Group.

Joyvio Group Co., Ltd. ("Joyvio Group") has de facto control over Joyvio Agriculture Development Co., Ltd. ("Joyvio Agriculture") even though it has less than 50% of the voting rights based on the following factors: 1) as of December 31, 2018, the Joyvio Group is the single largest shareholder of Joyvio Agriculture with 29.9% equity interest; 2) the rest of the voting rights of Joyvio Agriculture is dispersed and according to the recent general meetings of shareholders, there has been no history of any other shareholders collaborating to exercise their vote collectively or to out vote the Joyvio Group; 3) Joyvio Group has majority seats of the board in voting for the related operating activities; 4) Joyvio Group has provided a significant financial support arrangement to Joyvio Agriculture.

Management deems that although our subsidiary Joyvio Group holds less than 50% of the voting shares of Golden Wing Mau Agricultural Produce Corporation (深圳市鑫榮懋農產品股份有限公司，"Golden Wing Mau") and Shenzhen Xinguojiayuan Modern Agriculture Co., Ltd. (深圳市鑫果佳源現代農業有限公司, "Xinguojiayuan"), it has substantial control over the following factors: 1) as of December 31, 2018, Joyvio Group is the largest single shareholder of Golden Wing Mau and Xinguojiayuan, holding 39.82% and 41.91% interests; 2) the Joyvio Group has received the "concerted action" pledge of other shareholders of Golden Wing Mau and Xinguojiayuan, other shareholders holding the interests of Golden Wing Mau and Xinguojiayuan 17.96% and 17.96%; 3) the remaining voting rights of Golden Wing Mau and Xinguojiayuan are scattered, and according to the recent shareholders' meeting of Golden Wing Mau and Xinguojiayuan In fact, no other group of shareholders has exercised their voting rights to exceed the total voting power of Joyvio Group; 4) Joyvio Group has a majority of seats in the board of directors of Golden Wing Mau and Xinguojiayuan.

5. Segment information

The Board of Directors is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Board of Directors for the purpose of allocating resources and assessing performance.

For management purpose, the Group is organized into business units based on their products and services. Different businesses require different technologies and marketing strategies. The Group, therefore, separately manages the production and operation of each segment and evaluates their operating results respectively, in order to make decisions about resources to be allocated to these segments and to assess their performance. In 2018, the management changed the name of new materials segment into advanced manufacturing and professional services segment and re-organized some services from innovative consumption and services segment into advanced manufacturing and professional services segment or financial investments segment to align with the change of responsibilities of internal management functions. The comparative figures have been restated to conform with the current year's presentation.

The Group identifies 6 segments as follows:

– IT segment, which is primarily engaged in the development, manufacturing and marketing high-quality and easy-to-use for technology products and services for customers and enterprises;

– Financial services segment, which offers services including banking, short-term financing, credit guarantees, entrusted loans, financial leasing, insurance brokerage services, third party payment, internet finance, trusts and customised financial solutions to customers;

– Innovative consumption and services segment, which operates mainly to provide comprehensive medical and health services, car rental business, Internet healthcare services and education for kids;

– Agriculture and food segment, which are mainly engaged in planting and sales of premium fruit and tea products in agriculture business, producing and selling Chinese liquor; supplying seafoods and accessory products, agriculture-oriented e-commerce platform and liquor direct sales chain;

– Advanced manufacturing and professional services segment, which includes the fine chemicals, energy materials production services, logistics services and aviation logistic related business services;

– Financial investments segment, which is engaged in investment in the PE Funds and VC Funds as a limited partner and holds interest in the general partners of certain funds. It also makes early stage or "angel" investments in technology start-ups and minority investments in other entities. It also provides office rental services to consumers and enterprises.

The unallocated amounts primarily represent corporate expenses that are not directly allocated to one of the aforementioned operating segments. The unallocated amounts also include other income statement items such as employee benefit expenses, finance income and finance costs, which cannot be directly identified to specific operating segments. Segment assets consist, primarily of land use rights, investment properties, property, plant and equipment, intangible assets, inventories, receivables and cash and cash equivalents. Segment liabilities primarily comprise operating liabilities.

The Board of Directors assesses the performance of the operating segments based on a measure of net profit and profit attributable to equity holders of the Company.

5. Segment information (Continued)

Year ended December 31, 2018

	Strategic investment								
	IT	Financial services	Innovative consumption and services	Agriculture and food	Advanced manufacturing and professional services	Financial investments	Unallocated	Elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue									
Sales/provide services to external customers	330,779,738	2,871,674	1,287,941	12,940,152	6,331,387	624,934	–	–	354,835,826
Net interest income	–	4,083,853	–	–	–	–	–	–	4,083,853
Inter-segment sales/provide services	–	6,920	–	–	–	26,516	–	(33,436)	–
Total	330,779,738	6,962,447	1,287,941	12,940,152	6,331,387	651,450	–	(33,436)	358,919,679
Segment results									
Profit/(loss) before income tax	4,721,826	3,315,995	1,002,521	472,470	393,361	865,426	(1,870,299)	(499)	8,900,801
Income tax (expense)/credit	(934,606)	(420,391)	2,973	(37,030)	(38,508)	(399,840)	467,575	–	(1,359,827)
Profit/(loss) for the year	3,787,220	2,895,604	1,005,494	435,440	354,853	465,586	(1,402,724)	(499)	7,540,974
Profit/(loss) attributable to equity holders of the Company	1,084,730	2,567,136	1,099,166	210,312	262,080	541,324	(1,402,724)	(499)	4,361,525
Segment assets	202,592,857	250,982,456	6,335,414	13,221,351	11,286,762	60,833,229	17,968,663	(4,953,841)	558,266,891
Segment liabilities	186,106,470	221,074,469	480,895	4,962,291	6,826,381	10,334,357	50,382,056	(4,918,001)	475,248,918
Other segment information:									
Depreciation and amortisation	(5,215,334)	(174,176)	(26,683)	(223,754)	(378,637)	(54,456)	(19,835)	–	(6,092,875)
Impairment loss for non-current assets	–	(121)	–	(428,699)	(13,854)	(138,728)	–	–	(581,402)
Investment income and gains	1,023,643	1,173,703	1,283,000	516,597	36,586	614,672	–	–	4,648,201
Finance income	165,847	46,637	631	49,741	9,204	130,434	636,017	(123,223)	915,288
Finance costs	(2,146,877)	(245,137)	(80,587)	(133,977)	(250,621)	(428,533)	(2,150,463)	129,880	(5,306,315)
Share of (loss)/profit of associates and joint ventures accounted for using the equity method	(36,384)	495,505	(63,497)	28,315	198,005	54,760	–	(499)	676,205
Material non-cash items other than depreciation and amortisation *(Note 32(c))*	(1,390,473)	–	–	–	–	(63,490)	–	–	(1,453,963)
Capital expenditure	4,052,149	554,389	25,406	334,425	164,875	53,096	18,734	–	5,203,074
Associates and joint ventures using equity accounting	502,942	6,710,668	4,528,247	1,932,360	1,307,867	3,754,119	–	(35,840)	18,700,363
Associates measured at fair value through profit or loss	–	308,440	–	–	–	17,761,095	–	–	18,069,535

5. Segment information (Continued)

Year ended December 31, 2017

	Strategic investment								
	IT RMB'000	Financial services RMB'000	Innovative consumption and services (Restated) RMB'000	Agriculture and food RMB'000	Advanced manufacturing and professional services (Restated) RMB'000	Financial investments (Restated) RMB'000	Unallocated RMB'000	Elimination RMB'000	Total RMB'000
Segment revenue									
Sales/provide services to external customers	299,362,790	1,266,986	1,842,139	4,962,333	5,843,697	646,232	–	–	313,924,177
Net interest income	–	2,338,737	–	–	–	–	–	–	2,338,737
Inter-segment sales/provide services	–	32,768	–	–	–	6,751	–	(39,519)	–
Total	299,362,790	3,638,491	1,842,139	4,962,333	5,843,697	652,983	–	(39,519)	316,262,914
Segment results									
Profit/(loss)before income tax	889,099	2,322,464	(537,212)	344,527	625,365	5,237,612	(1,459,634)	9,659	7,431,880
Income tax (expense)/credit	(1,559,334)	(418,294)	(8,468)	(56,388)	(207,942)	(688,669)	364,908	–	(2,574,187)
(Loss)/profit for the year	(670,235)	1,904,170	(545,680)	288,139	417,423	4,548,943	(1,094,726)	9,659	4,857,693
(Loss)/profit attributable to equity holders of the Company	(245,513)	1,646,015	(187,608)	232,175	379,789	4,308,035	(1,094,726)	9,659	5,047,826
Segment assets	183,440,314	49,349,174	7,221,767	9,482,931	11,064,887	65,938,078	15,264,623	(6,688,033)	335,073,741
Segment liabilities	162,539,167	34,456,809	3,874,516	3,989,874	6,946,608	10,860,237	40,077,574	(6,652,692)	256,092,093
Other segment information:									
Depreciation and amortisation	(4,877,583)	(24,073)	(218,338)	(168,200)	(355,280)	(48,897)	(17,852)	–	(5,710,223)
Impairment loss for non-current assets	(80,507)	–	–	(28,940)	(67,105)	–	–	–	(176,552)
Investment income and gains	1,576,236	562,176	71,194	36,117	564,102	4,857,858	–	–	7,667,683
Finance income	234,122	29,117	1,830	22,358	12,918	236,671	658,381	(364,678)	830,719
Finance costs	(1,748,762)	(236,304)	(188,219)	(68,695)	(247,014)	(538,152)	(1,853,266)	397,446	(4,482,966)
Share of (loss)/profit of associates and joint ventures accounted for using the equity method	(28,733)	449,956	239,827	91,101	72,957	239,889	–	9,659	1,074,656
Material non-cash items other than depreciation and amortisation *(Note32(c))*	(1,282,294)	–	–	–	–	–	(68,480)	–	(1,350,774)
Capital expenditure	5,527,736	130,339	522,734	335,550	583,224	179,801	187,276	–	7,466,660
Associates and joint ventures using equity accounting	221,764	5,686,659	3,141,903	2,005,241	878,041	2,447,369	–	(35,341)	14,345,636
Associates measured at fair value through profit or loss	–	35,000	–	–	–	17,935,881	–	–	17,970,881

5. Segment information (Continued)

The amount of its revenue and non-current assets from external customers broken down by location of the customers is shown in the tables below.

(a) Revenue from external customers

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
China	**104,841,822**	90,768,519
Asian-Pacific region excluding China	**62,453,172**	51,268,267
Europe/Middle East/Africa	**85,616,648**	81,505,155
Americas	**106,008,037**	92,720,973
Total	**358,919,679**	316,262,914

(b) Non-current assets

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
China	**52,198,207**	53,693,085
Asian-Pacific region excluding China	**14,197,247**	11,480,943
Europe/Middle East/Africa	**14,025,582**	8,639,421
Americas	**21,553,310**	21,958,957
Total	**101,974,346**	95,772,406

The non-current assets information above is based on the locations of the assets and excludes financial assets, investments in associates and joint ventures and deferred income tax assets.

6. Investment income and gains

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Gains on disposal/dilution of associates	**324,208**	2,160,909
Gains on disposal of available-for-sale financial assets	**–**	2,042,265
Gains on disposal of subsidiaries *(Note 12(ii))*	**2,183,525**	63,312
Dividend income from available-for-sale financial assets	**–**	354,673
Dividend income from financial assets at fair value through other comprehensive income	**69,466**	–
Fair value (losses)/gains and dividend income from associates measured at fair value through profit or loss	**(649,951)**	1,642,315
Fair value gains and dividend income from financial assets at fair value through profit or loss	**2,672,117**	1,350,427
Others	**48,836**	53,782
	4,648,201	7,667,683

7. Other (losses)/income and gains

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Government grants	**747,764**	1,161,412
(Losses)/gains on disposal of property, plant and equipment and intangible assets	**(52,550)**	350,126
Fair value gains on investment properties *(Note 18)*	**413,063**	836,122
Net foreign exchange losses	**(454,954)**	(974,612)
Severance and related costs *(Note 46)*	**(274,941)**	(513,622)
Non-recourse factoring costs	**(634,894)**	(580,958)
Others	**(360,463)**	56,589
	(616,975)	335,057

8. Expenses by nature

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Cost of inventories sold	**285,861,231**	252,059,163
Employee benefit expense *(Note 9)*	**29,429,754**	26,674,295
Office and administrative expense	**4,325,454**	2,915,143
Advertising costs	**5,113,837**	7,205,345
Depreciation and amortisation	**6,092,875**	5,710,223
Impairment loss for loan to customers *(i)*	**1,011,064**	630,283
Impairment loss for other financial assets *(i)*	**189,636**	223,167
Impairment loss for non-current assets	**581,402**	176,552
Consultancy and professional fees	**1,327,041**	1,781,045
Customer support service	**2,719,470**	2,085,648
Auditors' remuneration	**125,368**	106,809
Labs and testing	**379,597**	233,687
Operating lease payments	**1,007,877**	1,121,160
Business tax and surcharge and other taxes	**643,341**	789,120
Transportation expense	**584,470**	541,961
Inventory write-down	**548,248**	269,028
Other expenses *(ii)*	**10,394,617**	11,733,554
	350,335,282	314,256,183

(i) For the year end 31 December 2018, the impairment loss for financial assets is disclosed as "Impairment losses for financial assets" in the consolidated income statement. The comparative figures have been restated from "general and administrative expense".

(ii) Other expenses mainly include non-base manufacturing costs from IT business, which are costs that are periodic in nature as opposed to product specific. They are typically incurred after the physical completion of the product and include items such as outbound freight for in-country finished goods shipments, warranty costs, engineering charges, storage and warehousing costs. Non-base manufacturing costs are included in the calculation of gross margin but not inventoriable costs.

9. Employee benefit expense

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Wages and salaries	**22,527,667**	20,072,112
Social security costs other than pension	**1,810,568**	1,743,872
Long-term incentive awards granted *(Note 32(c))*	**1,453,963**	1,350,774
Pension costs – defined contribution plans	**1,356,482**	1,377,875
Pension costs – defined benefit plans *(Note 45)*	**160,375**	115,067
Others	**2,120,699**	2,014,595
	29,429,754	26,674,295

10. Five Highest paid individuals

The emoluments of the five highest paid individuals of the Group for the year ended December 31, 2018 include two directors, whose emoluments are reflected in the analysis in Note 51(a) and one goes for 2017. The emoluments paid to those remaining three (2017: four) individuals are as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Salaries	**28,680**	40,838
Discretionary bonuses	**45,803**	36,398
Share option and rewards	**62,255**	193,452
Retirement payment and employer's contribution to pension schedule	**14,023**	13,768
Other benefits	**4,303**	5,353
	155,064	289,809

The emoluments fell within the following bands:

	Number of individuals Year ended December 31,	
	2018	2017
Emolument bands		
HKD42,000,001 – HKD42,500,000	**1**	–
HKD43,500,001 – HKD44,000,000	**–**	1
HKD47,500,001 – HKD48,000,000	**–**	1
HKD67,500,001 – HKD68,000,000	**1**	–
HKD73,000,001 – HKD73,500,000	**1**	–
HKD103,000,001 – HKD103,500,000	**–**	1
HKD139,000,001 – HKD139,500,000	**–**	1

For the year ended December 31, 2018 and 2017, there was no emolument paid by the Group to any of the directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11. Finance income and costs

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Interest expense *(i)*:		
– Bank loans and overdrafts	**1,812,553**	1,758,783
– Other loans	**891,249**	650,123
– Bonds	**1,949,490**	1,684,034
Factoring costs	**589,420**	392,778
Interest costs on contingent considerations and put option liability	**60,709**	17,838
Commitment fee	**3,313**	5,597
Total finance costs	**5,306,734**	4,509,153
Less: amounts capitalised on qualifying assets	**(419)**	(26,187)
Finance costs	**5,306,315**	4,482,966
Finance income *(i)*:		
– Interest income on bank deposits and money market funds	**(544,633)**	(633,732)
– Interest income on loans to related parties	**(30,782)**	(33,297)
– Interest income on loans to non-related parties	**(339,873)**	(163,690)
Finance income	**(915,288)**	(830,719)
Net finance costs	**4,391,027**	3,652,247

(i) Finance income and costs do not include income and costs from subsidiaries which are engaged in micro-loan business and banking business. For the year ended December 31, 2018, interest income and expense generated from micro-loan business are displayed in "interest income" and "cost of sale and services" in the consolidated income statement. Interest income and expense generated from banking business are displayed in "interest income" and "interest expense" in the consolidated income statement.

12. Subsidiaries

The following includes the principal subsidiaries directly or indirectly held by the Company and, in the opinion of the directors, are significant to the results of the Group for the year ended December 31, 2018 and 2017 or form a substantial portion of the net assets of the Group at December 31, 2018 and 2017. The directors consider that giving details of other subsidiaries would result in particulars of excessive length.

Company name	Place of incorporation	Issued share capital/Paid-in capital *(in RMB, unless otherwise stated)*	Principal activities	Effective interest held 2018	Effective interest held 2017	Statutory auditor
Lenovo (聯想集團有限公司) *(i)*	Hong Kong	12,014,791,614 shares	Develop, manufacture and market reliable, high-quality, secure and easy-to-use technology products and services	**29.10%**	29.10%	(1)
Raycom Real Estate Development Co., Ltd. (融科智地房地產股份有限公司)	Beijing	270,000,000 shares	Office building rental and service	**100.00%**	100.00%	(2)
Raycom Property Investment Co., Ltd. (融科物業投資有限公司)	Beijing	60,000,000	Real estate investment and asset management	**100.00%**	100.00%	(2)
Right Lane Limited (南明有限公司, "Right Lane")	Hong Kong	HKD4	Investment and management	**100.00%**	100.00%	(3)
Legend Holdings Tianjin Limited (聯想控股(天津)有限公司)	Tianjin	2,300,000,000	Investment and management	**100.00%**	100.00%	(2)
Legend Capital Limited (聯想投資有限公司)	Lhasa	403,454,162	Investment and management	**90.81%**	92.78%	(2)
Xizang Dongfangqihui Investment Co., Ltd. (西藏東方企慧投資有限公司)	Lhasa	50,000,000	Investment and management	**100.00%**	100.00%	(2)
Tibet Kaola Science & Technology Development Co., Ltd. (西藏考拉科技發展有限公司)	Lhasa	2,000,000,000	Electronic technology development, transfer, service, promotion and internet technology service	**51.00%**	51.00%	(4)
Beijing Legendstar Venture Capital Co., Ltd. (北京聯想之星創業投資有限公司)	Beijing	150,000,000	Angel investment and start-up incubator	**100.00%**	100.00%	(2)
Duilong Deqing Xingchen Venture Capital Investment Ltd. (堆龍德慶星辰創業投資有限公司)	Lhasa	100,000,000	Angel investment and start-up incubator	**100.00%**	100.00%	(2)
Beijing Huaxia United Auto Network Technology Co., Ltd. (北京華夏聯合汽車網絡技術有限公司)	Beijing	369,816,970	Development of car management software and providing car services information consultant	**100.00%**	100.00%	(2)
Zeny Supply Chain Co., Ltd. (增益供應鏈有限公司)	Beijing	1,041,793,341	Providing cold chain and various logistics service	**98.85%**	98.85%	(2)
Levima Group Limited (聯泓集團有限公司)	Beijing	2,300,000,000	Development and production of chemicals and energy materials	**100.00%**	100.00%	(2)
Joyvio Group (佳沃集團有限公司)	Beijing	5,000,000,000	Agriculture and food investment and other relevant business operations	**100.00%**	100.00%	(2)
Zhengqi Financial Holdings Corporation (正奇金融控股股份有限公司, "Zhengqi Financial")	Hefei	3,000,000,000	Providing financial service for small- and medium-sized entities	**82.52%**	82.52%	(2) (8)
Bybo Dental Group Co., Ltd. (拜博醫療集團有限公司, "Bybo Dental") *(ii)*	Zhuhai	169,384,526	Investment and operation of dental care and other medical projects	**NA**	54.90%	NA
Shanghai Weimin Hospital Investment Management Co., Ltd. (上海為民醫院投資管理有限公司)	Shanghai	56,969,808	Investment management and Medical consultation	**58.00%**	58.00%	(2)

12. Subsidiaries (Continued)

Company name	Place of incorporation	Issued share capital/Paid-in capital *(in RMB, unless otherwise stated)*	Principal activities	Effective interest held 2018	Effective interest held 2017	Statutory auditor
JC International Finance & Leasing Limited (君創國際融資租賃有限公司, "JC Finance & Leasing") *(iii)*	Shanghai	2,018,200,000	Finance lease, lease business, purchase lease assets from domestic and overseas.	**99.01%**	100.00%	(5)
KB Food International Holding (Pte.) Limited	Singapore	USD87,645,588	Investment holding	**90.00%**	90.00%	(6)
Better Education Corporation (Cayman) (三育教育集團股份有限公司, "Better Education")	Cayman	USD3,311.58	Investment holding	**51.00%**	51.00%	(5)
Joyvio Agriculture (佳沃農業開發股份有限公司)	Changde	134,000,000	Domestic trading, processing and sale of seafood and other animal protein-related products	**29.90%**	29.53%	(2)
Banque Internationale à Luxembourg S. A ("BIL") *(iv)*	Luxembourg	EUR141,212,330	Banking services, insurance services, offering financial market products and services	**89.94%**	NA	(7)
Golden Wing Mau (深圳市鑫榮懋農產品股份有限公司) *(v)*	Shenzhen	191,870,000	Agriculture products planting and trading, agricultural investment, logistics, foods trading	**39.82%**	NA	(2)

(1) Lenovo has adopted March 31 as its financial year end date for statutory reporting purpose. For the preparation of the consolidated financial statements, financial statements of Lenovo for the years ended December 31, 2018 and 2017 have been used and they were audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

(2) The statutory financial statements of this subsidiary for the year ended December 31, 2018 were audited by ShineWing Certified Public Accountants.

(3) The statutory financial statements of this subsidiary for the year ended December 31, 2018 were audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

(4) The statutory financial statements of this subsidiary for the year ended December 31, 2018 were audited by PricewaterhouseCoopers Zhong Tian LLP, Beijing branch.

(5) The statutory financial statements of this subsidiary for the year ended December 31, 2018 were audited by PricewaterhouseCoopers Zhong Tian LLP.

(6) The statutory financial statements of this subsidiary for the year ended December 31, 2018 were audited by PricewaterhouseCoopers LLP, Singapore.

(7) The statutory financial statements of this subsidiary for the year ended December 31, 2018 were audited by Ernst & Young Global Limited, Luxembourg.

(8) The financial statements in accordance with IFRS of this subsidiary for the year ended December 31, 2018 were audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

12. Subsidiaries (Continued)

(i) On November 2, 2017, Lenovo signed a contract with Fujitsu Limited ("Fujitsu") to buy in 51% of Fujitsu Client Computing Limited ("FCCL"). On May 2, 2018, the acquisition was completed. Please refer to the Note 54.

(ii) On January 24, 2018, we entered into an agreement with Taikang Life Insurance Co., Ltd. ("Taikang") to strategically introduce it as the controlling shareholder of Bybo Dental. After that, Taikang acquired 51.56% equity interest of Bybo Dental and the equity interest held by the Company decreased from 54.90% to 36.47%. As a result, Bybo dental was not a subsidiary of the Company anymore. The Group recognised RMB1,287 million investment income and gains due to the aforesaid transaction which has been approved by China Banking and Insurance Regulatory Commission and completed in April.

(iii) In 2018, the Company and the employee stock ownership partnership made capital injection to JC Finance & Leasing. The paid-in capital increased from RMB1,500 million to RMB2,018 million, and the Company injected 500 million with a result the equity interest held by the Company decreased from 100% to 99.01%.

(iv) On July 2, 2018, the Group finished the acquisition of 89.94% equity interest of BIL. Please refer to the Note 54.

(v) In 2018, Joyvio Group obtained the control of Golden Wing Mau and accounted it as subsidiary by signing the acting in concert agreement with some other shareholders of Golden Wing Mau. The Group owned 35.38% interest of Golden Wing Mau as share of profit of associates accounted for using the equity method before the business combination. In the second half of 2018, Joyvio Group continuously acquired equity interest of Golden Wing Mau. As at December 31, 2018, Joyvio Group held 39.82% equity interest of Golden Wing Mau. Please refer to the Note 54.

Subsidiaries of material non-controlling interest

As shown in the consolidated statements of comprehensive income, during the year ended December 31, 2018 and 2017, the comprehensive income attributable to perpetual securities are RMB356 million and RMB285 million, all of which are attributable to Lenovo; the comprehensive income/loss attributable to other non-controlling interests are RMB1,956 million and RMB661 million, of which RMB1,569 million and RMB702 million are the comprehensive income/loss attributable to non-controlling interest in Lenovo.

As shown in the consolidated balance sheet, at December 31, 2018 and 2017, perpetual securities are RMB6,807 million and RMB6,807 million, all of which are attributable to Lenovo; the other non-controlling interests are RMB23,762 million and RMB19,085 million, of which RMB16,750 million and RMB15,731 million are contributed to Lenovo. The non-controlling interest in respect of other subsidiaries is not considered material by the directors. The summarized financial information of Lenovo is set out below.

12. Subsidiaries (Continued)

Subsidiaries with significant non-controlling interest (Continued)

Summarised Balance Sheet of Lenovo

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Current		
Assets	**127,393,538**	110,973,633
Liabilities	**(156,514,426)**	(134,532,645)
Net current liabilities	**(29,120,888)**	(23,559,012)
Non-current		
Assets	**87,420,696**	81,781,444
Liabilities	**(32,310,604)**	(29,628,696)
Net non-current assets	**55,110,092**	52,152,748
Net assets	**25,989,204**	28,593,736

Summarised Income Statement of Lenovo

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Revenue	**330,779,738**	299,362,790
Profit before income tax	**4,721,826**	889,099
Income tax expense	**(934,606)**	(1,559,334)
Net profit/(loss)	**3,787,220**	(670,235)
– Attributable to equity holders of Lenovo	**3,382,282**	(965,304)
– Attributable to perpetual securities holders	**355,897**	284,639
– Attributable to other non-controlling interests	**49,041**	10,430
Other comprehensive (loss)/income	**(1,013,258)**	906
Total comprehensive income/(loss)	**2,773,962**	(669,329)
– Attributable to equity holders of Lenovo	**2,369,024**	(964,398)
– Attributable to perpetual securities holders	**355,897**	284,639
– Attributable to other non-controlling interests	**49,041**	10,430
Dividends paid to non-controlling interest	**(31,498)**	(33,370)

12. Subsidiaries (Continued)

Subsidiaries with significant non-controlling interest (Continued)

Summarised Cash Flow Statement of Lenovo

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Cash flows from operating activities		
Cash generated from operations	**13,329,732**	5,947,526
Income tax paid	**(2,481,262)**	(3,018,664)
Net cash generated from operating activities	**10,848,470**	2,928,862
Net cash used in investing activities	**(4,553,848)**	(15,302,064)
Net cash generated from financing activities	**6,495,795**	6,081,723
Net increase/(decrease) in cash and cash equivalents	**12,790,417**	(6,291,479)
Cash and cash equivalents at beginning of the year	**10,849,046**	17,502,273
Exchange losses on cash and cash equivalents	**(305,544)**	(361,748)
Cash and cash equivalents at end of the year	**23,333,919**	10,849,046

13. Investments in associates and joint ventures

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Investments in associates and joint ventures:		
– using equity accounting *(a)*	**18,700,363**	14,345,636
– measured at fair value through profit or loss *(b)*	**18,069,535**	17,970,881
	36,769,898	32,316,517

13. Investments in associates and joint ventures (Continued)

(a) Associates and joint ventures using equity accounting

Set out below are the associates of the Group as at December 31, 2018 and 2017, which, in the opinion of the directors, are material to the Group, and the intention of the Group to hold these associates is for strategic investment purpose, not only for capital appreciation.

Name	Place of incorporation/ principal place of operations	Principal activities	Effective interest held	
			2018	2017
CAR Inc., ("CAR") *(i)*	Cayman Islands/China	Offering comprehensive car rental services including short-term rentals, long-term rentals, finance lease and sales of used rental vehicles	**26.60%**	25.93%
Hankou Bank Co., Ltd. (漢口銀行股份有限公司, "Hankou Bank") *(ii)*	Wuhan	Commercial banking business	**15.33%**	15.33%
Lakala Payment Corporation (拉卡拉支付股份有限公司)	Beijing	Provision of terminal-based payment and various internet financial services	**31.38%**	31.38%
Union Insurance Broker Group Co., Ltd. (聯保投資集團有限公司, "Union Insurance")	Beijing	Insurance brokerage	**48.00%**	48.00%
Wenkang Group Co., Ltd. (聞康集團股份有限公司,"Wenkang Group") *(ii)*	Beijing	Internet medical and health care services	**17.02%**	17.02%
Eastern Air Logistics Co., Ltd. (東方航空物流股份有限公司)	Shanghai	Transportation, warehousing and postal services	**20.10%**	20.10%
Bybo Dental	Zhuhai	Dental and other medical service	**36.47%**	N/A
Huawen Food Co., Ltd. (華文食品股份有限公司, "Huawen Food") *(ii)*	Yueyang	Research, manufacture and sale of snack food	**19.80%**	19.80%
Hebei Hengshui Laobaigan Liquor Co., Ltd. (河北衡水老白干酒業股份有限公司, "Hebei Hengshui Laobaigan") *(ii)*	Hengshui	Chinese liquor manufacture and sale	**6.33%**	N/A

(i) As at December 31, 2018, the fair value of the Group's interest in CAR, which is listed on the Hong Kong Stock Exchange, was RMB2,879 million (2017: RMB3,227 million) and the carrying amount of the Group's interest was RMB2,716 million (2017: RMB2,634 million).

(ii) The directors determine the Group has significant influence over Hankou Bank, Wenkang Group, Huawen Food, and Hebei Hengshui Laobaigan by way of representation on the Board of Directors and participation in the policy-making process, although the Group's equity interests in these four companies are lower than 20%.

13. Investments in associates and joint ventures (Continued)

(a) Associates and joint ventures using equity accounting (Continued)

Set out below is the summarized consolidated financial statements of the significant associates of the Group accounted for using equity method. The directors consider that giving details on the consolidated financial statements of other associates would result in particulars of excessive length.

CAR

Summarised balance sheet

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Total assets	**22,204,909**	20,639,895
Total liabilities	**(14,231,881)**	(12,765,984)
Net assets	**7,973,028**	7,873,911

Summarised statement of comprehensive income

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Income	**6,443,698**	7,717,338
Profit before income tax expense	**594,555**	1,175,306
Income tax expense	**(304,710)**	(294,195)
Net profit	**289,845**	881,111
Total comprehensive income attribute to equity holders of CAR	**289,845**	881,111

13. Investments in associates and joint ventures (Continued)

(a) Associates and joint ventures using equity accounting (Continued)

CAR (Continued)

Reconciliation of summarised consolidated financial statements

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Share of net assets at January 1	**2,041,705**	1,980,684
Share of profit for the year	**68,577**	239,572
Share of comprehensive income for the year	**245**	1,376
Other addition/(decrease)	**10,299**	(179,927)
Share of net assets at December 31	**2,120,826**	2,041,705
Goodwill	**595,486**	592,669
Carrying value of investment in associates	**2,716,312**	2,634,374

Hankou Bank

Summarised balance sheet

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Total assets	**319,394,538**	281,077,036
Total liabilities	**(299,315,778)**	(263,070,054)
Net assets	**20,078,760**	18,006,982

Summarised statement of comprehensive income

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Income	**6,117,874**	5,796,778
Profit before income tax expense	**1,792,852**	1,856,594
Income tax expense	**110,238**	(162,585)
Net profit	**1,903,090**	1,694,009
Total comprehensive income attribute to equity holders of Hankou Bank	**2,482,635**	1,473,041

13. Investments in associates and joint ventures (Continued)

(a) Associates and joint ventures using equity accounting (Continued)

Hankou Bank (Continued)

Reconciliation of summarised consolidated financial statements

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Share of net assets at January 1 (changed in accounting policies) *(i)*	**2,482,341**	2,565,109
Share of profit for the year	**293,782**	260,151
Share of other comprehensive loss	**89,533**	(36,161)
Share of distribution of profit	**(63,300)**	(50,640)
Other decrease	**(2,153)**	–
Share of net assets at December 31	**2,800,203**	2,738,459
Goodwill	**675,857**	675,857
Carrying value of investment in associates	**3,476,060**	3,414,316

(i) The associate of the Company first adopted IFRS 9 to calculate the expected credit loss of its financial assets, as of January 1, 2018, share of net assets of the associate was decreased RMB256 million through opening balance of retain earnings

For the year ended December 31, 2018 and 2017, except for CAR and Hankou Bank, the Group's share of the other associates' profits are RMB314 million and RMB575 million respectively.

For the year ended December 31, 2018 and 2017, except for CAR and Hankou Bank, share of the other associates' other comprehensive income are loss RMB322 million and gain RMB86 million respectively.

For the year ended December 31, 2018 and 2017, except for CAR and Hankou Bank, share of the other associates' total comprehensive income are loss RMB8 million and gain RMB661 million respectively.

As at December 31, 2018 and 2017, except for CAR and Hankou Bank, the aggregate carrying amount of the Group's investments in the other associates are RMB12,508 million and RMB8,297 million respectively.

13. Investments in associates and joint ventures (Continued)

(b) Associates measured at fair value through profit or loss

Company Name	Place of incorporation/ registration	Type	2018 Fair value RMB'000	2018 Effective interest held	2017 Fair value RMB'000	2017 Effective interest held
– Hony Capital Fund V, L.P. *(i)*	Cayman Islands	USD Funds	**2,036,849**	**10.98%**	2,099,428	10.98%
– Beijing Junlian Maolin Equity Investment L.P. (北京君聯茂林股權投資合夥企業(有限合夥))	Beijing	RMB Funds	**1,716,594**	**31.21%**	1,927,737	31.21%
– Tianjin Junruiqi Equity Investment L.P. (天津君睿祺股權投資合夥企業(有限合夥))	Tianjin	RMB Funds	**1,319,307**	**31.67%**	1,848,133	31.67%
– Hony Capital RMB Fund 2010, L.P. (北京弘毅貳零壹零股權投資中心(有限合夥))	Beijing	RMB Funds	**1,139,596**	**20.07%**	1,195,097	20.07%
– LC Fund VI, L.P.	Cayman Islands	USD Funds	**1,419,210**	**23.20%**	1,059,033	23.20%
– LC Fund IV, L.P.	Cayman Islands	USD Funds	**430,165**	**29.77%**	715,707	29.77%
– Hony Capital Fund 2008, L.P. *(i)*	Cayman Islands	USD Funds	**370,856**	**14.31%**	595,020	14.31%
– LC Fund V, L.P. *(i)*	Cayman Islands	USD Funds	**688,723**	**19.42%**	866,916	19.42%
– Hony Capital Fund III, L.P.	Cayman Islands	USD Funds	**121,636**	**34.48%**	184,004	34.48%
– Hony Capital Fund VIII (Cayman), L.P. *(i)*	Cayman Islands	USD Funds	**1,805,987**	**16.40%**	1,582,328	16.40%
– LC Fund III, L.P.	Cayman Islands	USD Funds	**830,457**	**68.64%**	1,078,785	65.70%
– Beijing Junlian Ruizhi Venture Capital Center L.P. (北京君聯睿智創業投資中心(有限合夥))	Beijing	RMB Funds	**128,387**	**31.00%**	273,934	31.00%
– Beijing Junlian Huicheng Equity Investment L.P. (北京君聯慧誠股權投資合夥企業(有限合夥))	Beijing	RMB Funds	**965,913**	**22.22%**	709,403	22.22%
– Beijing Junlian Xinhai Equity Investment L.P. (北京君聯新海股權投資合夥企業(有限合夥)) *(i)*	Beijing	RMB Funds	**658,105**	**17.67%**	516,580	17.67%
– Hony Capital RMB I, L.P. (弘毅投資產業一期基金(天津)(有限合夥))	Tianjin	RMB Funds	**68,793**	**29.84%**	109,386	29.84%
– Hony Capital Fund 2015, L.P. (弘毅貳零壹伍(深圳)股權投資基金中心(有限合夥)) *(i)*	Shenzhen	RMB Funds	**249,478**	**8.90%**	571,151	22.81%
– Hony Capital Real Estate Fund 2015, L.P. (弘毅貳零壹伍(深圳)地產投資中心(有限合夥)) *(i)*	Shenzhen	RMB Funds	**499,637**	**19.51%**	455,181	19.51%
– Hongchuang Lianchi Assets Management, L.P. (弘創聯持(深圳)資產管理(有限合夥)) *(i)*	Shenzhen	RMB Funds	**320,288**	**12.40%**	254,984	12.40%
– LC Healthcare Fund I, L.P.	Cayman Islands	USD Funds	**413,614**	**20.00%**	219,130	20.00%
– Beijing Junlian Mingde Equity Investment L.P. (北京君聯名德股權投資合夥企業(有限合夥))	Beijing	RMB Funds	**273,526**	**20.05%**	297,263	19.97%
– Hony International Limited	Hong Kong	USD Funds	**36,353**	**40.00%**	68,445	40.00%
– Hony Capital II, L.P.	Cayman Islands	USD Funds	**11,816**	**41.38%**	10,349	41.38%
– LC Fund VII, L.P.	Cayman Islands	USD Funds	**774,010**	**22.31%**	327,792	22.31%
– Goldstream Capital Master Fund I	Cayman Islands	USD Funds	**186,039**	**37.71%**	195,588	29.51%
– Others		RMB/USD Funds	**1,604,196**	**N/A**	809,507	N/A
			18,069,535		17,970,881	

The principal activities of the above associates are investment holding as VC Funds and PE Funds.

13. Investments in associates and joint ventures (Continued)

(b) Associates measured at fair value through profit or loss (Continued)

(i) The directors determined that the Group has significant influence these companies by the way of its significant influence on the general partner and/or management company of these funds, even though the capital contribution percentage in these funds are below 20%. Consequently, these investments have been classified as associates.

Set out below is the summarised consolidated financial statements of associates measured at fair value through profit or loss aggregated by RMB funds and USD funds based on the underlying GAAP applied when prepare their statutory accounts. The consolidated financial statements on RMB funds is prepared in accordance with IFRS while the consolidated financial statements on USD funds is prepared in accordance with the General Accepted Accounting Principles in USA.

	Year ended December 31, 2018	
	Profit for the year	**Total comprehensive income**
	RMB'000	***RMB'000***
RMB funds	**491,077**	**491,077**
USD funds	**(4,627,427)**	**(4,627,427)**
Total	**(4,136,350)**	**(4,136,350)**

	Year ended December 31, 2017	
	Profit for the year	Total comprehensive income
	RMB'000	*RMB'000*
RMB funds	3,740,560	3,740,560
USD funds	(446,885)	(446,885)
Total	3,293,675	3,293,675

14. Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% while the income tax provision for group entities operating in Mainland China is based on a statutory rate of 25%. Income tax of other group entities operating in overseas countries and regions are calculated at the rates applicable in the respective jurisdictions.

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Current income tax	**3,295,781**	3,062,977
Deferred income tax	**(1,935,954)**	(488,790)
Income tax expense	**1,359,827**	2,574,187

14. Income tax expense (Continued)

The Group has been granted certain tax concessions by tax authorities in China and overseas whereby the subsidiaries operating in the respective jurisdictions are entitled to tax concessions.

Taxation on the Group's profit before tax differs from the theoretical amount that would arise using the enacted tax rate of the home country of the Group entities as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Profit before tax	**8,900,801**	7,431,880
Tax effects of:		
Tax calculated at domestic rates applicable in countries concerned	**1,572,888**	4,000,466
Income not subject to tax	**(3,335,723)**	(3,722,223)
Expenses not deductible for tax purposes	**2,959,459**	1,224,096
Recognition/utilisation of previously unrecognised tax losses *(i)*	**(356,474)**	(1,002,211)
Deferred income tax assets not recognised	**500,102**	210,625
Effect on opening deferred income tax assets due to change in tax rate *(ii)*	**(107,765)**	2,010,314
Others	**127,340**	(146,880)
Income tax expense	**1,359,827**	2,574,187

(i) In 2018 and 2017, certain subsidiaries of the Group have improved their performance from cumulative lose to profit, which will generate enough taxable profits. The Group recognised the deductible losses and other temporary differences in current year, which was not recognised in previous years under the limited of the amount of the current and future taxable profit.

(ii) In 2017, pursuant to the Tax Cuts and Jobs Act enacted by the government of the United States ("US") in December, 2017, the US corporate tax rate is reduced for tax years beginning after December 31, 2017. This rate change leads to a write-off of US deferred income tax assets and the Lenovo Group make a one-off deductions.

14. Income tax expense (Continued)

The tax credit/(charge) relating to components of other comprehensive income is as follows:

	Year ended December 31,					
	2018			2017		
	Before tax ***RMB'000***	**Tax credit/ (charge)** ***RMB'000***	**After tax** ***RMB'000***	Before tax *RMB'000*	Tax credit/ (charge) *RMB'000*	After tax *RMB'000*
Fair value changes on available-for-sale financial assets	**–**	**–**	**–**	(260,920)	28,374	(232,546)
Investment revaluation reserve reclassified to consolidated income statement on disposal of an available-for-sale financial assets	**–**	**–**	**–**	(1,988,423)	351,824	(1,636,599)
Change in fair value of equity securities measured at fair value through other comprehensive income	**(643,939)**	**60,575**	**(583,364)**	–	–	–
Change in fair value of debt securities measured at fair value through other comprehensive income	**(111,979)**	**28,956**	**(83,023)**	–	–	–
Share of other comprehensive (loss)/ income of associates	**(301,429)**	**69,357**	**(232,072)**	51,127	–	51,127
Investment revaluation reserve reclassified to consolidated income statement on disposal of associates	**(76,469)**	**–**	**(76,469)**	–	–	–
Actuarial remeasurement on retirement benefit obligations	**(211,516)**	**17,081**	**(194,435)**	265,531	(2,623)	262,908
Fair value changes on cash flow hedges	**116,510**	**14,503**	**131,013**	(526,379)	17,019	(509,360)
Currency translation differences	**(84,911)**	**–**	**(84,911)**	(1,103,612)	–	(1,103,612)
Revaluation of investment properties upon reclassification from property, plant and equipment	**51,969**	**(12,992)**	**38,977**	122,642	(30,660)	91,982
Other comprehensive loss	**(1,261,764)**	**177,480**	**(1,084,284)**	(3,440,034)	363,934	(3,076,100)
Current tax		**–**			–	
Deferred tax *(Note 44)*		**177,480**			363,934	
		177,480			363,934	

15. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year excluding shares held for the restricted share incentive scheme (Note 32).

	Year ended December 31,	
	2018	2017
Basic earnings attributable to equity holders of the Company *(RMB'000)*	**4,361,525**	5,047,826
Diluted impact on earnings *(RMB'000) (i)*	**(2,662)**	(2,818)
Diluted earnings attributable to the equity holders of the Company *(RMB'000)*	**4,358,863**	5,045,008
Weighted average number of issued ordinary shares *(thousands)*	**2,356,231**	2,356,231
Less shares held for restricted share scheme *(thousands) (Note 32)*	**(19,200)**	(18,611)
Weighted average number of issued ordinary shares for calculating basic earnings per share *(thousands)*	**2,337,031**	2,337,620
Potential dilutive effect arising from restricted shares *(thousands) (ii) (Note 32)*	**19,200**	18,611
Weighted average number of issued ordinary shares for calculating diluted earnings per share *(thousands) (ii)*	**2,356,231**	2,356,231
Earnings per share		
– Basic *(RMB per share)*	**1.87**	2.16
– Diluted *(RMB per share)*	**1.85**	2.14

(i) Diluted impact on earnings is due to the effect of two categories of dilutive instruments, namely share options and long-term incentive awards. Diluted earnings per share is calculated by adjusting earnings attributable to the equity holders of the Company.

(ii) Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares comprise shares issued under the restricted share incentive scheme. A calculation is done to determine the number of shares that could have been converted at fair value (determined as the average market share price of the Company's shares during the year) based on the monetary value of the subscription rights attached to outstanding unvested awarded shares. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the conversion of the restricted shares, with the difference being adjusted in arriving at the weighted average number of shares for diluted earnings per share.

16. Leasehold land and land use rights

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book value is analysed as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
At beginning of the year	**4,158,468**	3,022,885
Additions	**70,721**	1,531,056
Acquisition of subsidiaries	**50,922**	27,381
Disposals	**(108,918)**	(371,799)
Amortisation	**(34,780)**	(48,814)
Disposal of subsidiaries	**(334,081)**	(2,241)
At end of the year	**3,802,332**	4,158,468

As at December 31, 2018 and 2017, the land use rights with a carry amount of RMB2 million and RMB90 million were pledged as collateral for RMB5 million and RMB122 million borrowings, respectively.

17. Property, plant and equipment

	Land and buildings	Vehicles	Machinery	Furniture	Equipment	Construction in Progress	Bearer plants	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at January 1, 2017								
Cost	10,054,069	199,774	11,007,825	4,374,563	109,772	2,469,755	–	28,215,758
Accumulated depreciation	(2,033,227)	(117,572)	(3,536,801)	(2,805,871)	(51,747)	–	–	(8,545,218)
Accumulated impairment	(28,543)	(70)	(34,881)	(31)	–	–	–	(63,525)
Net book amount	7,992,299	82,132	7,436,143	1,568,661	58,025	2,469,755	–	19,607,015
For the year ended December 31, 2017								
Opening net book amount	7,992,299	82,132	7,436,143	1,568,661	58,025	2,469,755	–	19,607,015
Exchange adjustment	(172,305)	(1,434)	(22,855)	(35,367)	(949)	1,872	–	(231,038)
Acquisition of subsidiaries	188,884	13,486	101,184	18,226	4,984	–	–	326,764
Additions	1,062,489	43,929	612,398	479,414	40,726	2,543,787	–	4,782,743
Transfers to intangible assets	–	–	–	–	–	(941,110)	–	(941,110)
Transfers from construction in progress	419,829	7,128	91,041	23,427	5,075	(546,500)	–	–
Disposals	(341,130)	(1,847)	(78,463)	(37,289)	(4,085)	(501,431)	–	(964,245)
Depreciation charge	(682,258)	(41,923)	(1,059,031)	(646,055)	(33,310)	–	–	(2,462,577)
Disposal of subsidiaries	(79,833)	(6,429)	(51,123)	(2,310)	(5,291)	–	–	(144,986)
Impairment charge	(65,294)	–	(17,481)	(25,104)	–	–	–	(107,879)
Closing net book amount	8,322,681	95,042	7,011,813	1,343,603	65,175	3,026,373	–	19,864,687
As at December 31, 2017								
Cost	10,893,668	234,295	11,394,886	4,503,076	130,521	3,026,373	–	30,182,819
Accumulated depreciation	(2,542,284)	(139,183)	(4,330,711)	(3,159,388)	(65,161)	–	–	(10,236,727)
Accumulated impairment	(28,703)	(70)	(52,362)	(85)	(185)	–	–	(81,405)
Net book amount	8,322,681	95,042	7,011,813	1,343,603	65,175	3,026,373	–	19,864,687

17. Property, plant and equipment (Continued)

	Land and buildings *RMB'000*	Vehicles *RMB'000*	Machinery *RMB'000*	Furniture *RMB'000*	Equipment *RMB'000*	Construction in Progress *RMB'000*	Bearer plants *RMB'000*	Total *RMB'000*
For the year ended December 31, 2018								
Opening net book amount	8,322,681	95,042	7,011,813	1,343,603	65,175	3,026,373	–	19,864,687
Exchange adjustment	185,627	16,008	95,633	43,549	1,218	(163,623)	183	178,595
Acquisition of subsidiaries	2,246,620	29,052	212,790	228,200	20,432	5,171	815,869	3,558,134
Additions	573,872	23,769	612,236	700,508	28,415	1,933,682	51,963	3,924,445
Transfers to intangible assets	-	–	–	–	–	(1,177,199)	–	(1,177,199)
Transfers from construction in progress	1,530,872	–	193,997	32,922	–	(1,757,791)	–	–
Disposals/Transfers to investment property	(222,105)	(15,135)	(78,493)	(29,399)	(3,595)	(532,815)	(15,078)	(896,620)
Depreciation charge	(709,990)	(28,960)	(1,130,664)	(669,595)	(20,474)	–	(18,749)	(2,578,432)
Disposal of subsidiaries	(1,159,702)	(16,775)	(202,741)	(181,136)	(34,970)	(62,193)	(3,406)	(1,660,923)
Closing net book amount	10,767,875	103,001	6,714,571	1,468,652	56,201	1,271,605	830,782	21,212,687
As at December 31, 2018								
Cost	13,570,580	230,974	11,976,021	5,113,974	101,048	1,271,605	847,925	33,112,127
Accumulated depreciation	(2,774,021)	(127,903)	(5,209,494)	(3,645,237)	(44,662)	–	(17,143)	(11,818,460)
Accumulated impairment	(28,684)	(70)	(51,956)	(85)	(185)	–	–	(80,980)
Net book amount	10,767,875	103,001	6,714,571	1,468,652	56,201	1,271,605	830,782	21,212,687

Depreciation expense of RMB1,405 million and RMB1,397 million has been charged in "cost of sales", RMB147 million and RMB137 million in "selling and marketing costs", RMB1,026 million and RMB929 million in "general and administrative expenses" for the year ended December 31, 2018 and 2017.

The property, plant and equipment with a carrying amount of RMB101 million and RMB117 million were pledged as collateral for the borrowings of RMB77 million and RMB133 million as at December 31, 2018 and 2017, respectively. See note 18(c) for owner-occupied investment properties pledged.

The construction in progress with a carrying amount of RMB218 million and RMB188 million were pledged as collateral for the borrowings of RMB154 million and RMB135 million as at December 31, 2018 and 2017, respectively.

18. Investment properties

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
At beginning of the year	**11,107,111**	10,111,584
Additions	**360,130**	28,368
Fair value gains	**413,063**	836,122
Transfer to Property, plant and equipment	**(6,314)**	–
Transfer to non-current assets held for sale *(i)*	**(1,348,635)**	–
Acquisition of subsidiaries	**1,085,066**	–
Transfer from owner-occupied property	**71,488**	131,037
Exchange adjustment	**25,601**	–
At end of the year	**11,707,510**	11,107,111

(i) As at December 31, 2018, the Group proposed to dispose a subsidiary whose main assets are investment properties situated in Luxembourg.

The Group's investment properties are all situated in the Chinese Mainland and in Luxembourg. All the investment properties are rented out under operating leases. All signed lease contracts are less than 50 years.

(a) Amounts recognised in income statement for investment properties

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Rental income	**590,816**	548,885
Direct operating expenses from properties that generated rental income	**(125,639)**	(90,046)
	465,177	458,839

The direct operating expenses from properties that did not generate rental income is immaterial to the Group during the year ended December 31, 2018 and 2017.

(b) Valuation basis

Investment properties held by the Group were mainly revalued at the end of 2018 and 2017 based on valuations performed by independent qualified valuers, Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL"). JLL is an industry specialist in investment property valuation, who has appropriate qualification and recent experience in the valuation of similar properties in the relevant locations.

The valuations are derived using the income capitalisation method. There were no changes to the valuation techniques.

As at December 31, 2018 and 2017, all of the Group's investment properties were within level 3 of the fair value hierarchy as the valuation were arrived at by reference to certain significant unobservable inputs.

The fair value gains are recognised in other (losses)/income and gains of consolidated income statement.

18. Investment properties (Continued)

(b) Valuation basis (Continued)

As at December 31, 2018 and 2017, the directors:

- verifies all major inputs to the independent valuation reports;
- assesses property valuation movements when compared to the prior year valuation reports;
- holds discussion with the independent valuer.

The major key assumptions used by the directors in determining fair value for the year ended December 31, 2018 and 2017 were in the following ranges:

	Year ended December 31,	
	2018	2017
Capitalisation rate	**4.0%–5.3%**	4.0%–5.3%
Expected vacancy rate		
– Office	**4.00%**	5.00%
– Retail	**4.00%**	5.00%
– Car park	**5.00%**	5.00%
Prevailing market rents		
– Office *(per sq.m. per month)*	**RMB330–RMB480**	RMB330–RMB450
– Retail *(per sq.m. per month)*	**RMB150–RMB570**	RMB150–RMB560
– Car park *(per spot per month)*	**RMB850–RMB900**	RMB850–RMB900

The following tables show the sensitivity of the fair value of the investment properties to the key assumptions had the director's estimates to increase or decrease by 10%.

	Year ended December 31, 2018	
	Favourable change by 10% ***RMB'000***	**Unfavourable change by 10%** ***RMB'000***
Capitalisation rate	**782,206**	**(701,951)**
Expected vacancy rate	**39,893**	**(39,893)**

	Year ended December 31, 2017	
	Favourable change by 10% *RMB'000*	Unfavourable change by 10% *RMB'000*
Capitalisation rate	782,814	(704,623)
Expected vacancy rate	51,874	(51,874)

18. Investment properties (Continued)

(c) Investment properties pledged as security

As at December 31, 2018, the investment properties with a fair value of RMB11,232 million and a net value of RMB341 million of owner-occupied part were pledged as collateral for the borrowings of RMB1,190 million. As at December 31, 2017, the investment properties with a fair value of RMB10,999 million and a net value of RMB362 of owner-occupied part were pledged as collateral for the borrowings of RMB1,398 million.

(d) Leasing arrangements

Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivables as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Within one year	**747,353**	507,140
Later than one year but no later than 5 years	**1,085,017**	667,615
Later than 5 years	**36,888**	33,007
	1,869,258	1,207,762

19. Intangible assets

	Mining rights	Trademarks	Softwares	Goodwill	Patent and technology	Customer relationships	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at January 1, 2017								
Cost	597,736	9,699,544	6,233,181	35,101,830	11,798,587	9,610,097	110,428	73,151,403
Accumulated amortisation and impairment	(597,736)	(297,808)	(4,682,457)	(748,594)	(4,806,087)	(2,066,077)	(17,148)	(13,215,907)
Net book amount	–	9,401,736	1,550,724	34,353,236	6,992,500	7,544,020	93,280	59,935,496
For the year ended December 31, 2017								
Opening net book amount	–	9,401,736	1,550,724	34,353,236	6,992,500	7,544,020	93,280	59,935,496
Additions	–	42	1,286,707	–	760,653	–	26,554	2,073,956
Acquisition of subsidiaries	–	373,661	2,136	1,912,654	1,000	40,571	1,185	2,331,207
Exchange adjustment	–	(465,778)	(38,631)	(506,456)	(336,719)	(182,626)	(3,222)	(1,533,432)
Disposals	–	–	(4,823)	–	(194)	–	–	(5,017)
Amortisation charge	–	(10,018)	(738,048)	–	(1,564,086)	(863,749)	(22,931)	(3,198,832)
Impairment loss	–	–	–	(67,105)	(1,568)	–	–	(68,673)
Closing net book amount	–	9,299,643	2,058,065	35,692,329	5,851,586	6,538,216	94,866	59,534,705
As at December 31, 2017								
Cost	597,736	9,591,656	7,075,089	36,508,029	12,061,150	9,398,773	134,223	75,366,656
Accumulated amortisation and impairment	(597,736)	(292,013)	(5,017,024)	(815,700)	(6,209,564)	(2,860,557)	(39,357)	(15,831,951)
Net book amount	–	9,299,643	2,058,065	35,692,329	5,851,586	6,538,216	94,866	59,534,705

19. Intangible assets (Continued)

	Mining rights RMB'000	Trademarks RMB'000	Softwares RMB'000	Goodwill RMB'000	Patent and technology RMB'000	Customer relationships RMB'000	Others RMB'000	Total RMB'000
For the year ended December 31, 2018								
Opening net book amount	–	9,299,643	2,058,065	35,692,329	5,851,586	6,538,216	94,866	59,534,705
Additions	–	5,831	1,554,061	–	902,757	–	172,976	2,635,625
Acquisition of subsidiaries	–	1,067,666	535,974	2,709,116	12,830	996,631	515,242	5,837,459
Exchange adjustment	–	412,795	21,924	303,846	275,196	265,750	10,196	1,289,707
Disposals	–	–	(7,519)	–	(2,516)	–	(589)	(10,624)
Disposal of subsidiaries	–	(573,101)	(33,812)	(599,436)	–	–	(149)	(1,206,498)
Amortisation charge	–	(811)	(905,168)	–	(1,606,638)	(895,231)	(71,815)	(3,479,663)
Impairment loss	–	–	–	(414,239)	–	–	–	(414,239)
Closing net book amount	–	10,212,023	3,223,525	37,691,616	5,433,215	6,905,366	720,727	64,186,472
As at December 31, 2018								
Cost	597,736	10,511,050	10,238,101	38,292,475	13,598,775	10,776,871	1,054,898	85,069,906
Accumulated amortisation and impairment	(597,736)	(299,027)	(7,014,576)	(600,859)	(8,165,560)	(3,871,505)	(334,171)	(20,883,434)
Net book amount	–	10,212,023	3,223,525	37,691,616	5,433,215	6,905,366	720,727	64,186,472

Amortisation of RMB216 million and RMB307 million are included in the "cost of sales"; RMB64 million and RMB72 million in "selling and distribution expenses"; and RMB3,200 million and RMB2,820 million in "general and administrative expenses" in the consolidated income statement for the year ended December 31, 2018 and 2017.

19. Intangible assets (Continued)

Impairment tests for goodwill and intangible assets with indefinite useful life

Management reviews the business performance based on type of business and monitor goodwill and intangible assets with indefinite useful lives at cash generating unit or a group of cash generating units.

The carrying amount of goodwill and intangible assets with indefinite useful lives, less accumulated impairment charged, are presented below:

CGUs	**As at December 31, 2018**		As at December 31,2017	
	Goodwill *RMB'000*	**Intangible assets with indefinite useful life** *RMB'000*	Goodwill *RMB'000*	Intangible assets with indefinite useful life *RMB'000*
IT				
– PC and intellectual device business				
– China	**7,073,337**	**1,434,409**	7,064,138	1,365,648
– Europe/Middle East/Africa	**1,544,220**	**719,092**	1,555,391	705,694
– Americas	**2,189,361**	**459,834**	2,182,638	437,791
– Asia-Pacific region excluding China	**4,565,966**	**404,929**	3,607,173	385,518
– Mobility business *(i)*				
– Mature market	**4,660,113**	**1,352,050**	4,691,487	790,638
– Emerging market	**6,218,059**	**1,805,022**	6,266,367	2,215,094
– Data center business				
– China	**3,260,020**	**1,111,838**	3,188,690	1,058,540
– Europe/Middle East/Africa	**610,825**	**212,759**	607,681	202,560
– Americas	**2,408,983**	**844,174**	2,417,654	803,707
– Asia-Pacific region excluding China	**1,084,386**	**370,613**	1,071,609	352,847
Agriculture and food				
– Animal protein business	**681,618**	**–**	1,119,342	–
– Fruit business	**582,622**	**–**	N/A	N/A
– Semi-finished fresh business	**174,696**	**–**	165,579	–
– Chinese liquor business	**–**	**–**	–	264,238
– Sea food business	**401,381**	**93,686**	401,381	93,686
Innovative consumption and services				
– Education Service Business	**752,496**	**329,667**	590,950	329,667
– Comprehensive medical service business	**137,873**	**–**	713,813	306,781
Financial services				
– Banking	**1,088,703**	**1,067,233**	–	–
– Others	**232,776**	**–**	21,979	–
All others	**24,181**	**–**	26,457	–
	37,691,616	**10,205,306**	35,692,329	9,312,409

(i) For the year ended December 31, 2018, Mobility business of IT segment has adopted new reporting business units based upon a market structure, namely mature market and emerging market of mobility business. The goodwill and intangible assets with indefinite useful lives of the mobility business have been reallocated to the CGU affected using a relative value approach. The comparative figures have been restated

19. Intangible assets (Continued)

Impairment tests for goodwill and intangible assets with indefinite useful life (Continued)

The Group completed its annual impairment test on goodwill and intangible assets with indefinite useful life for its various CGUs by comparing their recoverable amounts to the carrying amounts, as at December 31, 2018. The recoverable amount of all CGUs is determined based on value in use calculations or fair value less disposal cost.

As at December 31, 2018, the Group has performed goodwill impairment test on the animal protein business. Because the business scale is still in the development stage, the fair value less the disposal cost model was adopted to calculate the recoverable amount, which is RMB682 million. The recoverable amount is determined by observable prices in the active market and the control premiums in the reference market, which are level 2 inputs in the valuation methods. Because the recoverable amount is smaller than the carrying amount, the Group has recognised RMB414 million goodwill impairment for the animal protein business.

For the other business, the Group has adopt value in use model to calculate the recoverable amount. These calculations in value in model use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period with a terminal value related to the future cash flow of the CGU extrapolated using constant projections of cash flows beyond the five-year period, plus 0% to 3% (different levels of CGUs) sustainable growth rate as a constant benchmark expecting after five years cash flow, to make a conclusion for the ultimate value of future CGUs cash flow of each set. The estimated revenue growth rate used by the Group is consistent with those estimated in the industrial report and not exceeding the long-term average growth rate in the industry each CGU operates. The valuation results indicate that the recoverable amount of the remaining businesses is higher than the carrying amount, and no evidence of impairment is required.

19. Intangible assets (Continued)

Impairment tests for goodwill and intangible assets with indefinite useful life (Continued)

The revenue growth rate and discount rate used for value in use calculations under the five-year financial budget period for CGUs with significant goodwill and intangible assets with indefinite useful lives are as follows:

CGUs	Goodwill			
	Year ended December 31, 2018		Year ended December 31, 2017	
	Growth rate	**Discount rate**	Growth rate	Discount rate
IT				
PC and intellectual device business				
– China	**-0.3%**	**9.0%**	-1.4%	9.0%
– Europe/Middle East/Africa	**-0.6%**	**9.0%**	-0.3%	9.0%
– Americas	**-0.7%**	**9.0%**	-1.8%	9.0%
– Asia-Pacific region excluding China	**-1.2%**	**9.0%**	-0.5%	9.0%
Mobility business *(i)*				
– Mature Market	**19.7%**	**11.0%**	N/A	N/A
– Emerging Market	**13.1%**	**11.0%**	N/A	N/A
Data center business				
– China	**14.5%**	**10.0%**	13.6%	10.0%
– Europe/Middle East/Africa	**10.2%**	**10.0%**	3.5%	10.0%
– Americas	**11.9%**	**10.0%**	14.2%	10.0%
– Asia-Pacific region excluding China	**11.8%**	**10.0%**	3.0%	10.0%
Agriculture and food				
– Sea food business	**5.2%**	**9.8%**	3.0%	9.6%
– Fruit business	**11.1%**	**11.5%**	N/A	N/A
– Semi-finished fresh business	**10.3%**	**11.5%**	11.0%	11.5%
Innovative consumption and services				
– Education services business	**15.3%**	**12.7%**	15.3%	12.7%
– Comprehensive healthcare services business	**16.6%**	**12.7%**	17.9%	12.2%
Financial service				
– Banking	**5.8%**	**11.0%**	N/A	N/A

(i) As at December 31, 2018, due to the adjustment of the reporting business unit of the IT segment, the revenue growth rate and discount rate of the new CGUs have been determined in accordance with the aforementioned principles. As of December 31, 2017, the revenue growth rate of the mobile business in the CGU in Europe/Middle East/Africa, Americas and Asia-Pacific region excluding China was 26.6%, 7.4% and 21.2% respectively, with 11.0% discount rate.

Management determines budgeted gross margin based on past performance and its expectations for market development. The budgeted revenue growth rates are based on the management expectations, and where appropriate, with adjustments made with reference to industry reports which are more conservative for the purpose of goodwill impairment test. The discount rate used by management are pre-tax and reflect the risks relating to relevant segments.

As at December 31, 2018, the board of directors held that, except for the animal protein business of the agriculture and food segment mentioned above, the Group had no other indication of goodwill impairment in 2018.

The Group has performed a sensitivity analysis on key assumptions used for the annual impairment test for goodwill. A reasonably possible change in key assumptions used in the impairment test for goodwill would not cause any CGU's carrying amount to exceed its respective recoverable amount.

20. Financial instruments by category

	Financial assets at amortised cost	Assets at fair value through profit or loss	Derivatives used for hedging	Assets at fair value through other comprehensive income	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at December 31, 2018					
Assets *(i)*					
Assets at fair value through other comprehensive income	–	–	–	12,892,038	12,892,038
Derivative financial instruments	–	2,091,986	513,170	–	2,605,156
Accounts and notes receivables	9,103,804	–	–	45,085,342	54,189,146
Loans to customers	120,396,139	–	–	–	120,396,139
Loans to credit institutions	6,333,248	–	–	–	6,333,248
Financial assets at amortised cost	39,894,483	–	–	–	39,894,483
Other receivables and other current assets *(ii)*	33,374,312	–	–	–	33,374,312
Other non-current assets *(ii)*	7,903,460	–	–	–	7,903,460
Financial assets at fair value through profit or loss	–	20,604,143	–	–	20,604,143
Associates measured at fair value through profit or loss	–	18,069,535	–	–	18,069,535
Restricted deposits	6,504,353	–	–	–	6,504,353
Bank deposits	333,304	–	–	–	333,304
Cash and cash equivalents	60,023,193	–	–	–	60,023,193
	283,866,296	40,765,664	513,170	57,977,380	383,122,510

20. Financial instruments by category (Continued)

	Liabilities at fair value through profit or loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Liabilities				
Borrowings	–	–	128,225,097	128,225,097
Amounts due to customers	–	–	135,435,591	135,435,591
Amounts due to credit institutions	–	–	23,116,725	23,116,725
Derivative financial instruments	2,712,748	1,743,776	–	4,456,524
Trade and notes payables	–	–	59,786,285	59,786,285
Other payables *(ii)*	–	–	63,177,372	63,177,372
Other non-current liabilities *(ii)*	788,415	–	6,812,030	7,600,445
Financial liabilities at fair value through profit or loss	7,333,447	–	–	7,333,447
	10,834,610	1,743,776	416,553,100	429,131,486

(i) The impact of change in accounting policies is disclosed in note 2.1.1 (a).
(ii) Non-financial assets and non-financial liabilities are excluded.

	Loans and receivables	Assets at fair value through profit or loss	Derivatives used for hedging	Available-for-sale financial assets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at December 31, 2017					
Assets					
Available-for-sale financial assets	–	–	–	9,597,484	9,597,484
Derivative financial instruments	–	87,030	43,465	–	130,495
Accounts and notes receivables	46,149,326	–	–	–	46,149,326
Loans to customers	12,404,160	–	–	–	12,404,160
Other receivables and other current assets	30,886,061	–	–	–	30,886,061
Other non-current assets	10,930,877	–	–	–	10,930,877
Financial assets at fair value through profit or loss	–	7,265,440	–	–	7,265,440
Associates measured at fair value through profit or loss	–	17,970,881	–	–	17,970,881
Restricted deposits	1,338,000	–	–	–	1,338,000
Bank deposits	6,010,552	–	–	–	6,010,552
Cash and cash equivalents	32,202,477	–	–	–	32,202,477
	139,921,453	25,323,351	43,465	9,597,484	174,885,753

20. Financial instruments by category (Continued)

	Liabilities at fair value through profit or loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Liabilities				
Borrowings	–	–	87,577,605	87,577,605
Derivative financial instruments	234,252	152,848	–	387,100
Trade and notes payables	–	–	56,730,615	56,730,615
Other payables	–	–	62,252,415	62,252,415
Other non-current liabilities	–	–	1,546,396	1,546,396
Financial liabilities at fair value through profit or loss	801,000	–	–	801,000
	1,035,252	152,848	208,107,031	209,295,131

21. Financial assets at fair value through other comprehensive income

As at December 31, 2018, financial assets at fair value through other comprehensive income are as follows:

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Listed securities:		
Equity securities – China	**421,457**	–
Equity securities – Japan	**132,501**	–
Equity securities – HK	**72,528**	–
Market value of listed securities	**626,486**	–
Unlisted securities	**1,022,541**	–
Listed bonds:		
Debt securities – Europe	**9,736,992**	–
Debt securities – US	**677,005**	–
Debt securities – Others	**829,014**	–
Market value of listed bonds	**11,243,011**	–
Total	**12,892,038**	–
Less: Current portion	**(693,949)**	–
Non-current portion	**12,198,089**	–

21. Financial assets at fair value through other comprehensive income (Continued)

As at December 31, 2017, available-for-sale financial assets of the Group are as follows:

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Listed securities:		
Equity securities – HK	–	302,314
Equity securities – China	–	3,153,454
Equity securities – Japan	–	106,220
Subtotal	–	3,561,988
Listed corporate bonds:	–	268,642
Unlisted securities:		
Unlisted equity instruments	–	5,342,904
Bank's wealth management product	–	423,950
Subtotal	–	5,766,854
Total	–	9,597,484
Less: Current portion	–	(423,950)
Non-current portion	–	9,173,534

22. Other non-current assets

Other non-current assets primarily include long-term receivable arising from finance lease in Financial Service segment.

As at December 31, 2018 and 2017, no other non-current assets were used as collateral for borrowings.

23. Accounts and notes receivables

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**50,108,204**	41,290,664
Notes receivables	**343,619**	462,443
Receivables arising from finance leases	**4,520,196**	5,192,963
Less: provision for impairment	**(782,873)**	(796,744)
Accounts and notes receivables – net	**54,189,146**	46,149,326

As at December 31, 2018 and 2017, the ageing analyses of the trade receivables based on invoice date were as follows:

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Up to 3 months	**44,399,383**	35,640,738
3 to 6 months	**3,791,071**	3,922,739
6 months to 1 year	**1,380,745**	1,040,524
1 to 2 years	**224,844**	472,845
2 to 3 years	**54,601**	141,425
Over 3 years	**257,560**	72,393
	50,108,204	41,290,664

As at December 31, 2018 and 2017, trade and notes receivables with a net amount of RMB3,212 million and RMB2,423 million were used as collateral for borrowings of RMB2,593 million and RMB1,929 million.

Notes receivables of the Group are bank accepted notes mainly with maturity dates within six months.

Movements on the provision for impairment of accounts receivables and notes receivables are as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
At beginning of the year (changed in accounting policy) *(i)*	**(844,626)**	(730,065)
Exchange adjustment	**(29,041)**	4,602
Provision made	**(374,598)**	(393,542)
Uncollectible receivable written off	**47,617**	139,789
Unused amounts reversed	**417,775**	182,472
At end of the year	**(782,873)**	(796,744)

(i) As at January 1, 2018, the Group used new impairment model on each category of financial assets under IFRS 9. The loss allowances for accounts and notes receivables increased by RMB48 million, when the closing allowance at December 31, 2017 reconciled to the opening allowance at January 1, 2018.

23. Accounts and notes receivables (Continued)

Trade receivables of RMB8,652 million and RMB8,292 million at December 31, 2018 and 2017 were past due. The ageing of these receivables, based on due date, is as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
3 months	**6,889,491**	6,837,188
3 to 6 months	**866,955**	717,293
Over 6 months	**895,887**	737,639
	8,652,333	8,292,120

The carrying amounts of accounts and notes receivables approximate their fair values. The maximum exposure to credit risk at the balance sheet date is the fair value of each class of receivables mentioned above.

Credit terms of IT segment granted to the customers is around 0–120 days while other segments do not have specific credit terms.

24. Prepayment, other receivables and other current assets

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Receivables from parts subcontractors	**14,489,453**	14,393,698
Prepayments	**16,631,352**	15,148,495
Prepaid tax	**6,134,809**	7,074,077
Amounts due from related parties *(Note 55)*	**1,516,283**	1,514,486
Advance to suppliers	**1,683,037**	1,498,242
Deposits receivable	**451,713**	350,020
Advance to employees	**80,513**	90,073
Adjustment for in-transit products	**175,577**	241,870
Interest receivable	**368,137**	390,014
Others	**2,238,910**	2,264,588
	43,769,784	42,965,563
Less: provision for impairment	**(113,151)**	(86,494)
	43,656,633	42,879,069

25. Loans to customers

Loan balances are loans derive from the subsidiaries of the Group which engages in the loans business.

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Banking service *(i)*	**107,589,811**	–
Other service *(ii)*	**15,850,477**	12,914,425
Total	**123,440,288**	12,914,425
Less: allowances for impairment loss *(iii)*	**(3,044,149)**	(510,265)
Net loans to customers	**120,396,139**	12,404,160
Less: current portion	**(53,518,460)**	(10,652,303)
Non-current portion	**66,877,679**	1,751,857

(i) Banking service:

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
On demand and short notice	**4,778,625**	–
Finance leases	**1,302,106**	–
Other term loans	**101,509,080**	–
Total	**107,589,811**	–
Less: allowances for impairment loss		
– Stage 1	**(161,038)**	–
– Stage 2	**(132,657)**	–
– Stage 3	**(1,811,671)**	–
Total allowances for impairment loss	**(2,105,366)**	–
Net loans to customers	**105,484,445**	–

25. Loans to customers (Continued)

(ii) Other service:

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Direct loans and pawn loans to customers	**14,852,525**	11,258,383
Entrusted loans to customers	**997,952**	1,656,042
Total	**15,850,477**	12,914,425
Less: allowances for impairment loss		
– Individually assessed	**–**	(30,603)
– Collectively assessed	**–**	(479,662)
– Stage 1	**(327,676)**	–
– Stage 2	**(131,820)**	–
– Stage 3	**(479,287)**	–
Total allowances for impairment loss	**(938,783)**	(510,265)
Net loans to customers	**14,911,694**	12,404,160

(iii) Impairment loss provision

	Allowance for loans which are individually assessed	**Allowance for loans which are collectively assessed**	**Total**
As at January 1, 2017	(51,283)	(326,778)	(378,061)
Provision	(6,830)	(629,500)	(636,330)
Write-offs	27,510	476,616	504,126
As at December 31, 2017	(30,603)	(479,662)	(510,265)

25. Loans to customers (Continued)

(iii) Impairment loss provision (Continued)

	Stage 1	Stage 2	Stage 3	Total
As at January 1, 2018 *(i)*	**(420,655)**	**(97,389)**	**(428,251)**	**(946,295)**
Provision made	**(95,141)**	**(43,887)**	**(839,994)**	**(979,022)**
Unused amounts reversed	**114,751**	**11,846**	**374,265**	**500,862**
Transfer of stages, write-off and disposal	**56,257**	**(25,693)**	**587,552**	**618,116**
Acquisition of subsidiaries	**(140,430)**	**(106,525)**	**(1,917,263)**	**(2,164,218)**
Exchange adjustment	**(3,496)**	**(2,829)**	**(67,267)**	**(73,592)**
As at December 31, 2018	**(488,714)**	**(264,477)**	**(2,290,958)**	**(3,044,149)**

(i) As at January 1, 2018, the Group used new impairment model on each category of financial assets under IFRS 9. The loss allowances for loans to customers increased by RMB436 million through opening retained earnings and non-controlling interest, when the closing allowance at December 31, 2017 reconciled to the opening allowance at January 1, 2018.

26. Loans to credit institutions

	2018 *RMB'000*	2017 *RMB'000*
Cash collateral	**2,534,071**	–
Loans and other advances	**3,799,621**	–
Gross loans to credit institution	**6,333,692**	–
Less: allowances for impairment loss		
– stage 1	**(273)**	–
– stage 2	**(171)**	–
– stage 3	**–**	–
Total allowances for impairment loss	**(444)**	–
Net loans to credit institution	**6,333,248**	–
Less: Current portion	**(3,734,588)**	–
Non-current portion	**2,598,660**	–

Loans to credit institutions are from the Company's subsidiary, BIL, which is engaged in banking business.

27. Financial assets at amortised cost

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Bonds issued by public bodies	**24,721,413**	–
Other bonds and fixed-income instruments	**15,242,231**	–
Gross financial assets at amortised cost	**39,963,644**	–
Less: allowances for impairment loss		
– stage 1	**(8,439)**	–
– stage 2	**(3,946)**	–
– stage 3	**(56,776)**	–
Total allowances for impairment loss	**(69,161)**	–
Net financial assets at amortised cost	**39,894,483**	–
Less: Current portion	**(1,712,559)**	–
Non-current portion	**38,181,924**	–

28. Inventories

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Raw materials	**14,860,465**	14,884,664
Work in progress	**74,947**	526,211
Finished goods	**8,770,023**	8,732,339
Service parts	**3,980,278**	3,662,974
Others	**176,290**	51,700
	27,862,003	27,857,888

29. Properties under development

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
At beginning of the year	**547,053**	183,669
Additions	**294,575**	363,384
Disposals/Transfers to property, plant and equipment	**(402,273)**	–
At end of the year	**439,355**	547,053
Properties under development comprise:		
Land use rights	**16,455**	102,759
Construction costs and capitalised expenditure	**422,900**	424,560
Interest capitalised	**–**	19,734
	439,355	547,053

As at December 31, 2018 and 2017, no properties under development were pledged as collateral for borrowings.

30. Financial assets at fair value through profit or loss

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Listed securities:		
Equity securities – HK	**458,916**	74,395
Equity securities – China	**1,629,327**	888,336
Equity securities – Europe	**143,134**	–
Equity securities – US	**590,000**	–
Market value of listed securities	**2,821,377**	962,731
Unlisted securities	**14,138,495**	6,024,208
Listed bonds:		
Debt securities – China	**220,540**	277,595
Debt securities – Europe	**988,455**	–
Market value of listed bonds	**1,208,995**	277,595
Unlisted debt securities	**2,435,276**	906
Total	**20,604,143**	7,265,440
Less: non-current portion	**(8,210,584)**	(1,896,354)
Current portion	**12,393,559**	5,369,086

The fair value of listed securities is based on their current bid prices in an active market while the fair value of unlisted equity instruments is estimated by management using valuation techniques where applicable. Changes in fair values of financial assets at fair value through profit or loss are recorded in "investment income and gains" in the consolidated income statement.

31. Restricted deposits, bank deposits, cash and cash equivalents

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Restricted deposits		
Deposits for guarantee business	**345,942**	367,085
Deposits for notes payables and borrowings	**879,604**	268,941
Other restricted deposits	**5,278,807**	701,974
– Cash and balances with central banks of the country of the subsidiaries (mandatory reserves)	**4,312,155**	–
– Others	**966,652**	701,974
Current portion	**6,504,353**	1,338,000
Bank deposits		
Matured between three to twelve months	**333,304**	6,010,552
Cash and cash equivalents		
Cash at bank and in hand	**31,503,750**	31,510,244
– Cash and balances with central banks of the country of the subsidiaries (other than mandatory reserves)	**19,985,998**	–
Loans and advances to credit institutions	**3,229,953**	–
Money market funds	**5,303,492**	692,233
	60,023,193	32,202,477
Total	**66,860,850**	39,551,029
Maximum exposure to credit risk	**66,860,850**	39,551,029
Effective annual interest rates	**0%–6.5%**	0%–7%

32. Share-based payments

The Group operates several share-based payment schemes, including the long-term incentive program and share option plan administrated at Lenovo and the share award plan operated by the Company in exchange of services rendered by employees.

(a) Share-based payment plans of Lenovo

(I) Long-term incentive program

A performance-related long-term incentive program was approved by Lenovo on May 26, 2005 for the purpose of rewarding and motivating directors, executives and top-performing employees of Lenovo and its subsidiaries (the "Participants").

The long-term incentive program is designed to enable Lenovo to attract and retain the best available personnel, and encourage and motivate Participants to work towards enhancing the value of Lenovo and its shares by aligning their interests with those of the shareholders of Lenovo.

Under the long-term incentive program, Lenovo may grant awards, at its discretion, using any of the two types of equity-based compensation: (i) share appreciation rights and (ii) restricted share units, which are described below:

(i) Share Appreciation Rights ("SARs")

An SAR entitles the holder to receive the appreciation in value of Lenovo's share price above a predetermined level.

(ii) Restricted Share Units ("RSUs")

An RSU equals to the value of one ordinary share of Lenovo. Once vested, an RSU is converted to an ordinary share.

Under the two types of compensation, Lenovo reserves the right, at its discretion, to pay the award in cash or ordinary shares of Lenovo.

Lenovo has launched an employee share purchase plan ("Plan") in October 2016. The purpose of the Plan is to facilitate and encourage Lenovo share ownership by the general employee population. Under the Plan, eligible employees will be awarded one matching restricted share unit for every four ordinary shares of Lenovo purchased through qualified employee contributions. The matching restricted share unit are subject to a vesting schedule of up to two years. Executive and non-executive directors and senior management of the Lenovo are not eligible to participate in the Plan.

32. Share-based payments (Continued)

(a) Share-based payment plans of Lenovo (Continued)

(I) Long-term incentive program (Continued)

Movements in the number of units of awards granted for the year ended December 31, 2018 and 2017 and their related weighted average fair values are as follows:

	Number of units	
	SARs	RSUs
Outstanding as at January 1, 2017	609,732,922	377,499,753
Granted during the year	470,561,676	299,399,413
Vested during the year	(244,859,998)	(139,543,561)
Lapsed/cancelled during the year	(100,338,865)	(62,821,732)
Outstanding as at December 31, 2017	735,095,735	474,533,873
Granted during the year	**698,005,185**	**410,030,471**
Vested during the year	**(337,092,960)**	**(202,124,622)**
Lapsed/cancelled during the year	**(71,029,140)**	**(61,636,560)**
Outstanding as at December 31, 2018	**1,024,978,820**	**620,803,162**
Average fair value per unit (HKD)		
At December 31, 2018	**0.74**	**4.46**
At December 31, 2017	1.07	5.54

The fair values of the SARs awarded under the long-term incentive program were calculated by applying a Black-Scholes pricing model. For the year ended December 31, 2018 and 2017, the model inputs were the fair value (i.e. market value) of the Lenovo's shares at the grant date, taking into account the expected volatility of 31.47% and 34.04% expected dividends rate during the vesting periods of 5.49% and 5.59% contractual life of 4.4 years and 4.5 years, and a risk-free interest rate of 1.85% and 0.94%.

As at December 31, 2018 and 2017, the average remaining vesting period of the awards granted under the above long-term incentive plans for Lenovo is 1.23 years and 1.95 years.

32. Share-based payments (Continued)

(b) Share incentive plan of the Company

(I) Share incentive plan in 2011

The Company approved and implemented a share-based payment plan in 2011, under which the Company's shareholder China Oceanwide Holdings Group Co., Ltd, (中國泛海控股集團有限公司) (the "China Oceanwide") would transfer certain shares in the Company to the Company's employees in 2011, representing 18.50% of the total issued and outstanding shares at February 18, 2014 upon conversion of the Company into a joint stock limited company, as if such shares had been outstanding for all periods. The related consideration for purchasing the shares will be paid to China Oceanwide by the employees within three years as an interest free loan.

A portion representing 17.14% of the total issued and outstanding shares of the Company was granted to certain qualified employees in 2011, at a price of RMB6.23 per share while the rest of 1.36% of the total issued and outstanding shares were granted to employees in 2013 at a price of RMB9.25 per share.

A part of awards granted to eligible employees were vested immediately upon the grant, a part of awards will be vested on the date of Initial Public Offering, and the others are conditional on the employees completing requisite service period.

These awards are classified as equity-settled share-based payment.

Movements in the number of shares granted for the year ended December 31, 2018 and 2017 are as follows:

	Number of shares
Outstanding as at January 1, 2017	9,463,000
Granted during the year	–
Exercised during the year	(5,111,000)
Forfeited during the year	–
Outstanding as at December 31, 2017	4,352,000
Granted during the year	**–**
Exercised during the year	**(2,643,000)**
Forfeited during the year	**–**
Outstanding as at December 31, 2018	**1,709,000**

The remaining service period of the awards granted under the Company's above incentive plan as at December 31, 2018 and 2017 is 1.50 years and 1.67 years, respectively.

32. Share-based payments (Continued)

(b) Share incentive plan of the Company (Continued)

(II) Share options plan in 2016

In order to establish and enhance the restricted mechanism for incentive scheme in the medium and long run, fully motivate elite and employees of the Company and attract and retain core value creators (the "Plan Participants"), annual general meeting of the Company voted and approved the restricted stock incentive plan (the "Plan") by special resolution on June 2, 2016. According to the Plan, the Company will entrust the custodian to purchase no more than 20 million H shares of the Company in the market as an incentive target, which is valid for 5 years.

The Plan Participants do not required to make any cash contribution when the shares are granted. The ownership will be attributed to the Plan Participants after the company's strategic moments (2018 and 2020) respectively.

In 2018, the Company does not purchase any shares of the company from the market. In 2017, the Company entrusted the custodian to purchase 3,151,300 shares of the Company from the market at a total consideration of approximately RMB58 million, which would be deducted from "shares held for restricted share scheme" under Reserves. The shares are held by a trust.

Movement in the number of shares granted for the year ended December 31, 2018 and 2017 are as follows:

	Number of shares
Outstanding as at January 1, 2017	8,722,000
Granted during the year	3,259,000
Exercised during the year	–
Forfeited during the year	–
Outstanding as at December 31, 2017	11,981,000
Granted during the year	**860,000**
Exercised during the year	**–**
Forfeited during the year	**(700,000)**
Outstanding as at December 31, 2018	**12,141,000**

The remaining service period of the awards granted under the Company's above incentive plan as at December 31, 2018 and 2017 is 2.00 years and 1.87 years, respectively.

(c)

For the year ended December 31, 2018 and 2017, the share-based payment expenses of RMB1,454 million and RMB1,351 million were recognised in the consolidated income statement.

33. Share Capital

	2018 Number of shares	2018 Share capital RMB'000	2017 Number of shares	2017 Share capital RMB'000
Ordinary shares issued and fully paid	**2,356,230,900**	**2,356,231**	2,356,230,900	2,356,231
– H shares	**1,271,853,990**	**1,271,854**	391,853,990	391,854
– Domestic shares	**1,084,376,910**	**1,084,377**	1,964,376,910	1,964,377

34. Perpetual Securities

During 2017, Lenovo issued a total of USD1,000 million perpetual securities through its wholly owned subsidiary, Lenovo Perpetual Securities Limited ("the issuer"). The net proceed amounted to approximately USD991 million. The securities are perpetual, non-callable in the first 5 years and entitle the holders to receive distributions at a distribution rate of 5.375% per annum in the first 5 years, floating thereafter and with a fixed step up margin, payable semi-annually in arrears, cumulative and compounding. The distributions are at the Lenovo's discretion, if the issuer and Lenovo as guarantor of the securities, do not (a) declare or pay dividends to their shareholders or (b) cancel or reduce their share capital within each distribution payment period. As the perpetual securities do not contain any contractual obligation to pay cash or other financial assets, they are classified as equity and for accounting purpose regarded as part of non-controlling interests.

35. Accounts and notes payables

	As at December 31, 2018 RMB'000	As at December 31, 2017 RMB'000
Trade payables	**52,045,304**	50,156,698
Notes payables	**7,740,981**	6,573,917
	59,786,285	56,730,615

At December 31, 2018 and 2017, the ageing analyses of the trade payables based on invoice date were as follows:

	As at December 31, 2018 RMB'000	As at December 31, 2017 RMB'000
0–30 days	**29,580,268**	29,309,811
31–60 days	**12,444,220**	11,547,934
61–90 days	**7,156,613**	7,342,832
91 days–1 year	**2,834,164**	1,866,736
Over 1 year	**30,039**	89,385
	52,045,304	50,156,698

Notes payable of the Group is mainly repayable within three months.

36. Deferred revenue

Deferred revenue are advance received for extend warranty from our customers in IT segment.

37. Other payables and accruals

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Payable to parts subcontractors	**35,535,199**	34,041,397
Allowance for billing adjustment *(i)*	**11,894,406**	12,014,584
Accrued expenses	**7,945,518**	10,390,253
Payroll payable	**4,562,599**	3,066,244
Other taxes payable	**3,255,364**	2,344,168
Amounts due to related parties *(ii)*	**327,751**	376,136
Deposits payable	**740,795**	873,689
Royalty payable	**678,242**	702,400
Social security payable	**694,979**	632,321
Deferred consideration *(iii)*	**434,836**	507,442
Contingent consideration *(iii)*	**213,967**	–
Written put option liability *(iv)*	**–**	1,470,855
Interest payable	**635,765**	643,850
Transferred loans to be redeemed	**627,327**	5,131,208
Asset management program	**291,600**	1,705,423
Others	**8,193,449**	4,471,730
	76,031,797	78,371,700

(i) Allowance for billing adjustment relates primarily to allowances for future volume discounts, price protection, rebates and customer sales returns.

(ii) As at December 31, 2018 and December 31, 2017, the amounts due to related parties are unsecured and non-interested.

(iii) Pursuant with the completion of business combinations, the Group is required to pay in cash to the respective shareholders/sellers deferred consideration according to the relevant conditions in contracts reached with the respective shareholders/sellers.

(iv) Pursuant to the joint venture agreement entered into in 2012 between Lenovo and Compal Electronics, Inc. ("Compal") to establish a joint venture company ("JV Co") to manufacture notebook computer products and related parts, Lenovo and Compal are respectively granted put and call options which entitle Lenovo to purchase from Compal and Compal to sell to Lenovo the 49% Compal's interests in the JV Co. The call and put options will be exercisable at any time after October 1, 2019 and October 1, 2017, respectively. The maximum exercise price for the call and put options is approximately USD750 million.

The financial liability that may become payable under the put option is initially recognized at fair value within other non-current liabilities with a corresponding charge directly to equity, as a put option written on non-controlling interests with an amount of RMB1,343 million. The put option liability shall be re-measured at its fair value resulting from the change in the expected performance of the JV Co at each balance sheet date, with any resulting gain or loss recognized in the condensed consolidated income statement. In the event that the put option lapses unexercised, the liability will be derecognized with a corresponding adjustment to equity.

In the second half of 2018, the subsidiary of Company ceased the written-put option contract with Compal; while Compal completed the sale of its entire interest in JV Co, representing 49% of the total issued share capital of JV Co, to Hefei Zhi Ju Sheng Bao Equity Investment Co., Ltd. (合肥智聚晟寶股權投資有限公司,"ZJSB"). Please refer to Note 39 for information regarding written-put option.

38. Advances from customers

Advances from customers represent amounts received from sale of properties and inventories, where the risks and rewards of the properties and inventories sold had not yet been transferred as at year-end.

39. Other non-current liabilities

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Deferred considerations *(i)*	**172,074**	163,825
Contingent considerations *(i)*	**788,415**	–
Government incentives and grants received in advance *(ii)*	**694,875**	807,789
Written put option liability *(iii)*	**5,335,493**	–
Unfavourable lease contracts assumed	**425,045**	445,532
Long-term payables	**1,742,374**	1,948,834
Others	**948,029**	624,999
	10,106,305	3,990,979

(i) Pursuant to the completion of a business combination, the Group is required to pay in cash to the then respective sellers contingent consideration with reference to certain performance indicators as written in the respective agreements with the sellers; and deferred consideration. The contingent considerations are subsequently re-measured as a result of change in the expected performance at each balance sheet date, with any resulting gain or loss recognized in the consolidated income statement. Deferred consideration is subsequently carried at amortized cost.

As at December 31, 2018 and 2017, the potential undiscounted amounts of future payments in respect of the deferred considerations that the Group could be required to make to the respective shareholders/sellers under the arrangements are as follows:

	As at December 31,	
	2018	2017
Joint venture with NEC Corporation	**USD25 million**	USD25 million
Fujitsu	**JPY2.55 billion to JPY12.75 billion**	–
Hebei Hengshui Laobaigan	**Nil to RMB530 million**	–
Precision Capital S.A.	**Nil to EUR79 million**	–

39. Other non-current liabilities (Continued)

(ii) Government incentives and grants received in advance by certain group companies included in other non-current liabilities are mainly related to research and development projects and construction of property, plant and equipment. These group companies are obliged to fulfil certain conditions under the terms of the government incentives and grants. The government incentives and grants are credited to the consolidated income statement upon fulfilment of those conditions. Government incentives and grants relating to assets are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

(iii) Pursuant to the joint venture agreement entered into between Lenovo and Fujitsu, Lenovo and Fujitsu are respectively granted put and call options which entitle Lenovo to purchase from Fujitsu and Development Bank of Japan ("DBJ"), or Fujitsu and DBJ to sell to Lenovo, 49% interest in FCCL. Both options will be exercisable following the fifth anniversary of the date of completion (after 2, May 2023). The exercise price for the call and put options will be determined based on the fair value of the 49% interest as of the day of exercising the option

Pursuant to the option agreement entered into between a wholly-owned subsidiary of Lenovo and Hefei Yuan Jia Start-up Investment LLP ("Yuan Jia"), which holds 99.31% interest in ZJSB, Lenovo and Yuan Jia are respectively granted call and put options which entitle Lenovo to purchase from Yuan Jia, or Yuan Jia to sell to the Group, the 99.31% interest in ZJSB. The call and put options will be exercisable at any time after August 31, 2022 and August 31, 2021 respectively. The exercise price for the call and put options will be determined in accordance with the joint venture agreement, and up to a maximum of RMB2,300 million (approximately USD334 million).

The financial liability that may become payable under the put option is initially recognized at fair value within other non-current liabilities with a corresponding charge directly to equity, as a put option written on non-controlling interest. The put option liability shall be re-measured with any resulting gain or loss recognized in the consolidated income statement at each balance sheet date. In the event that the put option lapses unexercised, the liability will be derecognized with a corresponding adjustment to equity

40. Amount due to credit institutions

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
On demand	**3,733,211**	–
Term	**3,171,735**	–
Cash collateral	**451,272**	–
Repurchase agreement operations	**4,325,915**	–
Central bank of the country of subsidiary	**5,456,082**	–
Others	**5,978,510**	–
Total	**23,116,725**	–
Less: Non-current portion	**(6,275,997)**	–
Current portion	**16,840,728**	–

(a) Analysis by nature

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Unsecured	**13,349,976**	–
Collateralised	**9,766,749**	–
	23,116,725	–

40. Amount due to credit institutions (Continued)

(b) The carrying amounts of the Group's amount due to credit institutions are denominated in the following currencies:

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
EUR	**12,482,157**	–
USD	**8,348,460**	–
CHF	**1,014,747**	–
GBP	**554,579**	–
Others	**716,782**	–
	23,116,725	–

Amount due to credit institutions are from the Company's subsidiary, BIL, which is engaged in banking business.

41. Amount due to customers

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Demand deposits	**81,258,847**	–
Savings deposits	**27,213,839**	–
Term deposits	**26,753,324**	–
Cash collateral	**67,982**	–
Total customer borrowings	**135,293,992**	–
Other borrowings	**141,599**	–
Total	**135,435,591**	–
Less: Non-current portion	**(4,233,726)**	–
Current portion	**131,201,865**	–

Amount due to customers are from the Company's subsidiary, BIL, which is engaged in banking business.

42. Financial liabilities at fair value through profit and loss

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Debt instruments *(i)*	**6,532,447**	–
Preferred shares *(ii)*	**801,000**	801,000
Total	**7,333,447**	801,000
Less: current portion	**(2,112,274)**	–
Non-current portion	**5,221,173**	801,000

(i) BIL primarily uses the fair value option (FVO) to designate such liability as financial liability at fair value through profit and loss to eliminate or at least significantly reduce the measurement or recognition inconsistency (also known as the accounting mismatch) that would arise from measuring financial assets or liabilities or recognising the gains and losses on these assets and liabilities on a different basis. The fair value of unlisted financial instruments was determined using pricing tools and procedures established by BIL. These pricing tools are discounted cash flow models that allow the current value to be determined on the basis of an interest rate curve that is applicable to similar securities and takes into account BIL's own credit rating.

(ii) In February 2017, Zhengqi Financial, a subsidiary of the Group, introduced two strategic investors, Xiamen ITG Group Co., Ltd (廈門國貿集團股份有限公司) and Cindafund Investment Management Co., Ltd (信達風投資管理有限公司), and obtained RMB801 million strategic investments. The holders of such financial instrument have rights to return those instruments to the issuer to get cash or other financial assets. Such financial instrument is designated as financial liability at fair value through profit or loss at initial recognition.

43. Borrowings

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Bank loans		
– Unsecured loans	**35,197,520**	14,200,259
– Guaranteed loans	**17,153,936**	19,586,428
– Collateralised loans	**5,486,420**	3,850,572
Other loans		
– Unsecured loans	**3,124,854**	2,343,215
– Guaranteed loans	**7,790,888**	7,286,570
– Collateralised loans	**2,112,452**	1,843,145
Corporate bonds *(I)*		
– Unsecured	**57,256,027**	37,973,286
– Guaranteed	**103,000**	494,130
	128,225,097	87,577,605
Less: current portion	**(59,676,804)**	(23,123,530)
Non-current portion	**68,548,293**	64,454,075

43. Borrowings (Continued)

As at December 31, 2018 and 2017, the carrying value of the borrowings approximates their fair value.

(I) The information about corporate bonds issued as of December 31, 2018 is as below:

Issuer	Type of bonds	Currency	Issuance date	Term	Principal amount *('000)*
The Company	Corporate bonds	RMB	November 30, 2012	10 years	2,300,000
The Company	Private placement bonds	RMB	March 21, 2014	5 years	2,000,000
The Company	Private placement bonds	RMB	March 27, 2014	5 years	740,000
The Company	Corporate bonds	RMB	July 6, 2016	5 years	1,500,000
The Company	Corporate bonds	RMB	July 6, 2016	10 years	2,000,000
The Company	Private placement bonds	RMB	November 28, 2016	3 years	3,000,000
The Company	Corporate bonds	RMB	July 5, 2017	5 years	2,500,000
The Company	Corporate bonds	RMB	January 31, 2018	5 years	1,000,000
The Company	Corporate bonds	RMB	June 29, 2018	3 years	1,600,000
The Company	Corporate bonds	RMB	December 3, 2018	5 years	1,500,000
Lenovo	Long term notes	USD	May 8, 2014	5 years	786,244
Lenovo	Long term notes	RMB	June 10, 2015	5 years	4,000,000
Lenovo	Long term notes	USD	March 16, 2017	5 years	500,000
Lenovo	Medium term notes	USD	March 29, 2018	5 years	750,000
Zhengqi Financial	Corporate bonds	RMB	March 3, 2016	3 years	400,000
Zhengqi Financial	Corporate bonds	RMB	September 22, 2017	3 years	300,000
JC Finance & Leasing	Asset backed securities *(i)*	RMB	November 17, 2016	3–4 years	266,220
JC Finance & Leasing	Private placement bonds	RMB	March 28, 2017	3 years	500,000
JC Finance & Leasing	Asset backed securities *(i)*	RMB	June 23, 2017	3–4 years	779,809
JC Finance & Leasing	Private placement bonds	RMB	December 22, 2017	2 years	100,000
JC Finance & Leasing	Private placement bonds	RMB	January 5, 2018	2 years	300,000
JC Finance & Leasing	Asset backed securities *(i)*	RMB	January 30, 2018	1–3 years	232,742
JC Finance & Leasing	Asset backed notes	RMB	June 22, 2018	1–2 years	409,728
JC Finance & Leasing	Asset backed securities *(i)*	RMB	November 27, 2018	1–2 years	419,500
BIL	Bank subordinate bonds	EUR	June 30, 2014	25.5 years	150,000
BIL	Bank subordinate bonds	EUR	June 8, 2016	12 years	50,000
BIL	Bank subordinate bonds	USD	October 18, 2016	12 years	100,000
BIL	Medium term notes	JPY	1999–2002	20 years	1,500,000
BIL	Medium term notes	EUR	2013–2018	1–15 years	1,805,104
BIL	Medium term notes	USD	2014–2018	1–5 years	17,010
BIL	Medium term notes	CHF	April 11, 2016	6.5 years	100,000
Beijing Lenovo Finance Co., Ltd.	Asset backed securities	RMB	September 26, 2018	1.5 years	103,000

In 2018 and 2017, the principle amounts of matured bonds are RMB4,400 million and 286 million. The annual interest rates of the above bonds are from 0% to 7.5%.

(i) The asset backed securities packages issued by JC Financial & Leasing in 2018 ("2018 package") and 2017 ("2017 package") included multiple bonds. The principle amounts of the two packages on issuance dates amounted to RMB1,596 million and RMB1,488 million respectively.

43. Borrowings (Continued)

(a) Effective interest rates per annum on borrowings are as follows:

	As at December 31,	
	2018	2017
Bank loans	**1.66%–9.00%**	1.66%–9.00%
Other loans	**0%–11.00%**	5.48%–9.50%

(b) Borrowings are repayable as follows:

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Within 1 year	**59,676,804**	23,123,530
After 1 year but within 2 years	**19,812,766**	25,707,032
After 2 years but within 5 years	**42,054,885**	36,351,512
After 5 years	**6,680,642**	2,395,531
	128,225,097	87,577,605

(c) The carrying amounts of the Group's borrowings are denominated in the following currencies:

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
RMB	**74,488,570**	67,652,871
USD	**33,337,657**	19,619,100
EUR	**18,276,438**	–
HKD	**1,235,292**	264,892
CHF	**695,821**	–
Others	**191,319**	40,742
	128,225,097	87,577,605

44. Deferred income tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Deferred tax assets:		
Recovered after 12 months	**9,555,354**	6,016,959
Recovered within 12 months	**4,982,004**	3,655,038
	14,537,358	9,671,997
Deferred tax liabilities:		
Recovered after 12 months	**(6,044,310)**	(4,809,127)
Deferred tax assets-net	**8,493,048**	4,862,870

The gross movement on the deferred income tax account is as follows:

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
At beginning of the year (Changed in accounting policy) *(Note 2.1.1(a))*	**4,923,340**	4,383,189
Acquisition of subsidiaries	**1,116,531**	(9,299)
Credited to the income statement	**1,935,954**	488,790
Credited to other comprehensive income *(Note14)*	**177,480**	363,934
Disposal of subsidiaries	**97,871**	4,819
Exchange adjustment	**241,872**	(368,563)
At end of the year	**8,493,048**	4,862,870

44. Deferred income tax (Continued)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets	Provision and accruals	Tax losses	Deferred revenue	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2017	2,365,027	6,133,880	926,137	278,045	9,703,089
Credited/(charged) to the income statement	1,598,523	107,565	(489,620)	(25,357)	1,191,111
Charged to other comprehensive income	(2,623)	–	–	–	(2,623)
Exchange adjustment	(580,687)	(1,971)	45,246	(99,890)	(637,302)
At December 31, 2017	3,380,240	6,239,474	481,763	152,798	10,254,275
Changes in accounting policy *(Note 2.1.1 (a))*	**60,470**	**–**	**–**	**–**	**60,470**
At January 1, 2018	**3,440,710**	**6,239,474**	**481,763**	**152,798**	**10,314,745**
Acquisition of subsidiaries	**268,866**	**1,829,172**	**–**	**90,234**	**2,188,272**
Credited to the income statement	**125,760**	**1,377,709**	**147,517**	**76,727**	**1,727,713**
Charged to other comprehensive income	**17,081**	**–**	**–**	**60,536**	**77,617**
Disposal of subsidiaries	**(3,832)**	**(64,048)**	**–**	**(3,139)**	**(71,019)**
Exchange adjustment	**245,743**	**95,878**	**142,377**	**(9,267)**	**474,731**
Reclassification	**–**	**–**	**–**	**8,837**	**8,837**
At December 31, 2018	**4,094,328**	**9,478,185**	**771,657**	**376,726**	**14,720,896**

Deferred income tax assets are recognised for deductible temporary differences and tax losses carried forward to the extent that realization of the related tax benefit through the future taxable profits is probable.

44. Deferred income tax (Continued)

Deferred tax liabilities	Fair value gains-investment properties	Fair value gains-financial assets	Fair value gains-associates	Outside basis differences	Assets valuation *(i)*	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2017	1,961,963	601,646	466,476	519,030	1,153,033	617,752	5,319,900
Acquisition of subsidiaries	–	300	–	–	8,999	–	9,299
Charged/(credited) to the income statement	231,479	139,623	130,657	194,487	(15,957)	22,032	702,321
Charged/(credited) to other comprehensive income	30,660	(380,198)	–	–	–	(17,019)	(366,557)
Disposal of subsidiaries	–	–	–	–	(4,819)	–	(4,819)
Exchange adjustment	–	(5,067)	–	(30,542)	(67,464)	(165,666)	(268,739)
At December 31, 2017	2,224,102	356,304	597,133	682,975	1,073,792	457,099	5,391,405
Changes in accounting policy	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At January 1, 2018	**2,224,102**	**356,304**	**597,133**	**682,975**	**1,073,792**	**457,099**	**5,391,405**
Acquisition of subsidiaries	**59,839**	**127,562**	**–**	**–**	**710,024**	**174,316**	**1,071,741**
Charged/(credited) to the income statement	**3,962**	**166,013**	**(122,120)**	**49,237**	**(394,912)**	**89,579**	**(208,241)**
Charged/(credited) to other comprehensive income	**12,992**	**(100,510)**	**–**	**–**	**–**	**(12,345)**	**(99,863)**
Disposal of subsidiaries	**–**	**(126)**	**–**	**–**	**(168,764)**	**–**	**(168,890)**
Exchange adjustment	**2,067**	**3,200**	**–**	**26,210**	**225,419**	**(24,037)**	**232,859**
Reclassification	**–**	**–**	**8,837**	**–**	**–**	**–**	**8,837**
At December 31, 2018	**2,302,962**	**552,443**	**483,850**	**758,422**	**1,445,559**	**684,612**	**6,227,848**

(i) Assets valuation included valuation gain on property, plant and equipment, land use rights and intangible assets arising from initial recognition in business combination.

44. Deferred income tax (Continued)

At December 31, 2018 and 2017, the Group did not recognise deferred income tax assets in respect of deductible temporary differences of approximately RMB7,930 million and RMB8,359 million and tax losses of approximately RMB15,633 million and RMB19,644 million that can be carried forward against future taxable income, of which tax losses of RMB9,352 million and RMB11,298 million can be carried forward indefinitely. The balances of tax losses will expire as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Expiring in		
– within 1 year	**152,287**	326,108
– 1 to 2 years	**149,193**	463,866
– 2 to 3 years	**1,454,526**	870,257
– 3 to 4 years	**2,430,320**	3,116,531
– Over 4 years	**11,446,867**	14,866,853
	15,633,193	19,643,615

45. Retirement benefit obligations

The Group's retirement benefit obligations are related to IT operating segment.

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Pension obligation included in non-current liabilities		
Pension benefits *(a)*	**2,812,454**	2,403,298
Post-employment medical benefits *(b)*	**183,474**	170,569
	2,995,928	2,573,867
Expensed in income statement		
Pension benefits *(Note 9)*	**151,875**	108,538
Post-employment medical benefits *(Note 9)*	**8,500**	6,529
	160,375	115,067
Remeasurements for		
Defined pension benefits	**(217,434)**	264,320
Post-employment medical benefits	**5,918**	(1,412)
	(211,516)	262,908

45. Retirement benefit obligations (Continued)

The Group operates a sectionalized plan that has both defined contribution and defined benefit features in Germany, including benefits based on a final pay formula. This plan is closed to new entrants. Following the acquisition of Motorola and System X in 2014, the Group assumed approximately RMB1,214 million of defined benefit obligations in Germany. The defined benefit plan for Motorola's employees in Germany contains less than 20 active employees but a large number of retirees and former employees with benefits which have vested, but where payment will be deferred until they retire. As a result of these acquisitions and decreases in Euro interest rates, the Group's largest pension liabilities are now in Europe.

The Group continues to maintain significant pension liabilities in Japan where a cash balance benefit is provided for substantially all employees.

In the United States, the defined benefit plan is closed to new entrants, and now covers only 2% of employees. There is also a supplemental defined benefit plan that covers certain executives. The Group also operates final salary defined benefit plans in a number of countries as a result of past acquisition.

The Group's major plans are valued by qualified actuaries annually using the projected unit credit method.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period they arise.

(a) Pension benefits

The amounts recognised in the consolidated balance sheet are determined as follows:

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Present value of funded obligations	**5,840,431**	3,562,485
Fair value of plan assets	**(4,239,215)**	(2,094,218)
Deficit of funded plans	**1,601,216**	1,468,267
Present value of unfunded obligations	**1,211,238**	935,031
Liability in the balance sheet	**2,812,454**	2,403,298
Representing:		
Pension benefits obligation	**2,812,454**	2,403,298

45. Retirement benefit obligations (Continued)

(a) Pension benefits (Continued)

The principal actuarial assumptions used were as follows:

	As at December 31,	
	2018	2017
Discount rate	**0.75%–3.75%**	0.75%–3.00%
Future salary increases	**0%–5.50%**	0%–3.10%
Future pension increases	**0%–2.50%**	0%–2.00%
Life expectancy for male aged 60	**21.8–27.0**	27
Life expectancy for female aged 60	**27.3–28.5**	28

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions are as below:

	Year ended December 31, 2018 Impact on defined benefit obligation *(i)*		
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	**0.5%**	**Decrease by 10.6% or 4.8%**	**Increase by 11.4% or 5.12%**
Salary growth rate	**0.5%**	**Increase by 1.2% or 1.83%**	**Decrease by 1.1% or 0.93%**
Pension growth rate	**0.5%**	**Increase by 8.0% or 1.29%**	**Decrease by 7.3% or 4.08%**
		Increase by 1 year in assumption	**Decrease by 1 year in assumption**
Life expectancy		**Increase by 3.3% or 1.29%**	**Decrease by 3.3% or 1.26%**

	Year ended December 31, 2017 Impact on defined benefit obligation *(i)*		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 10.46%	Increase by 12.17%
Salary growth rate	0.5%	Increase by 1.16%	Decrease by 1.11%
Pension growth rate	0.5%	Increase by 7.92%	Decrease by 7.71%
		Increase by 1 year in assumption	Decrease by 1 year in assumption
Life expectancy		Increase by 3.8%	Decrease by 3.39%

(i) Different subsidiaries in the Group have pension plans in various regions. As different models are used, change in an assumption may result in different output. The analysis results of different model are listed respectively in above sensitivity analysis.

45. Retirement benefit obligations (Continued)

(a) Pension benefits (Continued)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change for the year ended December 31, 2018 and 2017.

(b) Post-employment medical benefits

The Group operates a number of post-employment medical benefit schemes, principally in the US. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes.

The US plan (Lenovo Future Health Account and Retiree Life Insurance Program) is currently funded by a trust that qualifies for tax exemption under US tax law, out of which benefits to eligible retirees and dependents will be made.

As post-employment medical benefits plan made no agreements on future benefit level changes, the changes in future medical cost trend rates have no effect on the liabilities for post-employment medical benefits.

The amounts recognised in the consolidated balance sheet are determined as follows:

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Present value of funded obligations	**189,164**	185,349
Fair value of plan assets	**(16,973)**	(24,411)
Deficit of funded plans	**172,191**	160,938
Present value of unfunded obligations	**11,283**	9,631
Liability in the balance sheet	**183,474**	170,569

45. Retirement benefit obligations (Continued)

(c) Additional information on post-employment benefits (pension and medical)

Percentage of fair value of the plan assets are analysed below:

	2018			2017		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Pension						
Equity instruments *(i)*	**14.21%**	**–**	**9.72%**	11.41%	–	4.57%
Debt instruments *(ii)*	**68.35%**	**–**	**46.76%**	76.55%	–	30.65%
Property	**4.88%**	**–**	**3.34%**	–	0.25%	0.15%
Qualifying insurance policies	**–**	**6.83%**	**2.16%**	–	20.87%	12.52%
Cash and cash equivalents	**–**	**22.41%**	**7.08%**	12.04%	–	4.82%
Investment funds	**–**	**28.76%**	**9.08%**	–	14.37%	8.61%
Structured bonds	**–**	**41.81%**	**13.21%**	–	–	–
Others	**12.56%**	**0.19%**	**8.65%**	–	64.51%	38.68%
	100.00%	**100.00%**	**100.00%**	100.00%	100.00%	100.00%
Medical Plan						
– Cash and cash equivalents	**100.00%**	**–**	**100.00%**	100.00%	–	100.00%

(i) The equity instruments in plan assets of the subsidiaries of the Group mainly include IT, energy, manufacturing and other industries.

(ii) The debt instruments in plan assets of the subsidiaries of the Group mainly include government bond and corporate bond (both investment grade and non-investment grade).

The long-term strategic asset allocations of the plans are set and reviewed from time to time by the plans' trustees taking into account the membership and liability profile, the liquidity requirements of the plans.

For the year ended December 31, 2018 and 2017, the weighted average duration of Lenovo's defined benefit obligation is 17 years and 12 years respectively. For the year ended December 31, 2018, the weighted average duration of BIL's EUR pension plan and Swiss pension plan is 6.99years and 20.1 years respectively.

Pension and medical plan assets do not include any of the Company's ordinary shares, US real estate occupied by the Group, own transferable financial instruments issued or assets occupied or used by BIL for the year ended December 31, 2018 and 2017.

45. Retirement benefit obligations (Continued)

(c) Additional information on post-employment benefits (pension and medical) (Continued)

Reconciliation of fair value of plan assets of the Group:

Pension	As at December 31, 2018 RMB'000	As at December 31, 2017 RMB'000
Opening fair value	**2,094,218**	1,830,647
Acquisition of subsidiary	**2,047,546**	–
Interest income	**55,354**	35,323
Actuarial losses	**(36,027)**	(38,927)
Contributions by the employer	**265,726**	133,641
Contributions by plan participants	**13,840**	3,839
Benefits paid	**(353,424)**	(138,453)
Exchange adjustment	**165,226**	268,148
Others	**(13,244)**	–
Closing fair value	**4,239,215**	2,094,218
Actual return on plan assets	**19,327**	(3,604)

Medical	As at December 31, 2018 RMB'000	As at December 31, 2017 RMB'000
Opening fair value	**24,411**	29,978
Exchange adjustment	**43**	(1,471)
Interest income	**748**	635
Actuarial gains/(losses)	**2,350**	(1,757)
Contributions by the employer	**271**	277
Benefits paid	**(10,850)**	(3,251)
Closing fair value	**16,973**	24,411
Actual return on plan assets	**3,098**	(1,122)

Contribution of RMB244 million are estimated to be made for the year ending December 31, 2019.

45. Retirement benefit obligations (Continued)

(c) Additional information on post-employment benefits (pension and medical) (Continued)

Reconciliation of movements in present value of defined benefit obligations of the Group:

	As at December 31,	
Pension	**2018**	2017
	RMB'000	*RMB'000*
Opening defined benefit obligation	**4,497,516**	4,451,667
Acquisition of subsidiary	**2,171,832**	–
Current service cost	**148,439**	96,114
Past service cost	**(11,558)**	(11,497)
Interest cost	**89,864**	61,204
Actuarial losses/(gains)	**181,407**	(303,247)
Contributions by plan participants	**13,840**	3,839
Benefits paid	**(367,194)**	(143,692)
Curtailments	**(19,516)**	(1,960)
Exchange adjustment	**378,513**	345,088
Others	**(31,474)**	–
Closing defined benefit obligation	**7,051,669**	4,497,516

	As at December 31,	
Medical	**2018**	2017
	RMB'000	*RMB'000*
Opening defined benefit obligation	**194,980**	199,887
Exchange adjustment	**8,188**	(8,421)
Current service cost	**2,277**	2,481
Interest cost	**6,971**	4,758
Actuarial gains	**(3,568)**	(345)
Benefits paid	**(8,401)**	(3,305)
Curtailments	**–**	(75)
Closing defined benefit obligation	**200,447**	194,980

For the year ended December 31, 2018 and 2017, benefit of RMB8.3 million and RMB5.2 million were paid directly by the Group.

45. Retirement benefit obligations (Continued)

(c) Additional information on post-employment benefits (pension and medical) (Continued)

The amounts recognised in the consolidated income statement were as follows:

	As at December 31,	
Pension	**2018**	2017
	RMB'000	*RMB'000*
Current service cost	**148,439**	96,114
Past service cost	**(11,558)**	(11,497)
Interest cost	**89,864**	61,204
Interest income	**(55,354)**	(35,323)
Curtailment gains	**(19,516)**	(1,960)
Total expense recognised in the consolidated income statement	**151,875**	108,538

	As at December 31,	
Medical	**2018**	2017
	RMB'000	*RMB'000*
Current service cost	**2,277**	2,481
Interest cost	**6,971**	4,758
Interest income	**(748)**	(635)
Curtailment gains	**–**	(75)
Total expense recognized in the consolidated income statement	**8,500**	6,529

Summary of pensions and post-retirement medical benefits of the Group:

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Present value of defined benefit obligations	**7,252,116**	4,692,496
Fair value of plan assets	**(4,256,188)**	(2,118,629)
Deficit	**2,995,928**	2,573,867
Actuarial losses arising on plan assets	**(33,677)**	(40,684)
Actuarial losses/(gains) arising on plan liabilities	**(177,839)**	303,592
	(211,516)	262,908

46. Provisions

	Warranties	Environmental restoration	Restructuring	Financial guarantee	Other provisions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at January 1, 2018	**7,094,737**	**60,383**	**444,299**	**108,849**	**–**	**7,708,268**
Provision made	**5,538,369**	**86,022**	**274,941**	**4,858**	**74,075**	**5,978,265**
Unused amounts reversed	**–**	**–**	**–**	**–**	**(52,013)**	**(52,013)**
Amount utilised	**(5,801,564)**	**(69,015)**	**(537,648)**	**(105,326)**	**(119,976)**	**(6,633,529)**
Exchange adjustment	**152,505**	**12,210**	**9,746**	**–**	**7,319**	**181,780**
Acquisition of business	**–**	**162,259**	**63,587**	**17,930**	**210,333**	**454,109**
At end of the year	**6,984,047**	**251,859**	**254,925**	**26,311**	**119,738**	**7,636,880**
Non-current portion	**(1,797,445)**	**(231,571)**	**–**	**–**	**(16,087)**	**(2,045,103)**
As at December 31, 2018	**5,186,602**	**20,288**	**254,925**	**26,311**	**103,651**	**5,591,777**
As at January 1, 2017	7,878,539	57,348	861,929	108,462	–	8,906,278
Provision made	5,728,297	64,144	513,622	10,573	–	6,316,636
Amount utilised	(6,223,063)	(64,029)	(906,814)	(10,186)	–	(7,204,092)
Exchange adjustment	(289,036)	2,920	(24,438)	–	–	(310,554)
At end of the year	7,094,737	60,383	444,299	108,849	–	7,708,268
Non-current portion	(1,855,928)	(43,524)	–	–	–	(1,899,452)
As at December 31, 2017	5,238,809	16,859	444,299	108,849	–	5,808,816

The Group records its warranty liability at the time of sales based on estimated costs. Warranty claims are reasonably predictable based on historical failure rate information. The warranty accrual is reviewed quarterly to verify it properly reflects the outstanding obligation over the warranty period. Certain of these costs are reimbursable from the suppliers in accordance with the terms of relevant arrangement with them.

The Group records its environmental restoration provision at the time of sales based on estimated costs of environmentally-sound disposal of waste electrical and electronic equipment upon return from end-customers and with reference to the historical or projected future return rate. Environmental restoration provision is reviewed at least annually to assess its adequacy to meet the Group's obligation.

Restructuring costs provision mainly comprises lease termination obligation and employee termination payments, arising from a series of restructuring actions to reduce costs and enhance operational efficiency. The Group records its restructuring costs provision when it has a present legal or constructive obligation as a result of restructuring actions.

Other provision mainly consists of provision related litigation and loan commitments of the Group.

47. Dividends

The dividends paid in 2018 and 2017 were RMB636 million (RMB0.27 per share) and RMB570 million (RMB0.242 per share) respectively. A dividend in respect of the year ended 31 December 2018 of RMB0.30 per share, amounting to a total dividend of RMB707 million, is to be proposed at the forthcoming 2018 annual general meeting. These financial statements do not reflect this dividend payable.

48. Cash generated from operations

(a) Cash generated from operations

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Profit before income tax	**8,900,801**	7,431,880
Adjustments for:		
Impairment loss for non-current assets *(Note 8)*	**581,402**	176,552
Impairment loss on loans to customers *(Note 8)*	**1,011,064**	630,283
Impairment loss on other financial assets *(Note 8)*	**189,636**	223,167
Inventory write-down *(Note 8)*	**548,248**	269,028
Depreciation of property, plant and equipment *(Note 17)*	**2,578,432**	2,462,577
Amortisation	**3,514,443**	3,247,646
Loss/(gains) on disposal of property, plant and equipment and intangible assets *(Note 7)*	**52,550**	(350,126)
Fair value gains on investment properties *(Note 7)*	**(413,063)**	(836,122)
Fair value gains and dividend income from financial assets at fair value through profit or loss *(Note 6)*	**(2,672,117)**	(1,350,427)
Fair value loss/(gains) and dividend income from associates measured at fair value through profit or loss *(Note 6)*	**649,951**	(1,642,315)
Finance costs – net *(Note 11)*	**4,391,027**	3,652,247
Gains on disposal/dilution of associates *(Note 6)*	**(324,208)**	(2,160,909)
Gains on disposal of available-for-sale financial assets *(Note 6)*	**–**	(2,042,265)
Gains on disposal of subsidiary *(Note 6)*	**(2,183,525)**	(63,312)
Fair value gains and dividend income from financial assets at fair value through other comprehensive income *(Note 6)*	**(69,466)**	–
Dividend income from available-for-sale financial assets *(Note 6)*	**–**	(354,673)
Share-based payments *(Note 32(c))*	**1,453,963**	1,350,774
Share of profit of associates and joint ventures using equity accounting	**(676,205)**	(1,074,656)
Net foreign exchange losses *(Note 7)*	**454,954**	974,612
Changes in working capital (excluding the effects of acquisition, disposal of discontinued operations and exchange differences on consolidation):		
Inventories, properties under development	**2,484,862**	(8,009,784)
Trade and other receivables	**(2,341,324)**	(8,733,738)
Loans to customers and credit institutions	**(2,992,521)**	–
Amount due to customers and credit institutions	**(4,183,791)**	–
Trade and other payables	**(5,238,525)**	4,403,894
Cash generated from/(used in) from operating activities	**5,716,588**	(1,795,667)

48. Cash generated from operations (Continued)

(b) Net debt reconciliation

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Cash and cash equivalents	**60,023,193**	32,202,477
Borrowings – repayable within one year	**(59,676,804)**	(23,123,530)
Borrowings – repayable after one year	**(68,548,293)**	(64,454,075)
Net debt	**(68,201,904)**	(55,375,128)
Cash and cash equivalents	**60,023,193**	32,202,477
Gross debt – fixed interest rates	**(118,680,681)**	(80,834,330)
Gross debt – variable interest rates	**(9,544,416)**	(6,743,275)
Net debt	**(68,201,904)**	(55,375,128)

	Cash and cash equivalents	**Borrowings due within 1 year**	**Borrowing due after 1 year**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net debt as at January 1, 2017	30,059,402	(26,153,409)	(56,516,221)	(52,610,228)
Cash flows	3,249,730	16,675,608	(23,881,184)	(3,955,846)
Foreign exchange (losses)/gains	(1,106,655)	573,118	1,724,483	1,190,946
Other non-cash movements	–	(14,218,847)	14,218,847	–
Net debt as at December 31, 2017	32,202,477	(23,123,530)	(64,454,075)	(55,375,128)
Cash flows	**26,906,552**	**(3,991,084)**	**(15,316,303)**	**7,599,165**
Foreign exchange gains/(losses)	**914,164**	**(464,935)**	**(1,478,159)**	**(1,028,930)**
Acquisition of subsidiaries	**–**	**(1,207,542)**	**(15,122,254)**	**(16,329,796)**
Disposal of subsidiaries	**–**	**480,000**	**340,318**	**820,318**
Other non-cash movements	**–**	**(31,369,713)**	**27,482,180**	**(3,887,533)**
Net debt as at December, 31 2018	**60,023,193**	**(59,676,804)**	**(68,548,293)**	**(68,201,904)**

49. Contingencies

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Financial guarantee of guarantee business *(a)*	**10,468,151**	3,765,033
Other guarantee *(b)*		
– Related parties *(Note 55(e))*	**3,720,330**	1,923,420
– Unrelated parties	**6,376,256**	11,857,448
	20,564,737	17,545,901

(a) Financial guarantee of guarantee business

Subsidiaries in financial service segment of the Group provide financial guarantees to small and medium-sized entities for their borrowings from certain banks and charge them guarantee fees accordingly. As at December 31, 2018 and 2017, the guarantee balance was RMB10,468 million and RMB3,765 million respectively. The Directors evaluate the financial position of the guaranteed entities and make provision accordingly. As at December 31, 2018 and 2017, the provision made by the Group was RMB26 million and RMB109 million respectively, which were included in "Provision" in the consolidated balance sheet.

(b) Other guarantee

As at December 31, 2018 and 2017, of the total guarantee balances the Group provided to related parties and unrelated parties are approximately RMB10,097 million and RMB13,781 million. The guarantee balances to unrelated parties are mainly related to real estate business, which was disposed in historic period, and the guaranteed companies provided counter guarantee correspondingly. The Board reviews the financial conditions of the guaranteed companies periodically and records provision when necessary. As at December 31, 2018 and 2017, no provision was recorded in relevant to the preceding guarantee.

50. Balance sheet and reserve movement of the Company

(a) Balance sheet of the Company

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
ASSETS		
Non-current assets		
Property, plant and equipment	**32,553**	41,859
Intangible assets	**4,878**	2,540
Investments in subsidiaries	**27,694,869**	25,224,153
Associates using equity accounting	**6,408,336**	6,214,333
Associates measured at fair value through profit or loss	**197,180**	404,940
Deferred income tax assets	**185,660**	31,874
Available-for-sale financial assets	**–**	319,189
Other non-current assets	**469,423**	1,148,141
	34,992,899	33,387,029
Current assets		
Amounts due from subsidiaries	**19,688,227**	9,129,063
Amounts due from related parties	**1,154,492**	922,071
Prepayment, other receivables and other current assets	**1,155,604**	466,875
Financial assets at fair value through profit or loss	**3,547,504**	334,910
Bank deposit	**–**	1,000,000
Cash and cash equivalents	**4,617,947**	10,298,515
	30,163,774	22,151,434
Total assets	**65,156,673**	55,538,463
Share capital	**2,356,231**	2,356,231
Other reserves *(Note 50(b))*	**14,459,586**	15,410,185
Total equity	**16,815,817**	17,766,416

50. Balance sheet and reserve movement of the Company (Continued)

(a) Balance sheet of the Company (Continued)

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
LIABILITIES		
Non-current liabilities		
Borrowings	**24,768,486**	23,390,646
Other non-current liabilities	**14,348**	17,704
	24,782,834	23,408,350
Current liabilities		
Amounts due to subsidiaries	**10,715,591**	6,646,467
Amounts due to related parties	**61,664**	61,664
Other payables and accruals	**570,391**	464,387
Current income tax liabilities	**–**	32,648
Borrowings	**12,210,376**	7,158,531
	23,558,022	14,363,697
Total liabilities	**48,340,856**	37,772,047
Total equity and liabilities	**65,156,673**	55,538,463
Net current assets	**6,605,752**	7,787,737
Total assets less current liabilities	**41,598,651**	41,174,766

The balance sheet of the Company was approved by the Board of Directors on March 28, 2019 and was signed on its behalf.

LIU Chuanzhi
Director

ZHU Linan
Director

50. Balance sheet and reserve movement of the Company (Continued)

(b) Movement of reserves of the Company

The changes in the reserves of the Company during the year ended December 31, 2018 and 2017 are as follows:

	The Company						
	Statutory surplus reserve RMB'000	Investment revaluation reserve RMB'000	Share-based compensation reserve RMB'000	Shares held for restricted share scheme RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000
As at January 1, 2017	311,807	204,885	231,971	(269,831)	11,984,888	3,045,106	15,508,826
Profit for the year	–	–	–	–	–	687,121	687,121
Fair value changes on available-for-sale financial assets	–	25,427	–	–	–	–	25,427
Reclassified to income statement on disposal of available-for-sale financial assets	–	(195,520)	–	–	–	–	(195,520)
Share of other comprehensive income of associates	–	(41,988)	–	–	–	–	(41,988)
Share of other reserve of associates	–	–	–	–	(13,462)	–	(13,462)
Share-based compensation *(Note 32)*	–	–	–	68,480	–	–	68,480
Purchase of restricted shares under share scheme *(Note 32)*	–	–	–	(58,491)	–	–	(58,491)
Transfer to statutory surplus reserve	73,848	–	–	–	–	(73,848)	–
Dividends paid	–	–	–	–	–	(570,208)	(570,208)
As at December 31, 2017	385,655	(7,196)	231,971	(259,842)	11,971,426	3,088,171	15,410,185
Changes in accounting policy	**-**	**74,133**	**-**	**-**	**-**	**(330,251)**	**(256,118)**
At January 1, 2018	**385,655**	**66,937**	**231,971**	**(259,842)**	**11,971,426**	**2,757,920**	**15,154,067**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**751,973**	**751,973**
Share of other comprehensive income of associates	**-**	**(167,331)**	**-**	**-**	**-**	**-**	**(167,331)**
Share of other reserve of associates	**-**	**-**	**-**	**-**	**43,427**	**-**	**43,427**
Share-based compensation *(Note 32)*	**-**	**-**	**-**	**63,490**	**-**	**-**	**63,490**
Transfer to statutory surplus reserve	**75,197**	**-**	**-**	**-**	**-**	**(75,197)**	**-**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**(636,182)**	**(636,182)**
Transfer to associates using the equity method with loss of control in subsidiaries	**-**	**-**	**-**	**-**	**(33,095)**	**(716,763)**	**(749,858)**
As at December 31, 2018	**460,852**	**(100,394)**	**231,971**	**(196,352)**	**11,981,758**	**2,081,751**	**14,459,586**

51. Benefits and interests of directors

(a) Directors', supervisors' and chief executive's emoluments

The remuneration of each director, supervisor, and the chief executive for the year ended December 31, 2018 is set out below:

Name	Fees *RMB'000*	Salaries *RMB'000*	Discretionary bonuses *RMB'000*	Share option and rewards *RMB'000*	Retirement payment and employer's contribution to pension schedule *RMB'000*	Other benefits *RMB'000*	Total *RMB'000*
Executive Directors							
Mr. LIU Chuanzhi (柳傳志)	–	16,000	21,600	1,277	–	1,739	40,616
Mr. ZHU Linan (朱立南) *(Chief Executive)*	635	13,800	18,630	1,430	1,159	1,532	37,186
Mr. ZHAO John Huan (趙令歡)	635	5,000	–	1,430	–	–	7,065
Mr. NING Min (寧旻) *(i)*	–	6,000	8,100	–	504	786	15,390
Non-executive Directors	–	–	–	–	–	–	–
Mr. WU Lebin (吳樂斌)	–	–	–	–	–	–	–
Mr. WANG Jin (王津) *(ii)*	–	–	–	–	–	–	–
Mr. LU Zhiqiang (盧志強) *(iii)*	–	–	–	–	–	–	–
Mr. SUO Jishuan (索繼栓) *(iv)*	–	–	–	–	–	–	–
Independent Non-executive Directors							
Mr. MA Weihua (馬蔚華)	400	–	–	–	–	–	400
Mr. ZHANG Xuebing (張學兵)	330	–	–	–	–	–	330
Ms. HAO Quan (郝荃)	400	–	–	–	–	–	400
Supervisors	–	–	–	–	–	–	–
Mr. LI Qin (李勤)	–	–	–	–	–	–	–
Mr. SUO Jishuan (索繼栓) *(ii)*	–	–	–	–	–	–	–
Mr. QI Zixin (齊子鑫) *(v)*	–	–	–	–	–	–	–
Mr. LUO Cheng (羅成) *(vi)*	–	–	–	–	–	–	–
Ms. FENG Ling (馮玲) *(iv)*	–	–	–	–	–	–	–
	2,400	40,800	48,300	4,137	1,663	4,057	101,387

(i) Appointed in December, 2018. The salary disclosed above is the salary Mr. Ning Min got from the Group till December 31, 2018.

(ii) Retired in June, 2018.

(iii) Resigned in September, 2018.

(iv) Appointed in June, 2018.

(v) Resigned in January, 2018.

(vi) Appointed in January, 2018.

51. Benefits and interests of directors (Continued)

(a) Directors', supervisors' and chief executive's emoluments (Continued)

The remuneration of each director, supervisor, and the chief executive for the year ended December 31, 2017 is set out below:

Name	Fees	Salaries	Discretionary bonuses	Share option and rewards	Retirement payment and employer's contribution to pension schedule	Other benefits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors							
Mr. LIU Chuanzhi (柳傳志)	–	16,000	14,400	4,700	–	1,635	36,735
Mr. ZHU Linan (朱立南) *(Chief Executive)*	629	13,800	12,420	1,283	1,159	1,516	30,807
Mr. ZHAO John Huan (趙令歡)	629	–	–	1,283	–	–	1,912
Non-executive Directors							
Mr. WU Lebin (吳樂斌)	–	–	–	–	–	–	–
Mr. WANG Jin (王津)	–	–	–	–	–	–	–
Mr. LU Zhiqiang (盧志強)	–	–	–	–	–	–	–
Independent Non-Executive Directors							
Mr. Ma Weihua (馬蔚華)	300	–	–	–	–	–	300
Mr. Zhang Xuebing (張學兵)	250	–	–	–	–	–	250
Ms. Hao Quan (郝荃)	300	–	–	–	–	–	300
Supervisors							
Mr. LI Qin (李勤)	–	–	–	–	–	–	–
Mr. SUO Jishuan (索繼栓)	–	–	–	–	–	–	–
Mr. QI Zixin (齊子鑫)	–	–	–	–	–	–	–
	2,108	29,800	26,820	7,266	1,159	3,151	70,304

(b) Interest of Directors and Supervisors

In 2018, Leap Wave, a wholly-owned subsidiary of the Company, as the Subscriber, and Hospital Corporation of China Limited (弘和仁愛醫療集團有限公司, "Hospital Corporation") as the issuer, entered into the subscription agreement, pursuant to which Hospital Corporation has conditionally agreed to issue and Leap Wave has conditionally agreed to subscribe for the Convertible Bonds in the aggregate principal amount of HKD800 million for a total consideration equal to the aggregate principal amount of the Convertible Bonds. The Convertible Bonds can be redeemed within 5 years. Hospital Corporation is an associate of the Company's director Mr. ZHAO John Huan ("Mr. ZHAO").

51. Benefits and interests of directors (Continued)

(b) Interest of Directors and Supervisors (Continued)

In 2018, Right Lane, a wholly-owned subsidiary of the Group and as the guarantor, provided HKD226.2 million guarantee to China Merchants Bank for Fortune Eight Deacon Limited ("FED") (As the borrower). FED is an associate of Mr. ZHAO. Term of guarantee is from the date on which the FED Letter of Guarantee becomes effective until the expiry of the period of repayment of the borrowings, advances or other debts, plus another three years. In addition, FED and Right Lane (as the guarantor) entered into a guarantee fee payment agreement on February 8, 2018, pursuant to which FED shall pay a guarantee fee to Right Lane on an annual basis with effect from the first drawdown date of the FED loans. The amount of the guarantee fee shall be calculated based on the outstanding loan balance at various points of each year and the actual number of days elapsed and at an annual rate of 1%.

On August 30, 2018, the Company and Better Education entered into the Financial Assistance Agreement, pursuant to which the Company has agreed to, at the written request of Better Education and within a term of three years, provide continuing financial assistance in the amount of no more than USD250 million or its equivalent in Renminbi to Better Education or its subsidiaries, subject to the then financial positions of the Company and compliance with the Listing Rules. Better Education is an associate of Mr. ZHAO.

During the year 2018 and 2017, Right Lane, a wholly-owned subsidiary of the Company and as the guarantor, entered into a facility agreement relating to a term loan facility with a maximum amount of USD100 million with Well Faith Management Limited ("Well Faith"), an associate of the Company's director Mr. ZHAO, and as the borrower, and the lenders, to provide a continuing corporate guarantee to secure the whole amount of such term loan in favour of the Banks. As a return, Well Faith has paid a guarantee fee to Right Lane.

Other than the aforesaid, there are no loans, quasi-loans or other dealings in favor of directors or supervisors, their controlled bodies corporate and connected entities.

52. Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Property, plant and equipment	**860,785**	1,504,011
Intangible assets	**–**	11,644
Investments *(i)*	**10,230,185**	15,376,901
Total	**11,090,970**	16,892,556

(i) The Group has commitments in respect of investments in certain funds. Investment commitments represent the portion of committed capital not yet called for payment. Besides, on November 18, 2018, Joyvio Group, entered into a purchase promise agreement, pursuant to which Joyvio Group agreed to, subject to the fulfilment of certain conditions precedent, enter into a stock purchase agreement to acquire from the promising sellers about 95% of the issued and outstanding common voting shares in Australis Seafoods S.A. (Note 56). On September 1, 2017, the Group entered into the sale and purchase Agreement, to purchase the 89.936% issued share capital of the Banque Internationale à Luxembourg S.A. ("BIL"), for the consideration which shall be payable in cash, plus adjustment related to the profit and asset levels of the bank. The payment has been paid partly on July 2018 (Note 54).

52. Commitments (Continued)

(b) Operating lease commitments

The Group leases various retail outlets, offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 5 and 10 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The Group also leases various plant and machinery under cancellable operating lease agreements. The lease expenditure charged to the consolidated income statement during the year is disclosed in Note 8.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
No later than 1 year	**589,087**	434,134
Later than 1 year and not later than 5 years	**2,249,742**	2,417,583
Later than 5 years	**1,232,227**	4,041,904
	4,071,056	6,893,621

(c) Loans commitments

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Unused credit lines granted to credit institutions	**698,641**	–
Unused credit lines granted to customers	**19,760,728**	–
	20,459,369	–

53. Transactions with other non-controlling interests

(a) Acquisition of additional interests in subsidiaries

The effect of acquisition of additional interests in subsidiaries is summarised as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Carrying amount of non-controlling interests acquired	**736,131**	623,189
Consideration paid to non-controlling interests	**(1,109,857)**	(1,003,765)
Excess of consideration paid recognised within equity	**(373,726)**	(380,576)

In the second half of 2018, the Company increase its holdings of Golden Wing Mau and Xinguojiayuan. The excess of consideration paid is recognized within equity.

53. Transactions with other non-controlling interests (Continued)

(b) Disposal of interest in subsidiaries without loss of control

The effect of disposal of interests in subsidiaries is summarised as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Carrying amount of non-controlling interests disposed	**(13,824)**	(145,085)
Consideration received from non-controlling interests	**69,334**	769,268
Gain on disposal within equity	**55,510**	624,183

Effects of transactions with non-controlling interests on the equity attributable to owners of the Company for the year ended December 31, 2018 are as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Acquisition of additional interests in subsidiaries	**(373,726)**	(380,576)
Disposal of interests in subsidiaries without loss of control	**55,510**	624,183
Net effect in equity attributable to equity holders of the Company	**(318,216)**	243,607

54. Business combinations

In 2018, the major business combination activities are as follows:

In 2018, Joyvio Group obtained the control of Golden Wing Mau by signing the acting in concert agreement with some other shareholders of Golden Wing Mau. The Group owned 35.38% interest of Golden Wing Mau as share of profit of associates accounted for using the equity method before the business combination.

On May 2, 2018, Lenovo acquired 51% of FCCL. FCCL is principally engaged in manufacturing and distribution of PC products. Immediately following completion, Lenovo, Fujitsu, and Development Bank of Japan ("DBJ") respectively owns 51%, 44%, and 5% of the interest in FCCL. The acquisition provides Lenovo with efficiencies and economies of scale to benefit the development, manufacture and distribution of Fujitsu-branded personal computer products, while enabling improved global penetration of the Fujitsu personal computer brand for the benefit of both consumer and enterprise market customers.

On September 1, 2017, Beyond Leap Limited (a wholly-owned subsidiary of the Company) (as the Purchaser), Precision Capital S.A. (as the Seller), Right Lane (as the Guarantor) and the Company entered into the sale and purchase Agreement pursuant to which the Purchaser has conditionally agreed to purchase and the Seller has conditionally agreed to sell the 89.936% issued share capital of the BIL, for the consideration which shall be payable in cash; plus adjustment related to the profit and asset levels of the Bank.

54. Business combinations (Continued)

On July 2, 2018, the agreement have been fulfilled and the Closing of the Acquisition took place. After Closing, such purchase price shall be subject to certain post-closing adjustments. Founded in 1856, BIL is the oldest privately owned bank in the Grand Duchy of Luxembourg. It currently operates in retail and corporate banking, wealth management as well as on capital markets. The acquisition of BIL has enabled the Company to achieve its target of investing in pillar assets and will bring good returns to the shareholders of the company.

(a) Set forth below is the calculation of goodwill:

	At the acquisition date		
	BIL	**Golden Wing Mau**	**FCCL**
	RMB'000	***RMB'000***	***RMB'000***
Purchase consideration			
– Cash advances in previous years	**340,629**	**–**	**–**
– Cash paid	**11,400,148**	**–**	**810,936**
– Fair value of the acquirer's previously held equity interest	**–**	**1,402,098**	**–**
– Present value of deferred consideration	**290,757**	**–**	**708,491**
– Contingent consideration	**208,628**	**–**	**–**
Total purchase consideration	**12,240,162**	**1,402,098**	**1,519,427**
Less: Fair value of net assets acquired	**(11,182,531)**	**(819,476)**	**(805,709)**
Goodwill	**1,057,631**	**582,622**	**713,718**

The goodwill is attributable to the expansibility and the high profitability of the acquired business. It will not be deductible for tax purposes.

(b) The major components of assets and liabilities arising from the business combination activities are as follows:

	At the acquisition date		
	BIL	**Golden Wing Mau**	**FCCL**
	RMB'000	***RMB'000***	***RMB'000***
Cash and cash equivalents	**31,612,767**	**418,068**	**146,143**
Property, plant and equipment	**2,018,971**	**1,106,699**	**219,125**
Other non-current assets	**113,139,320**	**744,944**	**55,341**
Intangible assets *(i)*	**2,007,040**	**69,796**	**1,052,123**
Net working capital, except cash and cash equivalents	**(107,460,488)**	**375,372**	**485,711**
Non-current liabilities	**(28,883,734)**	**(314,372)**	**(378,620)**
Non-controlling interests	**(1,251,345)**	**(1,581,031)**	**(774,114)**
Fair value of net assets acquired	**11,182,531**	**819,476**	**805,709**

(i) The intangible assets are mainly composed of brand name and customer relationship.

54. Business combinations (Continued)

(c) Net cash (inflow)/outflow from acquisition of subsidiaries

	At the acquisition date		
	BIL	**Golden Wing Mau**	**FCCL**
	RMB'000	***RMB'000***	***RMB'000***
Purchase consideration settled in cash	**11,400,148**	**–**	**810,936**
Less: cash and cash equivalents in subsidiaries acquired	**(31,612,767)**	**(418,068)**	**(146,143)**
Acquisition of subsidiaries, net of cash (acquired)/paid	**(20,212,619)**	**(418,068)**	**664,793**

(d) Impact of acquisitions on the results of the Group

The aggregated revenue of newly acquired businesses mentioned above included in the consolidated income statement since their respective dates of acquisition and up to December 31, 2018 was RMB22,256 million. The newly acquired businesses mentioned above also contributed an aggregated profit after taxation of RMB1,230 million over the same period. Has the newly acquired businesses mentioned above been consolidated from January 1, 2018, the beginning of the financial year, the aggregated revenue would increase RMB6,300 million, and the aggregated profit after taxation would increase RMB786 million.

The operation results of other newly acquired business does not have significant impact on the consolidated financial information for the year ended December 31, 2018.

55. Related party transactions

The Company does not have any ultimate controlling party. The general information and other related information of the subsidiaries is set out in Note 12.

(a) For the year ended December 31, 2018 and 2017, the principal related parties that had transactions with the Group are listed below:

	Relationship with the Group
Legend Shenzhen Science and Technology Park Limited (深圳市聯想科技園有限公司) ("Shenzhen Science and Technology Park")	Associate of the Group
Xinneng Fenghuang (Tengzhou) Energy Co., Ltd. (新能鳳凰(滕州)能源有限公司)	Associate of the Group
IGRS Engineering Lab Limited (閃聯信息技術工程中心有限公司)	Associate of the Group
Legend Capital Co., Ltd. (君聯資本管理股份有限公司)	Associate of the Group
Shanghai Shiyun Network Technology Limited (上海視雲網絡科技有限公司)	Associate of the Group
Legend Capital Management Limited	Associate of the Group
Hankou Bank	Associate of the Group
Well Faith	Associate of the Group
Hony Capital Management Limited	Associate of the Group
Union Insurance	Associate of the Group
Golden Wing Mau *(i)*	Associate of the Group
Social Touch (Beijing) Technology Development Co., Ltd. (時趣互動(北京)科技有限公司) ("Social Touch")	Associate of the Group
Hefei Zhiran Real Estate Company (合肥質然房地產開發有限公司) ("Hefei Zhiran")	Associate of the Group
Bybo Dental	Associate of the Group
Hebei Hengshui Laobaigan	Associate of the Group
Hony Beijing Tongren Consulting L.P. (北京弘毅同人顧問中心(有限合夥))	Associate of the Group
FED	Associate of the Group

(i) In 2017, Golden Wing Mau was an Associate of Joyvio Group, a subsidiary of the Company. In 2018, Golden Wing Mau became a subsidiary of the Group. See Note 54.

55. Related party transactions (Continued)

(b) Significant related party transactions

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties for the year ended December 31, 2018 and 2017:

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Purchase of goods from		
– Associates	**1,606,235**	1,169,369
Sale of goods to		
– Associates	**1,282**	–
Services received from		
– Associates	**39,687**	7,192
Rendering of services to		
– Associates	**76,717**	54,738
Loan provided by		
– Associates	**–**	165,093
Loan provided to		
– Associates	**451,909**	2,941,741
Interest income from		
– Associates	**76,083**	92,225
Interest expenses to		
– Associates	**–**	16,374
Sale of equity investment to		
– Associates	**–**	963,776

55. Related party transactions (Continued)

(c) Year-end balances due from/to related party

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Accounts and notes receivables		
– Associates	**10,055**	35
Prepayment, other receivables and other current assets *(i)*		
– Associates	**1,516,283**	1,514,486
Borrowings		
– Associates	**–**	34,318
Current portion of non-current liabilities		
– Associates	**–**	151,104
Trade and notes payables		
– Associates	**–**	601
Advance from client		
– Associates	**3,221**	941
Other payables and accruals		
– Associates	**327,751**	376,136
Long-term receivables		
– Associates	**196,153**	303,698
Loans to customers		
– Associates	**229,466**	–

(i) Prepayment, other receivables and other current assets includes amounts receivables from the following parties:

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Shenzhen Science and Technology Park	**873,788**	839,664
Bybo Dental	**316,667**	–
Union Insurance	**5,279**	132,393
Hefei Zhiran	**16,178**	274,138
Others	**304,371**	268,291
Total	**1,516,283**	1,514,486

55. Related party transactions (Continued)

(d) Key management compensation

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Fees	**2,400**	2,108
Salaries	**59,800**	53,800
Discretionary bonuses	**71,930**	49,620
Share option and rewards	**16,087**	17,696
Employer's contribution to pension schedule	**3,175**	3,207
Other benefits	**6,498**	6,171
	159,890	132,602

(e) Guarantee provided to related parties

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
– Hefei Zhiran	**1,425,600**	–
– Well Faith	**686,320**	653,420
– Bybo Dental	**594,836**	–
– Union Insurance	**470,000**	470,000
– FED	**199,033**	–
– Social Touch	**139,000**	90,000
– Legend Capital Co., Ltd.	**115,541**	–
– Shenzhen Science and Technology Park	**90,000**	90,000
– Golden Wing Mau	**–**	620,000
	3,720,330	1,923,420

56. Subsequent events

On January 15, 2019, the Company completed the public issuance of 2019 corporate bonds (first tranche) of Legend Holdings Corporation to qualified investors. The actual size of issue of the 3-year type of the first tranche of bonds is RMB2 billion with a final coupon rate of 4.50%. The actual size of issue of the 5-year type of the first tranche of bonds is RMB1 billion with a final coupon rate of 5.30%.

On January 24, 2019, Lenovo completed the issuance of 5-year USD675 million convertible bonds bearing annual interest at 3.375% due in January 2024 (the "Bonds") to third party professional investors (the "bondholders"). The bondholders have the right, at any time on or after 41 days after the date of issue up to the 10th day prior to the maturity date, to convert part or all of the outstanding principal amount of the Bonds into ordinary shares of Lenovo at a conversion price of HKD7.99 per share, subject to adjustments. The outstanding principal amount of the Bonds is repayable by Lenovo upon the maturity of the Bonds on January 24, 2024, if not previously redeemed, converted or purchased and cancelled. Based on the initial conversion price of HKD7.99 per share and assuming full conversion of the bonds at the initial conversion price, the bonds will be convertible into 662,539,112 Shares, representing:(i) approximately 5.51% of the existing issued share capital of Lenovo as at the date of this announcement; and (ii) approximately 5.23% of the issued share capital of Lenovo, as enlarged by full conversion of the Bonds.

56. Subsequent events (Continued)

On February 27, 2019, Leap Wave, a wholly-owned subsidiary of the Company, completed the subscription for the convertible bonds of Hospital Corporation (the "Convertible Bonds") in an aggregate principal amount of HKD800 million at an initial conversion price of HKD20 (the "Conversion Price") per conversion share and at the consideration equipment to the total principal amount of the Convertible Bonds. Assuming that the Board decides to exercise in full the conversion rights attached to the Convertible Bonds in the aggregate principal amount of HKD800 million, based on the initial Conversion Price of HKD20 per share, the Company will hold up to 40 million Shares in Hospital Corporation (the "Conversion Shares") in total, representing approximately 28.94% of the issued share capital of Hospital Corporation and approximately 22.45% of the issued share capital of Hospital Corporation as enlarged by the issue of the Conversion Shares (assuming there is no further issue or repurchase of Shares). After Closing and if none of the Convertible Bonds has been converted, Leap Wave (as the holder of the Convertible Bonds) shall be entitled to nominate one qualified person as director of Hospital Corporation, provided that the Leap Wave directly or indirectly holds not less than 10% equity of Hospital Corporation's total issued share capital on an as-converted and fully-diluted basis. After Closing and if the Convertible Bonds have been fully or partially converted, Leap Wave (as a shareholder of Hospital Corporation) shall then be entitled to nominate one qualified person as a director of Hospital Corporation pursuant to the articles of association of Hospital Corporation.

On February 28, 2019, Beijing Joyvio Zhencheng Technology Co., Ltd. (北京佳沃臻誠科技有限公司,Joyvio Zhencheng, a subsidiary of Joyvio Group) (as the Buyer), Inversiones ASF Limitada, Asesorías e Inversiones Benjamín S.A., Inversiones Ruiseñor Dos Limitada, Inversiones Arlequín Dos Limitada (as the Sellers) and Joyvio Group (as the guarantor) entered into the Stock Purchase Agreement (the Agreement). Pursuant to the Agreement, the Buyer has conditionally agreed to purchase and the Sellers have conditionally agreed to sell approximately 95.26% of the issued shares of the Australis Seafoods S.A. (the Target Company), a public company registered in Santiago, Chile and listed on the San Diego Stock Exchange. The value of 100% equity interest in the Target Company is approximately USD880 million (equivalent to approximately RMB6,064 million). The final consideration will be subject to the adjustments for any variations of net financial debts and net working capital in the audited financial statements of the Target Company for the period from June 30, 2018 to the date of adjustment in accordance with the terms of the Agreement. Joyvio Group has agreed to provide a joint and several guarantee for the performance of obligations of Joyvio Zhencheng under the Agreement without consideration. Up to the date of this report, the Group has not yet completed the relevant approval from all of the authorities and registration procedures related with the acquisition of Australis Seafoods S.A., so the relevant information is not disclosed.

Condensed Consolidated Income Statement

	Year ended December 31,				
	2018	2017	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Continuing operations					
Revenue	**358,919,679**	316,262,914	294,745,710	299,541,862	278,227,878
Profit before income tax	**8,900,801**	7,431,880	8,138,759	3,633,326	8,812,426
Income tax expense	**(1,359,827)**	(2,574,187)	(476,255)	(455,234)	(1,636,566)
Profit from continuing operations for the year	**7,540,974**	4,857,693	7,662,504	3,178,092	7,175,860
Discontinued operations					
Profit from discontinued operations for the year	**–**	–	322,506	597,514	646,311
Profit for the year	**7,540,974**	4,857,693	7,985,010	3,775,606	7,822,171
Profit attributable to:					
– Equity holders of the Company	**4,361,525**	5,047,826	4,858,924	4,659,083	4,160,389
– Perpetual securities holders	**355,897**	284,639	–	–	–
– Non-controlling interests	**2,823,552**	(474,772)	3,126,086	(883,477)	3,661,782
	7,540,974	4,857,693	7,985,010	3,775,606	7,822,171
"Earnings per share for the profit attributable to the equity holders of the Company *(expressed in RMB per share)"*					
Basic earnings per share					
– Continuing operations	**1.87**	2.16	2.06	2.02	1.75
– Discontinued operations	**–**	–	–	0.12	0.33
	1.87	2.16	2.06	2.14	2.08
Diluted earnings per share					
– Continuing operations	**1.85**	2.14	2.06	2.02	1.74
– Discontinued operations	**–**	–	–	0.12	0.33
	1.85	2.14	2.06	2.14	2.07

CONDENSED CONSOLIDATED BALANCE SHEET

	As at December 31,				
	2018	2017	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	**289,709,354**	161,513,542	148,792,346	131,234,508	116,857,811
Current assets	**268,557,537**	173,560,199	173,466,482	175,008,384	175,964,775
Total assets	**558,266,891**	335,073,741	322,258,828	306,242,892	292,822,586
Non-current liabilities	**112,104,495**	82,693,896	73,957,619	85,372,680	84,947,038
Current liabilities	**363,144,423**	173,398,197	179,308,997	155,803,129	155,020,669
Total liabilities	**475,248,918**	256,092,093	253,266,616	241,175,809	239,967,707
Net assets	**83,017,973**	78,981,648	68,992,212	65,067,083	52,854,879

Appendix I: Compliance with Relevant Laws and Regulations Having a Significant Impact on the Company

Aspect	Region	Title of law/regulation having a significant impact on the Company
Relating to waste gas and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non hazardous waste	PRC	Law of the People's Republic of China on Prevention and Control of Air Pollution Law of the People's Republic of China on Prevention and Control of Water Pollution National Ambient Air Quality Standards of the People's Republic of China National Hazardous Waste List Law of the People's Republic of China on Prevention and Control of Environmental Pollution Caused by Solid Waste Environmental Protection Law of the People's Republic of China Environmental Protection Tax Law of the People's Republic of China
	Luxembourg	Limitation of Emissions of Volatile Organic Compounds Law A-105 of the Grand Duchy of Luxembourg, Regulation (EU) No 525/2013 of the European Parliament and of the Council Law ITM-SST1505.2 of the Grand Duchy of Luxembourg
Relating to :1) compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare; and 2) preventing child and forced labor	PRC	Labor Law of the People's Republic of China Labor Contract Law of the People's Republic of China Regulation on the Implementation of the Labor Contract Law of the People's Republic of China
	Luxembourg	Luxembourg Labor Law – L.124-1 s, L.124-7 Law of the Grand Duchy of Luxembourg A-10, A-11, L.241-1 s Labor Code of Luxembourg – L.251-1 s, L.342-1 s Criminal Code of Luxembourg, Para. 1, 382-1
Relating to providing a safe working environment and protecting employees from occupational hazards	PRC	Criminal Law of the People's Republic of China Work Safety Law of the People's Republic of China Law on Prevention and Control of Occupational Diseases Measures for the Supervision and Administration of Occupational Health in Workplaces
	Luxembourg	Luxembourg Labor Law, Volume III, Chapters I and II Grand-ducal regulation of 27 June 2008 Luxembourg Labor Law Volume IV, Chapter I. Collective Bargaining Agreement (Chapters 33, 34 and 35)
Relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress	PRC	Advertising Law of the People's Republic of China Product Quality Law of the People's Republic of China
	Luxembourg	Directive 2014/65/EU of the European Parliament and of the Council Regulation (EU) 2016/679 of the European Parliament and of the Council Luxembourg's Data Protection Regulation of August 1, 2018
Relating to bribery, extortion, fraud and money laundering	PRC	Criminal Law of the People's Republic of China Company Law of the People's Republic of China Anti-Money Laundering Law of the People's Republic of China
	Luxembourg	Criminal Code of Luxembourg – 13 February 2011 Directive (EU) 2015/849 of the European Parliament and of the Council

Appendix II: KPIs in Environmental, Social and Governance Reporting Guide of Hong Kong Stock Exchange

General Disclosures and KPIs	Description	Relevant Page No.
	Environmental	
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non hazardous waste.	108-118, 307
KPI A1.1	The types of emissions and respective emissions data.	111-112, 115-116, 117-118
KPI A1.2	Greenhouse gas emissions in total (in tons) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	111-112, 115-116, 117-118
KPI A1.3	Total hazardous waste produced (in tons) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	111-112, 115-116, 117-118
KPI A1.4	Total non-hazardous waste produced (in tons) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	111-112, 115-116, 117-118
KPI A1.5	Description of measures to mitigate emissions and results achieved.	108-110, 113-114, 117, 119
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	110, 115, 117-118
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	108-109, 111, 115, 117-118
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in'000s) and intensity (e.g. per unit of production volume, per facility).	111-112, 116, 118
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility)	111-112, 116, 118
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	110-111, 115, 117
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	111-112, 116-118
KPI A2.5	Total packaging material used for finished products (in tons) and, if applicable, with reference to per unit produced.	111-112, 116, 118
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources	108-109, 119
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	119
	Social **Employment and Labor Practices**	
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	95-98, 307
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	104-105, 307
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	98-101
Aspect B4: Labor Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor.	96, 307
	Operating Practices	
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	105-106
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.	107, 307
Aspect B7: Anti-Corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	107-108, 307
	Community	
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	119, 128

联想控股
LEGEND HOLDINGS
BUILDING GREAT COMPANIES