



HAITIAN
INTERNATIONAL

2018

Annual Report

Haitian International Holding Limited

(Incorporated in the Cayman Islands With Limited Liability)

Stock Code: 1882



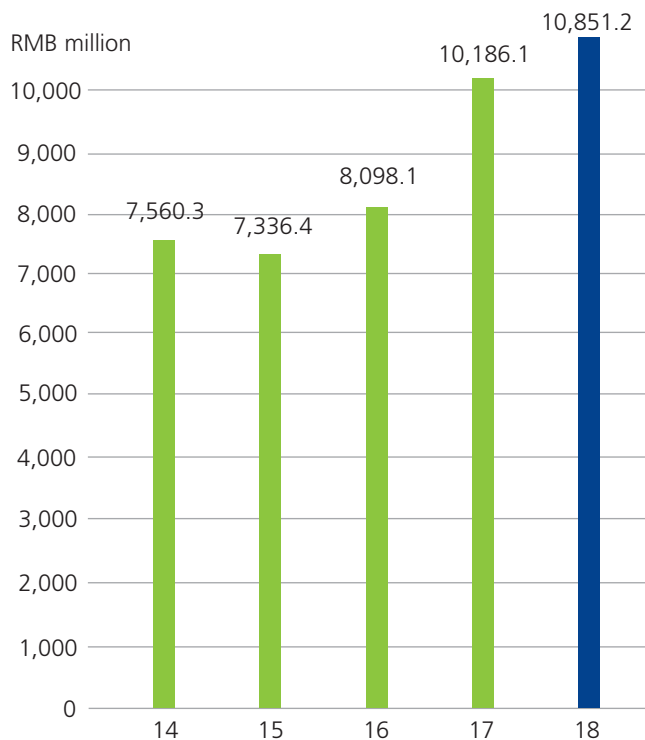
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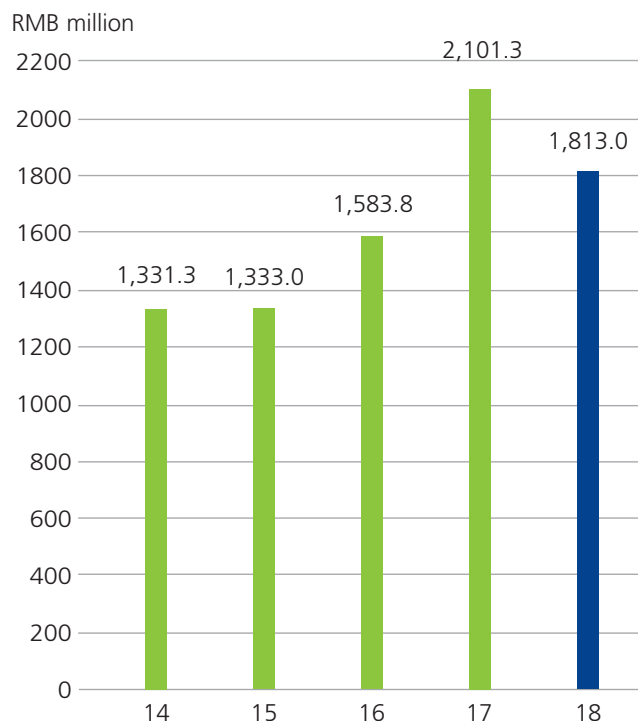


Financial Highlights

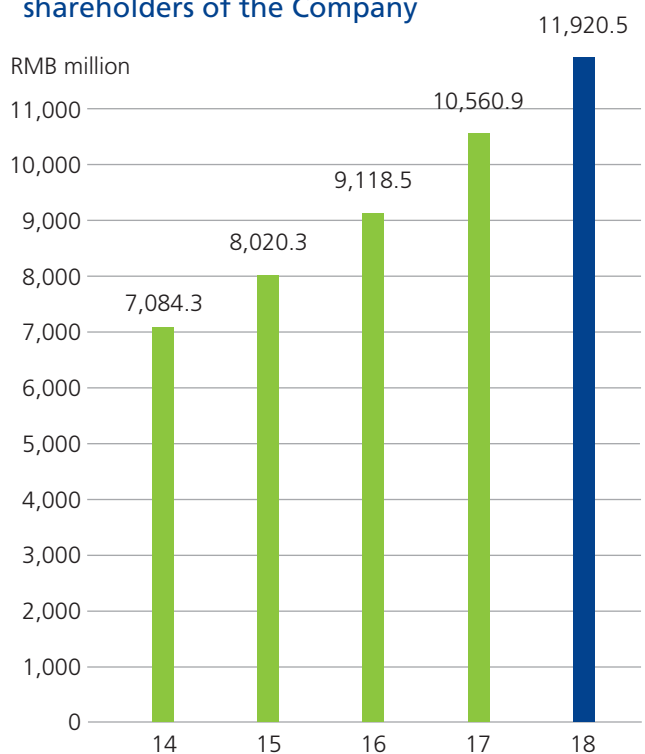
Revenue



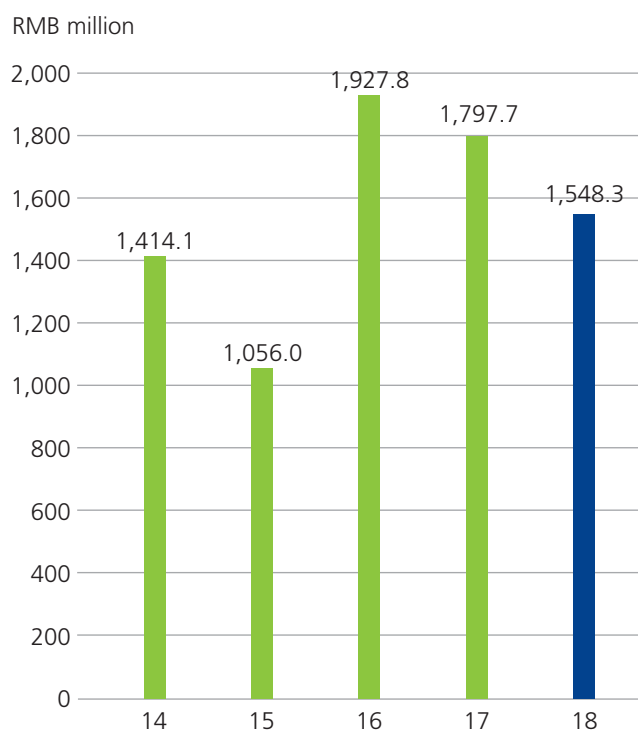
Profit attributable to the shareholders of the Company excluding issuing expense and change in fair value of Convertible Bonds ("CB") resulted from bond values changes



Capital and reserves attributable to shareholders of the Company



Net cash generated from operating activities



Company Profile and Corporate Information

Executive Directors

Mr. ZHANG Jingzhang (*Chairman*)
Mr. ZHANG Jianming (*Chief Executive Officer*)
Mr. ZHANG Jianfeng
Mr. CHEN Weiqun
Mr. ZHANG Bin

Non-Executive Directors

Mr. GUO Mingguang
Mr. LIU Jianbo
Prof. Helmut Helmar FRANZ
Mr. ZHANG Jianguo
Ms. CHEN Ningning

Independent Non-Executive Directors

Mr. LOU Baijun
Mr. JIN Hailiang
Mr. GUO Yonghui
Dr. YU Junxian
Mr. LO Chi Chiu

Company Secretary

Ms. LEE Ka Man

Registered Office

Cricket Square, Hutchins Drive
PO Box 2681, Grand Cayman KY1-1111
Cayman Islands

Auditor

PricewaterhouseCoopers
Certified Public Accountants

Principal Place of Business

China
No. 1688 Haitian Road
Beilun District, Ningbo
Zhejiang Province, China
315800

Hong Kong
Unit 1105, Level 11
Metroplaza, Tower 2
223 Hing Fong Road
Kwai Fong, N.T.
Hong Kong

Principal Banks

China
Agricultural Bank of China
Bank of China
China Everbright Bank
China Guangfa Bank
Industrial and Commercial Bank of China
Industrial Bank
Ping An Bank
Shanghai Pudong Development Bank Co., Ltd.
The Export-Import Bank of China

Hong Kong
Hang Seng Bank
Oversea – Chinese Banking Corporation
Standard Chartered Bank (Hong Kong)
The Hongkong and Shanghai Banking Corporation

A photograph of an elderly man with grey hair, wearing a dark blue suit, a white shirt, and a red and white striped tie. He is smiling slightly and looking towards the right. The background is a lush green field with rolling hills under a blue sky with light clouds. There are several yellow diamond-shaped graphic elements scattered around the text.

CHAIRMAN'S STATEMENTS

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2018, the global economy in whole generally maintained the mild growth of the previous year, but the growth slowed down. Except for the strong economic growth rate spurred by fiscal stimulation and tax reduction in the US, other major developed economies still maintained steady growth. At the same time, the US initiated the “trade war” and the trade protectionism started gradually. These factors had negative influence on the growth of global economy. Though the manufacturing PMI of China stayed above 50 during most of the year, the trade war tension has weakened investors’ confidence. In addition, the Chinese government implemented a series of policies such as “tightened control” and “de-leveraging” in early 2018. Such external factors and internal policies has disrupted the domestic economy, which was originally expected to rely on the domestic demand as driving force (but actually being affected by the downward pressure of domestic economy and increase of borrowings of individuals).



Chairman's Statements

Despite the uncertainties in both domestic and global economic and political environment, the Company managed to achieve a record high annual results of RMB10,851.2 million for the sales in the year ended 31 December 2018, representing an increase of 6.5% compared to the same period in 2017. The increase in raw material prices since the end of 2017 led to a drop of gross profit margin by 3.7pps to 31.6% on an annual basis. Excluding the non-cash accounting gain of changes in fair value of convertible bonds resulted from bond value changes, the net profit margin for the year recorded a drop of 3.9pps from 2017 to 16.7%.

The net profit attributable to the shareholders of the Company for the year ended 31 December 2018 reached RMB1,916.9 million (2017: RMB2,005.4 million). Excluding the non-cash accounting gain of changes in fair value of convertible bonds resulted from bond value changes, the adjusted net profit attributable to the shareholders of the Company was RMB1,813.0 million (2017: RMB2,101.3 million), representing a decrease of 13.7% compared to the same period last year.

The Board of Directors has declared a second interim dividend of HK\$0.19 per share for the year ended 31 December 2018 (2017: HK\$0.27) and the total dividend for 2018 would amount to HK\$0.44 (2017: HK\$0.52) per share.

Domestic and export sales

The following table summarises the Group's domestic and export sales by geographic areas:

<i>(RMB million)</i>	2018		2017		2018 vs 2017
		%		%	
Domestic Sales	7,311.2	67.4%	6,989.3	68.6%	4.6%
Export Sales	3,231.9	29.8%	2,954.7	29.0%	9.4%
Parts	308.1	2.8%	242.1	2.4%	27.3%
Total	10,851.2	100%	10,186.1	100%	6.5%



Chairman's Statements

Under the background of deleveraging in China, the investment interest is reduced and the Company's domestic sales recorded an increase of 4.6% to RMB7,311.2 million. Although the overseas markets were affected by the trade war, with sales in the U.S. market dropping, the Company had tackled the same by increasing our strategic investments overseas, including Germany and Turkey etc. during the year, and this supported the sales in these regions to increase significantly. Coupled with the increased needs of customers in emerging markets such as Brazil, Russia and Southeast Asia for PIMMs, our export sales increased 9.4% to RMB3,231.9 million.

Sales mix of PIMMs by product series

The Group's sales by product series are summarized in the following table:

<i>(RMB million)</i>	2018		2017		2018 vs 2017
		%		%	
Mars series (energy-saving features PIMMs)	6,872.8	63.3%	7,072.7	69.4%	-2.8%
Zhafir electrical series PIMMs	1,514.1	14.0%	1,010.8	9.9%	49.8%
Jupiter series (two-platen PIMMs)	1,500.4	13.8%	1,323.1	13.0%	13.4%
Other series	655.8	6.1%	537.4	5.3%	22.0%
Parts	308.1	2.8%	242.1	2.4%	27.3%
Total	10,851.2	100%	10,186.1	100%	6.5%

As domestic macro-economic growth slowed down, the sales of Mars series, the main products of our Company which was sensitive to variable economic parameters, slightly decreased from RMB7,072.7 million in 2017 to RMB6,872.8 million in 2018, representing a decrease of 2.8%. However, the Company's ongoing business strategy of shifting small-tonnage PIMMs to full-electric PIMMs and large-tonnage PIMMs to two platen PIMMs is consistent with the requirements of industry upgrade and products replacement, increasing the percentages of sales of our Zhafir electrical and two-platen PIMMs reached RMB1,514.1 million and RMB1,500.4 million in 2018, representing the increase of 49.8% and 13.4% compared with last year, respectively. One of the reasons of slight decrease of our sales of Mars series in 2018 was that more of our customers had chosen our small electric PIMMs. The significant increase in sales of our full-electric PIMMs in 2018 clearly proved this trend. Such increase offset the mild drop in sales of Mars series. Our sales of full-electric PIMMs out of small-tonnage PIMMs and of two platen PIMMs out of middle/large-tonnage PIMMs in 2018 accounted for 22.9% (2017: 15.8%) and 38.2% (2017: 37.3%) respectively.

Chairman's Statements

Outlook

With the expectation of slowing global economic growth and the mindfulness of trade protectionism, the rate hikes by the Federal Reserve of the United State is still uncertain. The growth rate of US economy may not continue to rise at the same speed after the US economy experiencing a relatively strong growth. Under the gloom of the "trade war", the Euro zone continues to face a sluggish recovery, and the inflation momentum is slightly insufficient. Therefore, in 2019, the uncertain growth rate of developed economies, in particular the US economy, may increase the risks of the world's economy slow down.

It is expected that the rate hikes by the Federal Reserve of the United State will slow down and external pressure on emerging economies will decrease, but at the same time, as the US economy slows, emerging markets will face weaker external demands and exports will be affected, in particular the downside pressure may increase for the Chinese economy also. At the end of 2018, the Central Economic Work Conference clearly stated that, in 2019, China shall continue to adhere to the principal of supply-side structural reform, maintain a stable and progressive manner in works, increase the efforts on tax reduction and fee reduction, which showed the China government's special concern on uncertainty about the economy next year. Meanwhile, we have to face the reality of uncertain trade frictions, the slowdown of global economic growth and lack of the confidence of investment by domestic enterprises. We remain cautious on the economic prospects of China and the world in 2019.



Chairman's Statements

In such a complicated global economic situation, the Company always keeps risk management awareness for the future challenging environment, and has made great effort to implement internal reform and designated the year of 2019 as a year of management innovation. The Company actively promotes the structure of personal development to employees and realizes the quantitative management of employees by introducing information technological measures, such as CRM and enterprise WeChat, thereby enhancing the Company's overall value and competitiveness to counter the economy uncertainty in the future. The Company also endeavors to introduce new concept of Integrated Product Development (IPD) in management innovation. Sales, technological and application services under "IPD" model would allow the Company to better tailor to the needs of the market and enhance its response. As the Company's overseas business continues to expand, we continue to increase our global investment, further develop our overseas manufacturing centers, assembling centers, application centers, sales centers and service centers, and thereby accelerating the deployment of our global business.

The Company keeps focusing on R&D innovation. In early 2019, the third-generation PIMMs with upgraded technology and stronger price-performance ratio and the high-speed PIMMs focused on different applications in the mid-to-high-end market have been launched in the market. Haitian steady moves towards the top of the industry. While being at the leading position in certain aspect in the domestic industry, the Company will persistently strive to develop new products and become a leader in all aspects of the industry. In the forthcoming year, Haitian may be facing greater global risks and more uncertainties, but at the same time new opportunities will also come along. We have confidence that we would be able to managing the risks. Haitian will continue to create value for customers and investors with better quality and more convenient service, and grow and develop together with our customers, employees and partners!



CEO'S REPORT



Highlights

	2018 RMB' million	2017 RMB' million	Change %
Revenue	10,851.2	10,186.1	6.5
Gross profit	3,426.3	3,596.8	-4.7
Operating profit	2,237.4	2,372.9	-5.7
Profit attributable to shareholders of the Company excluding change in fair value of convertible bonds resulted from bond value change	1,813.0	2,101.3	-13.7
Profit attributable to shareholders of the Company	1,916.9	2,005.4	-4.4
Basic Earnings per share (expressed in RMB per share)	1.20	1.26	-4.4
Dividend per share (expressed in HK\$ per share)			
Second interim dividend	0.19	0.27	-29.6
Full year dividend (including interim dividend)	0.44	0.52	-15.4

- Despite the uncertainties in both domestic and global economic and political environment, we still managed to achieve a record high revenue of RMB10,851.2 million in 2018, representing an increase of 6.5% compared to the period in 2017.
- Our strategic focus on small-tonnage full-electric machines and large-tonnage two-platen machines continued to deliver outstanding results. In 2018, the sales of our Zhafir electrical series PIMMs and Jupiter series large-tonnage two-platen PIMMs increased to RMB1,514.1 million and RMB1,500.4 million, representing an increase of 49.8% and 13.4% compared to the results in 2017 respectively.
- Gross profit margin dropped to 31.6% mainly as a result of the increase in raw material prices since the end of 2017 (2017:35.3%).
- Profit attributable to shareholders of the Company decreased 4.4% to RMB1,916.9 million compared to the results in 2017. Excluding the non-cash accounting gain of change in fair value of CB, profit attributable to shareholders of the Company would be RMB1,813.0 million, representing a decrease of 13.7% compared to the results in 2017.
- Earnings per share amounted to RMB1.20 per share during the year.
- The Board declared a second interim dividend of HK\$0.19 per share and which, together with the interim dividend of HK\$0.25 per share, constitute a total dividend of HK\$0.44 per share (2017: HK\$0.52 per share).

CEO's Report



Financial Review

Revenue

With the comprehensive global and domestic economic and political environment, we still managed to achieve a record revenue of RMB10,851.2 million in 2018, representing an increase of 6.5% compared to 2017. The domestic sales were increased by 4.6% to RMB7,311.2 million compared to results of 2017, while our export sales recorded a historical high of RMB3,231.9 million, representing an increase of 9.4% compared to results in 2017.



CEO's Report

Gross Profit

In 2018, we recorded gross profit of approximately RMB3,426.3 million, representing a decrease of 4.7% compared to 2017. Overall gross margin dropped to 31.6% in 2018 (2017: 35.3%) as a result of the increase in raw material prices since the end of 2017.

Selling and administrative expenses

The selling and administrative expenses increased by 13.6% from RMB1,325.2 million in 2017 to RMB1,505.8 million in 2018. The increase was mainly due to the increase of labor cost and depreciation resulting from the capacity expansion, workshop maintenance, reserve for the potential litigation, and other administrative expenses. While the employment costs related to the research and development activities were RMB141.2 million in 2018 (2017: RMB111.8 million).

Other income

Other income mainly consists of government subsidy and increased by 14.4% from RMB127.1 million in 2017 to RMB145.4 million in 2018.

Finance income – net

We recorded a net finance income of RMB122.8 million in 2018 compared to a net finance income of RMB90.0 million in 2017. The changes were mainly attributable to i) we recorded non-cash accounting gains of change in fair value of CB of RMB62.8 million in 2018 compared to losses of RMB40.7 million in 2017, ii) we recorded net foreign exchange gains of RMB22.7 million in 2018 compared to net foreign exchange losses of RMB56.5 million in 2017, iii) we recorded RMB225.5 million interest income from wealth management products in 2018 and presented it under other gains/losses – net while we recorded interest income of RMB188.6 million from wealth management products in 2017 according to HKFRS 9 Financial Instruments, and iv) we recorded the interest income from restricted bank deposits, term deposits and cash and cash equivalents of RMB66.3 million in 2018 compared to RMB39.7 million in 2017.

Income tax expenses

Income tax expenses decreased by 3.5% from RMB462.2 million in 2017 to RMB446.2 million in 2018. Our effective tax rate maintained at a similar level of 18.9% in 2018 (2017: 18.7%).

Net profit attributable to shareholders

As a result, our net profit attributable to shareholders of the Company in 2018 decreased to RMB1,916.9 million, representing a decrease of 4.4% compared to 2017. Excluding the change in fair value of CB, the adjusted net profit attributable to shareholders of the Company for 2018 decreased to RMB1,813.0 million, representing a decrease of 13.7% compared to 2017.

Liquidity, Financial Resources, Borrowing and Gearing

The Group finances its operations and investment activities mainly with internally generated cash flow. As at 31 December 2018, the Group's total cash and cash equivalents, term deposits and restricted cash amounted to RMB3,769.6 million, RMB150.0 million and RMB245.0 million respectively (31 December 2017: RMB3,029.3 million, RMB100.0 million and RMB190.6 million respectively). The Group's short-term bank borrowing amounted to RMB1,009.4 million as at 31 December 2018 (31 December 2017: RMB1,172.0 million).

CEO's Report

In February 2014, we issued US dollar denominated 2.00 coupon CB due 2019 of USD200 million for general corporate purposes. In February 2017, we redeemed CB of USD75.25 million and the remaining outstanding aggregate principal amount of CB was reduced to USD124.75 million. As at 31 December 2018, CB balance amounted to RMB852.8 million which represented its market fair value of CB (31 December 2017: RMB915.6 million).

The Group also placed certain surplus fund into wealth management products which were recorded as financial assets at fair value through profit or loss. The wealth management products carry floating interests ranging from 2.4% to 5.0% (2017: 3.1% to 7.5%) per annum. As at 31 December 2018, the Group's financial assets at FVPL amounted to RMB4,349.6 million (31 December 2017: RMB4,779.3 million).

The net gearing ratio is defined by our management as total borrowings net of cash divided by shareholders' equity. As at 31 December 2018, our Group was in a strong financial position with a net cash position amounting to RMB2,302.4 million (31 December 2017: RMB1,232.3 million). Accordingly, no net gearing ratio is presented.

Capital Expenditure

In 2018, our capital expenditure consisted of additions of property, plant and equipment and land use rights, which amounted to RMB628.2 million (2017: RMB796.9 million).

Charges on Group Assets

As at 31 December 2018, no assets were pledged for our Group (31 December 2017: no assets were pledged for our Group).

Foreign Exchange Risk Management

During the Reported Period, our Group exported approximately 30.9% of its products to international markets. Such sales were denominated in U.S. dollars or other foreign currencies, while our Group's purchases denominated in U.S. dollars or other foreign currencies accounted for less than 10% of our total purchases. During the Reported Period, our Group borrowed certain Euro denominated bank loans to hedge the exchange risk of Euro denominated receivables arising from export sales.

Financial guarantee

As at 31 December 2018, our Group provided guarantee to banks in connection with facilities granted to the customers with an amount of RMB840.9 million (31 December 2017: RMB1,158.5 million).

Communication

DIRECTORS AND SENIOR MANAGEMENT



Directors and Senior Management

Executive Directors



Mr. Zhang Jingzhang (張靜章), aged 82, is an Executive Director and the Chairman of the Group. He is responsible for the overall business development strategy of the Group and has in-depth knowledge of, and more than 50 years of experience in, the plastic processing machinery industry. Mr. Zhang was the factory manager of Zhenhai Plastic Injection Moulding Machinery Factory (鎮海塑料機械廠), the predecessor of Ningbo Haitian Group Co., Ltd (寧波海天股份有限公司) (“Ningbo Haitian”) from 1970 to 1994. He was named an excellent model worker of Ningbo (寧波市特等勞模) in 1988 by the Ningbo Municipal People’s Government, and was also awarded the title of an “Outstanding Factory Manager and Manager of Industrial Enterprise of Ningbo” (寧波市工業企業優秀廠長、經理) by the Ningbo Municipal Committee of Communist Party of China for Economic Affairs and Ningbo Economic Committee in 1993. In July 1994, Mr. Zhang founded the Group and was appointed as the chairman of the Group. Mr. Zhang was appointed as the president of Ningbo Haitian Precision Machinery Co., Ltd. 寧波海天精工股份有限公司 (listed on Shanghai Stock Exchange, stock code: 601882) since March 2012. Mr. Zhang was named as an economist by the Ningbo Municipal People’s Government (寧波市人民政府) in 1994, an outstanding worker in the national plastic processing machinery industry (全國塑料機械行業先進工作者) by the China Plastic Processing Machinery Industry Association in 1996 and an outstanding township entrepreneur in Zhejiang (浙江省優秀鄉鎮企業家) by the Zhejiang Township Enterprise Bureau. In December 2002, Mr. Zhang was awarded the title of New Millennium Star Entrepreneur of the National Machinery Industry (新世紀首屆全國機械工業明星企業家) by the China Machinery Industry Federation (中國機械工業聯合會), an entrepreneur of China (全國鄉鎮企業家) and outstanding factory manager (manager and chairman) of China (全國優秀鄉鎮企業廠長) and was also elected as a deputy to the People’s Congress of Ningbo and Beilun District (寧波市和北侖區人大代表) in both 1988 and 1999. He was named an outstanding entrepreneur of Zhejiang (浙江省優秀創業家) in 2006. Mr. Zhang currently serves as the honorary chairman of the China Plastics Machinery Industry Association (中國塑料機械工業協會).

Mr. Zhang is the father of Mr. Zhang Jianming and Mr. Zhang Jianfeng, the father-in-law of Mr. Guo Mingguang and Mr. Liu Jianbo and the grandfather of Mr. Zhang Bin, all of whom are directors of the Company. He is also a director of Sky Treasure Capital Limited (“Sky Treasure”) and Premier Capital Management (PTC) Ltd. (“Premier Capital”), which interests in the Company have been detailed under the paragraph headed “Interests and Short Positions of Shareholders” in the Directors’ report.

Directors and Senior Management



Mr. Zhang Jianming (張劍鳴), aged 56, is an Executive Director and the Chief Executive Officer of the Group and is responsible for the overall daily operations of the Group. By introduction of Mr. Zhang Jingzhang, Mr. Zhang joined the Group in August 1977 as worker and has gained extensive exposure in various departments of the Group. With over 40 years of experience in the plastic processing machinery industry, Mr. Zhang is experienced in all facet of the overall operation of the Group. He was appointed as the director of Ningbo Haitian Precision Machinery Co., Ltd. 寧波海天精工股份有限公司 (listed on Shanghai Stock Exchange, stock code: 601882) since March 2012. He obtained a master in business administration from the Management College of Fudan University (復旦大學管理學院) in July 2002. Mr. Zhang has been appointed as the chief executive officer of the Group since April 2000. Mr. Zhang served as a member of the National Committee of the Chinese People's Political Consultative Conference in Beilun District (北侖區政協委員會) in 1996 and as a director of the Quality Management Association of Beilun District of Ningbo (寧波市北侖區質量管理協會) from 1990 to 2000. In January 2006, Mr. Zhang was also selected as a representative of Ningbo's private enterprises to attend the National Science and Technology Conference. From 2003 to 2011, he was the chairman of Ningbo Plastic Machine Industry Association (寧波市塑料機工業協會). Mr. Zhang was also elected a deputy to the People's Congress of Beilun District (北侖區人大代表) in 2012. Mr. Zhang Jianming is the elder son of Mr. Zhang Jingzhang, the elder brother of Mr. Zhang Jianfeng, the brother-in-law of Mr. Guo Mingguang and Mr. Liu Jianbo and the father of Mr. Zhang Bin, all of whom are directors of the Company, and he is also a director of Sky Treasure and Premier Capital.



Mr. Zhang Jianfeng (張劍峰), aged 49, is an Executive Director and the senior vice president of sales and marketing of the Group. Mr. Zhang joined the Group in October 1985 and has more than 30 years of experience in the plastic processing machinery industry. He was promoted to the deputy head of the Group's sales division in the sales and marketing department in 1997. He has been appointed as the senior vice president of sales and marketing of the Group since 2002. Mr. Zhang has been appointed as the chairman of Ningbo Plastic Machine Industry Association (寧波市塑料機工業協會) since 2012. Mr. Zhang is the younger son of Mr. Zhang Jingzhang, the younger brother of Mr. Zhang Jianming and the brother-in-law of Mr. Guo Mingguang and Mr. Liu Jianbo, all of whom are directors of the Company, and he is also a director of Sky Treasure and Premier Capital.

Directors and Senior Management



Mr. Chen Weiqun (陳蔚群), aged 47, is an Executive Director and the general manager of Haitian Huayuan, the export arm of the Group. Mr. Chen graduated from Huadong Yejin College (華東冶金學院) with a bachelor's degree in mechanics in August 1993. In 2005, he obtained a master's degree in business administration from the University of Zhejiang. He joined the research and development department of the Group in 1993. In 1994, he joined the international sales team of the sales department. He was appointed as an assistant to the chief executive officer in 2000 and as the deputy general manager of international sales in 2003. He has been appointed as the deputy general manager responsible for the Group's international sales since 2004. He was also appointed as the general manager of Haitian Huayuan in 2004.



Mr. Zhang Bin (張斌), aged 32, is an Executive Director and the general manager of Ningbo Zhafir, the electric PIMM arm of the Group. Mr. Zhang joined the Group in January 2014. He obtained his Bachelor's degree in mechanical engineering from the University of Nottingham in July 2009, and his master's degree in engineering management from King's College London, the University of London, in January 2011. Upon joining the Group in January 2014, Mr. Zhang was appointed as an officer of the information management department of the Group. In January 2015, he also took up the role of assistant to general manager of Ningbo Zhafir Plastics Machinery Co., Ltd. under the Group. In January 2017, Mr. Zhang was appointed as general manager of Ningbo Zhafir Plastics Machinery Co., Ltd. under the Group. Mr. Zhang Bin is a grandson of Mr. Zhang Jingzhang, our Chairman, and a son of Mr. Zhang Jianming, our CEO.

Non-Executive Directors



Mr. Guo Mingguang (郭明光), aged 52, is a Non-Executive Director. Mr. Guo joined the Group in January 1983 and has more than 30 years of experience in the plastic processing machinery industry. In 1985, he was transferred to the Group's customer services department, and was transferred again in 1989 to the Group's engineering department. From 1994 to 1999, he served as the deputy general manager of Ningbo Zongtian Plastic Processing Machinery Manufacturing Co., Ltd. From 1999 to 2002, he served as the general manager of a factory of the Group. In 2003, he was appointed as the deputy head of production of the Group and was promoted to the vice president of production of the Group in 2004. Mr. Guo was re-designated from an Executive Director to a Non-Executive Director on 1 June 2012. Mr. Guo is a son-in-law of Mr. Zhang Jingzhang, the brother-in-law of Mr. Zhang Jianming, Mr. Zhang Jianfeng and Mr. Liu Jianbo, all of whom are directors of the Company and he is also a director of Premier Capital.

Directors and Senior Management



Mr. Liu Jianbo (劉劍波), aged 51, is a Non-Executive Director. Mr. Liu joined the quality assurance department of the Group in November 1986 and was appointed as a quality control manager in 1997. In 2000, he qualified as an internal auditor under the ISO9001:2000 certification system and since then has been responsible for the Company's internal quality control audit. He has been the Company's vice president of quality control since February 2004 and the Company's vice president of customer service since July 2004. Mr. Liu was re-designated from an Executive Director to a Non-Executive Director on 1 June 2012. Mr. Liu is a son-in-law of Mr. Zhang Jingzhang and the brother-in-law of Mr. Zhang Jianming, Mr. Zhang Jianfeng and Mr. Guo Mingguang, all of whom are directors of the Company, and he is also a director of Premier Capital.



Prof. Helmut Helmar Franz, aged 69, is a Non-Executive Director. He joined the Group in September 2007 and has over 40 years of experience in the plastic processing machinery industry. Prof. Franz obtained a degree in engineering specialising in plastic machinery and processes and joined Plastmaschinenwerk Schwerin in the former German Democratic Republic in 1972. At Plastmaschinenwerk, Prof. Franz worked as a senior executive in research and development and marketing. In 1985, he joined WWW Import-Export in Berlin, Germany where he served as the managing director for WWW Import-Export's sales and services in Iraq, Egypt and Russia. In 1991, he joined Demag Ergotech (previously known as Mannesmann Demag Kunststofftechnik) ("Demag"), initially as the managing director for Demag's sales and services branch in Moscow, Russia. From 1995 until 1999, he served as the managing director for Demag's manufacturing plant for small machines in Wiehe, Germany. He was then promoted to Demag's chairman in 1999 and held the office until 2005. Prof. Franz had been a member of the board of the VDMA (the German Engineering Federation) association of German plastics machinery manufacturers for many years. He served as the chairman of the board of the VDMA from July 2003 until April 2005. From 2005 to 2013, Prof. Franz was the sole managing director of Zhafir Plastics Machinery GmbH, a German limited liability company which is engaged in the research and development of plastic injection moulding machineries. The Group acquired a 91% equity interest in Zhafir Plastics Machinery GmbH in August 2007 and the remaining 9% equity interest in 2014. Prof. Franz was re-designated from an Executive Director to a Non-Executive Director in October 2015.

Directors and Senior Management



Mr. Zhang Jianguo (張建國), aged 63, is a Non-Executive Director. Mr. Zhang joined the Group in January 1974 and has more than 40 years of experience in the plastic processing machinery industry. He obtained a diploma in electrical and mechanical engineering from Zhejiang Radio TV University (浙江省廣播電視大學) in 1987. Mr. Zhang joined the Group in January 1974 initially working in the quality control division. He was subsequently promoted to the head of quality control in 1996. He has been appointed as the senior vice president of research and development of the Group since 1999. He has contributed to the Group in developing and improving its products including the HAFX series, the HAFX series and the HTK series. He was named as an outstanding technological worker in a township enterprise at provincial level (省級鄉鎮企業優秀科技工作者) in 1990 and twice named as a professional technician with outstanding contributions to the Ningbo region (區級有突出貢獻專業人員) by the People's Government of Ningbo Beilun district in 1990 and 1997. In 1999, Mr. Zhang was awarded by the Ningbo Municipal People's Government the titles of outstanding professional technician of (寧波市優秀專業技術人員) and pioneer in technological innovations in Ningbo (寧波市首屆科技創新功臣). He was also named an excellent labour model of Ningbo (寧波市特等勞動模範) in April 2000. In 2001, Mr. Zhang obtained a "Great Achievement in the World Technology" award (世界科學技術發展成就獎) from the Hong Kong International EXPO Organising Committee for Patented Technology. Mr. Zhang was re-designated from an Executive Director to a Non-Executive Director on 20 April 2018 and is a director of Premier Capital.



Ms. Chen Ningning (陳寧寧), aged 56, is a Non-Executive Director. Ms. Chen is a qualified accountant in China. Ms. Chen first joined the Group in May 1984. Ms. Chen served as the deputy head of the finance and accounting department, and the head of the accounting division, the cost division and the inventory division of the Group from 1999 to 2003. Since 2004, Ms. Chen has served as the vice president of finance of the Group. She was named as an outstanding accountant of Ningbo in 2005. Ms. Chen was re-designated from an Executive Director to a Non-Executive Director on 20 April 2018 and is a director of Premier Capital.

Directors and Senior Management

Independent Non-Executive Directors

Dr. Yu Junxian (餘俊仙), aged 53, was appointed as an independent non-executive director on 1 February 2019. Dr. Yu is currently the president of Zhejiang Tianping Investment Consulting Co., Ltd.* 浙江天平投資諮詢有限公司. Dr. Yu has in-depth knowledge of, over 30 years of experience in, auditing, accounting, and finance and is a professor level senior accountant, certified accountant, certified valuer and registered tax agent in China. Dr. Yu taught in Zhejiang Finance Economics College* 浙江財經學院 between 1988 and 1998. Dr. Yu was a partner with Zhejiang Tianping Accounting Firm* 浙江天平會計師事務所 in Hangzhou since 1999. Dr. Yu was an independent non-executive director of Ningbo Haitian Precision Machinery Co., Ltd.* 寧波海天精工股份有限公司 (stock code: 601882) from July 2013 to April 2018, the shares of which were listed on the Shanghai Stock Exchange. Dr. Yu was an independent non-executive director of Gansu Shangfeng Cement Co., Ltd.* 甘肅上峰水泥股份有限公司 (stock code: 000672) since January 2015, the shares of which were listed on the Shenzhen Stock Exchange. Dr. Yu was an independent non-executive director of Hangzhou XZB Tech Co., Ltd.* 杭州新座標科技有限公司 (stock code: 603040) since January 2017, the share of which were listed on the Shanghai Stock Exchange.

Mr. Lou Baijun (樓百均), aged 55, joined the Group in March 2012 as an Independent Non-Executive Director. He is currently the Head of Modern Logistics School and Professor of Zhejiang Wanli University. Mr. Lou is a member of the Chinese Institute of Certified Public Accountants since 1996. Mr. Lou was appointed deputy director and deputy professor of Faculty of Financial Management of Jiangxi University of Finance and Economics between 1985 and 2001 and commenced teaching at Zhejiang Wanli University since 2001. Mr. Lou obtained a master degree in management and engineering from Wuhan University of Technology in 2006.

* For identification purpose only

Mr. Jin Hailiang (金海良), aged 65, joined the Group in March 2013 as an Independent Non-Executive Director. He is currently the Chairman of Ningbo Xinlong Real Estate Company Limited. Mr. Jin is also a councilor of the Ningbo Real Estate Association and the President of Ningbo Beilun Real Estate Association. Mr. Jin was appointed to a number of roles at Housing Management Bureau of Zhenhai and Chaiqiao Counties Municipal Government including deputy director and deputy director of statistics office between 1971 and 1985. Mr. Jin was appointed as director and party-chief of Housing Management Bureau of Beilun District and its Development Zone since 1985 and assumed the role of director and party-chief of Beilun Construction Quality Supervision Station in 1997. He was appointed to his current position of the Chairman of Ningbo Xinlong Real Estate Company Limited since 1999. Mr. Jin obtained a diploma in real estate management from Zhejiang University of Technology in 1994.

Mr. Guo Yonghui (郭永輝), aged 62, joined the Group in November 2016 as an Independent Non-Executive Director. Prior to his retirement in August 2016, he was the Department General Manager of Ningbo Branch of Bank of China Limited. He was appointed to a number of roles at Finance & Local Taxation Bureau of Xiangshan District in Ningbo, China including section chief and director of Finance & Local Taxation Office between 1986 and 1994. He was appointed to the position of President of Sub-branch and Department General Manager of Ningbo Branch of Bank of China Limited since 1995. Mr. Guo graduated from Zhejiang Radio & TV University with a diploma in industrial accounting in 1990. He was a qualified economist in China since 1993. He graduated in law from PLA Dalian Naval Academy in 2003.

Mr. Lo Chi Chiu (盧志超), aged 46, was appointed as an independent non-executive director on 1 February 2019. Mr. Lo has over 20 years of accounting and auditing experience in international accounting firms and various corporations. He served as staff account in Ernest & Young from August 1995 to October 1997. From December 1997 to June 2001, Mr. Lo initially worked as senior associate and later was appointed as manager in PricewaterhouseCoopers Ltd. Mr. Lo was appointed as financial controller for Technicon Engineering Limited from July 2001 to July 2002. He was appointed as financial controller for Zhejiang Xinfu Biochemical Co., Ltd. from July 2002 to November 2002. From December 2002 to June 2003, Mr. Lo was appointed as financial controller for Shenzhen Glory Medical Co., Ltd. He was initially appointed as project accountant and subsequently as finance manager for Integrated Distribution Services Group Management Limited from June 2004 to August 2006. He was appointed as company secretary and chief financial officer of Truly International Holdings Limited (stock code: 732) from November 2010 to January 2011, the shares of which listed on the Stock Exchange. From February 2011 to August 2011, Mr. Lo was appointed as chief financial officer for VPower Holdings Limited. He was appointed as chief financial officer of the Company from August 2006 to November 2010 and from September 2011 to June 2016. Mr. Lo served as an independent non-executive director, chairman of the audit committee and the remuneration committee and a member of the nomination committee of Ernest Borel Holdings Limited (stock code: 1856) from June 2014 to December 2017,

Directors and Senior Management

the shares of which listed on the Stock Exchange. He has been a senior consultant for VPower Group International Holdings Limited (stock code: 1608) since April 2016, the shares of which listed on the Stock Exchange. He received his bachelor's degree in business administration from the University of Hong Kong in November 1995 and his executive master degree of business administration from the Chinese University of Hong Kong in September 2017.

Senior Management

Mr. Yu Wenxian (虞文賢), aged 49, is the vice president of human resources and administration of the Group. Mr. Yu graduated from Xi'an Jiaotong University (西安交通大學) with a bachelor's degree in mechanical engineering in 1991. He joined the Group in May 1993 as an engineer. Since 1997, Mr. Yu has been working in the areas of administration and human resources and served various managerial roles in those areas. He has been appointed as the vice president of human resources and administration of the Group since 2003 and had been serving as the executive assistant to the chief executive officer of the Group between 2004 and 2010.

Mr. Bei Haibo (貝海波), aged 52, is the vice president of domestic sales of the Group. Mr. Bei joined the Group in January 1983 and has more than 30 years of experience in the plastic processing machinery industry. He was appointed as a manager responsible for after-sales services in 1997 and was promoted to deputy general manager of the Group's sales department in 1998.

Mr. Fu Nanhong (傅南紅), aged 43, is the head of technology of our Group. Mr. Fu graduated from Dalian University of Technology with a bachelor's degree in mechanical engineering in 1997 and a master degree in mechanical and electronic engineering in 2000. He joined the research and development department of our Group in 2000. In 2003, he was appointed assistant to the head of research and development department and its deputy head in 2006. In 2008, he was also appointed deputy general manager of Ningbo Zhafir, the electric PIMM arm of our Group, and promoted to its general manager between 2014 and 2016. He was appointed as the head of technology of our Group since 2013.

Mr. Shi Huajun (施華均), aged 47, is the general manager of the internal control and investor relation department of the Group. Mr. Shi graduated from Zhejiang Finance Economics College with a bachelor's degree in economics in 1994. He obtained a master's degree in business administration from the Open University of Hong Kong in 2003. Mr. Shi has in-depth knowledge of, and over 20 years of experience in, auditing, accounting and finance and is a certified accountant, certified valuer and registered tax agent in China. Prior to joining the Group, Mr. Shi was a partner with a local accounting firm in Ningbo. He was named an outstanding certified accountant in Zhejiang (浙江省優秀註冊會計師) by the Zhejiang Certified Accountants Association in 2003.

Mr. Chen Yun (陳雲), aged 44, was appointed as the chief financial officer of the Group in March 2019. Mr. Chen graduated from Hangzhou Dianzi University (杭州電子科技大學) with a bachelor's degree in accounting in 1994. Mr. Chen is a certified accountant and a certified public valuer in China. He was a partner of a local accounting firm in Ningbo and was the secretary to the Board and chief financial officer of Ningbo Haitian Precision Machinery Co., Ltd. Currently, Mr. Chen is also the financial controller of Ningbo Haitian Co., Ltd.

Investor Information

Listing Information

Listing: Hong Kong Stock Exchange
Stock code: 1882

Key Dates

18 March 2019	—	Result Announcement of 2018
3–8 April 2019	—	Closure of register of members (entitlement to second interim dividend)
about 17 April 2019	—	Payment date of second interim dividend
22–27 May 2019	—	Closure of register of members (Annual General Meeting)
27 May 2019	—	Annual General Meeting

Share Information

Board lot size: 1,000 shares

Shares outstanding as at 31 December 2018:
1,596,000,000 shares

Market Capitalisation as at 31 December 2018:
HK\$24,099.6 million

Basic earnings per share for 2018:	RMB1.20
Diluted earnings per share for 2018:	RMB1.20

Dividend per share for 2018	
Interim dividend	HK25 cents
Second interim dividend	HK19 cents

Total	HK44 cents
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Hong Kong Share Registrar Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Enquires Contact

Investor Relations Department
Tel (China): 86-574-86182786
Tel (Hong Kong): 852-24282999
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E-mail: andy@mail.haitian.com
Address: No. 1688 Haitian Road,
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Website

<http://www.haitianinter.com>
<http://www.haitian.com>

Innovation

**ENVIRONMENTAL,
SOCIAL
AND GOVERNANCE
REPORT**



Environmental, Social and Governance Report

(1) Introduction

This report covers the activities of Haitian International Holdings Limited and its subsidiaries in the area of environmental protection, employees, compliance with regulatory requirements in business operation and social responsibility. The period covered by this report is 2018 and comparative figures in 2017 are also provided to the extent available.

As a leading plastic injection moulding machinery manufacturer in the world, our operation has significant impacts to different stakeholders including employees, customers and suppliers, communities and environment in which we operate our business, and our shareholders. Along the path of our business development, we are well aware of such impacts and we make constant effort in formulating and adjusting our strategies and policies so that we can continue to make positive impacts to our stakeholders. Though we are not in a pollution-intensive industry, we pay high attention to the impacts of our manufacturing process and our products to the environment and adopt measures that would reduce generation of pollutants, properly handle residual materials and lower the consumption of resources. We take care of our employees in all aspects, from compensation and a safe work-place to support of outside-work activities and opportunities to contribute to communities. We also acknowledge the non-optimal allocation of resources and fruits of economic development in our society and our roles to play against this background, through Haitian Charity Foundation and the assistance it provides to the people in need in our communities.

(2) Environmental Responsibility

I. Overview

Our main products are hydraulic and electric plastic injection moulding machines and our manufacturing process can be mainly divided into processing of parts and components, assembling different parts into machine and testing of finished

products. The main energy consumed during the manufacturing process is electricity and natural gas. The parts and components surface-processing including painting and powdering emit waste water and gas; the processing and painting of machines and waste water processing lead to emulsified mixture, waste mineral oil, waste oil barrel (paint residue) and phosphate waste, and the processing and cutting of machines produce ordinary solid wastes such as scrap iron and scraps, while the packaging of finished products entails usage of packaging materials. The waste water, gas and other industrial wastes which we produce during our manufacturing process are disposed in accordance with the laws and regulations. Among which, waste water is dispensed into public sewage systems after meeting the processing standard, and waste gas is emitted after going through the treatment facility. Hazardous wastes are collected by licensed contractors for toxic-removal processing and ordinary solid wastes are recycled by the contractors.

We have adopted specific policy on prevention of pollution and handling of industrial wastes for our factories in China with reference to the applicable laws and regulations. Our factory managers are responsible for implementing such policy to ensure our factories are able to comply with the environmental related rules applicable to their locations. For our overseas factories, we engage experts in the early design phase and during their operation to ensure that we are able to comply with the environmental and waste disposal regulations in the relevant countries or districts.

We have set up an Environmental Protection Division in our Group and it is responsible for monitoring the environmental related work of our factories. It will conduct random check on the status of environmental protection measures for different factories and their compliance with our policy. They will also provide updates on the latest development and issues for environmental protection relevant to our operation.

Environmental, Social and Governance Report

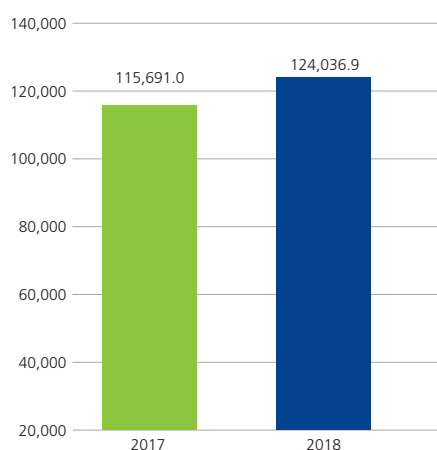
II. Energy Consumption

Electricity

The main energy consumption during our manufacturing processes and daily operations is electricity, which is mainly provided by public electric grid of relevant regions. Below is the data of electricity consumption for our main production and office facilities in 2017 and 2018:

Energy Consumption — Electricity

'000 (Kwh)



The average electricity consumption per unit of product output in 2017 and 2018 are 3,234.5 (Kwh) and 3,554.47 (Kwh), respectively.

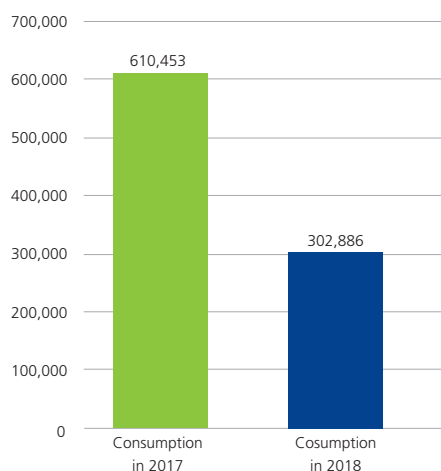
Heat treatment is the production process of the Company which consumes large amount of electricity, accounting for approximately one-third of the total electricity consumption. Therefore, the Company specifically enhanced its control over electricity consumption of heat treatment in the workshop, including 1. purchase of heat treatment furnace with low energy consumption and better warming function, and phasing out the heat treatment furnace with poor warming function and high energy consumption; 2. set proper work schedule for continuous production, so as to reduce the energy consumption of switching on and off the furnace. In addition, the Company phases out the old lighting installations of the workshop year by year and switches to use the energy efficient lighting installation with low energy consumption.

Natural Gas

The drying process after painting and powdering in our manufacturing flow requires the use of natural gas, which is mainly provided by natural gas supplier of relevant regions. Below is the data of natural gas consumption for our main production facilities in China in 2017 and 2018:

Indirect Energy Consumption — Natural Gas

(m³)



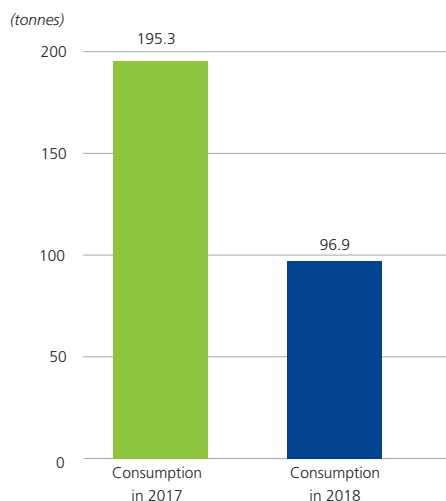
The average natural gas consumption per unit of product output in 2017 and 2018 are 17.1 (m³) and 8.7 (m³), respectively.

Natural gas is used for powder drying, paint drying and cooking utensils during the production process. With regard to the control of natural gas consumption, the Company formulated “Energy Management and control Procedures (《能源管理控制程序》)” for the environmental management system. Under the policy, it strengthens the management and examination of energy consumption including natural gas and supervises the drying temperature and drying time to avoid waste of energy. In the meantime, the Company started to promote using new environmental-friendly rapid dry paint since the end of 2017. The consumption of natural gas for the paint drying process was substantially reduced as no extra drying is needed.

Environmental, Social and Governance Report

Below is the data of carbon dioxide emitted in our use of natural gas for our main production facilities in China in 2017 and 2018, which are 195.3 tonnes and 96.9 tonnes respectively.

Carbon Dioxide Emission — Natural Gas



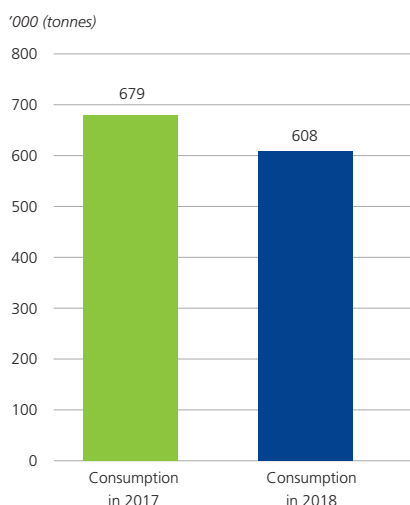
We will continue to review the energy consumption of our Group and propose new measures to reduce energy consumption including using equipment with higher efficiency in energy consumption and improving manufacturing process to reduce energy waste.

III. Resource consumption

The parts and components surface-processing during our production process including painting, cleaning and powdering consume water, which is also required for other operation purposes such as

cleaning and staff dormitory. The water comes from municipal running water. Below is the data of water consumption for our main facilities in 2017 and 2018:

Water Consumption



We do not disclose the average water consumption per unit of machine output as the major components of water consumption are not manufacturing related and therefore there is no direct correlation between water consumption and machine output.

Before the delivery of the products and accessories, we need to carry out different packing for different products and accessories. The packing materials are mainly nylon packaging bags and wooden cases. Below is the data of packing material consumption in 2017 and 2018:

The consumption of nylon packaging bags in 2017 and 2018 amounted to 116 tonnes and 86 tonnes, respectively. The consumption of wooden cases in 2017 and 2018 amounted to 3,613 tonnes and 4,192 tonnes, respectively. The increase in consumption of wooden cases in 2018 was primarily due to the increase of overseas orders and accessories orders.



Environmental, Social and Governance Report

We will continue to monitor the packing material consumption of the Group and propose reasonable measures of a gradual reduction in the packing material consumption to reduce the harm to the environment.

IV. Pollution Control

Under applicable Chinese laws and regulations, any facility that will involve emission of gas, waste water and/or toxic waste into environment during its production process will require an environmental impact assessment to be performed before its construction to ensure that the legal requirements on emission would be satisfied. After the construction is completed, a post-completion check will be implemented. Before commencement of operation, the facility operator has to apply for an emission permit. We have completed the environmental impact assessment for all our production facilities in China based on applicable regulations at the time of its construction and obtained the required emission permits.

1. Gas: the painting and powdering processing in production will produce waste emission which requires processing. We adopt filter-adhesion-diffusion-catalyst combustion to process emission from painting. The polluting components in such emission will be filtered with filters and carbon-based catalyst, and disposed by standardized exhaust vent after meeting required emission standard. The saturated carbon-based catalyst with adhesion is required to conduct desorption on a regular basis. Desorption is a process to remove the pollutants from carbon-based catalyst by using heated air and the pollutants will be emitted through catalytic combustion eventually. The dusts from powdering processing will be filtered in two phases by using rotating precipitator and bag precipitator in order to meet the standard before emission. We also engaged third-party with valid qualification to conduct regular monitoring of our gas emission since 2017 to ensure our compliance with regulatory requirements.



The painting area and emission processing system in one of our factories in Ningbo

2. Sewage: the processing of parts and components surface including painting and powdering and cleaning of factory premises produce industrial sewage which will be transferred from production line to our sewage plants of our factories through the pipes laid around the factories. Different types of waste water will be disposed by its different quality and dispensed through connection to the public sewage system after meeting the statutory standard.



The sewage treatment plant in one of our factories in Ningbo

For the discharge of industrial sewage, our factories are required to comply with sewage standards of the laws and, in addition to building a monitoring station, we have engaged independent and licensed third party institution with valid qualification to monitor our consumption of water for industrial use to ensure that the discharged sewage is able to meet the applicable regulatory requirements.

Environmental, Social and Governance Report

The treatment of our produced waste water by our sewage plants in 2017 and 2018 were 72,180 tonnes and 61,133 tonnes, respectively.

- Other solid and liquid wastes: our manufacturing process also produces other solid and liquid wastes including (i) toxic wastes such as emulsified mixture, phosphate waste, oil barrel and other; and (ii) non-toxic wastes such as domestic garbage, packaging residuals, metal scraps. These will be handled according to regulatory requirements before collection by contractors licensed by provincial environment protection bureau for toxic-removal processing.



Collection of phosphate waste by a unit licensed by provincial environment protection bureau at one of our factories in Ningbo

The following figures show the amount of other solid and liquid wastes we produced in 2017 and 2018:

Nature of wastes	2018 (tonnes)	2017 (tonnes)
Oil-inclusive waste	7.97	5.93
Emulsified mixture	562.30	373.99
Oil barrels	118.94	117.36
Phosphate waste	257.78	250.78
Non-toxic waste	25,875	30,776

The production of emulsified mixture wastes increased by 188.31 tonnes as compared with that of last year. It was due to the increase of machines in the workshop of the Company in 2018 which relatively increased the consumption of emulsified mixture, so as the production of emulsified mixture wastes. Another reason for the increase was the prevention of product rusting and maintenance of knives. Production Department enhanced its cleaning needs for emulsified mixture which led to higher frequency of replacement for new emulsified mixture. In order to reduce emulsified mixture wastes generated, the Company has set up a recycling system for emulsified mixture in factories in Ningbo. We believe that it can effectively control the increase of emulsified mixture wastes.

Environmental, Social and Governance Report

We have adopted specific regulations for processing of wastes generated from our manufacturing process and its implementation is continuously monitored by our Environmental Protection Division. We have set up detailed recording system for the processing of toxic wastes that require special treatment under applicable regulations. This ensures that all processing of hazardous wastes are able to comply with such regulatory requirements and allows cross-checking of the status of different check-point in the system. Our Environmental Protection Division increased its monitor frequency. Factories will be inspected at least once a week for major plants under monitor. The inspection results will be posted to the office platform of the Company each month on a regular basis. The division also continued to monitor the environmental condition of the Company. Once they have spotted any problems, they would put forward and implement the solutions and do follow-up check. This forms a PDCA cycle (i.e. plan, do, check and action).

Since 2017, the Group has adopted the ISO 14001 environmental management system to enhance control over environmental management. Below is the ISO 14001 Certificate.



We have also implemented a reward and penalty mechanism for environmental protection in our Group. We encourage new measures for enhancement in energy consumption, emission reduction and pollution control with rewards and discourage failures in meeting environmental benchmarks with penalties. In 2018, we effectively control the increase of emulsified mixture waster by adopting the recycling system of emulsified mixture. We will continue to adopt latest technology and more efficient equipment to reduce wastes generated in our manufacturing process and their impacts to the environment.

(3) Employees

I. Overview

Over the past 50 years of development, Haitian transformed from a local factory with just over a hundred employees into a global enterprise with approximately 6,390 employees. Our success builds upon the effort and contribution of each employee and a safe work place, sufficient work-related training and diversified outside-work activities are our concern throughout the years. We regard such elements as crucial for a stable work-force and for a continuing Haitian story.

On top of fulfilling the labor contract law and other labor regulatory requirements of different countries and regions for recruitment, compensation, benefits and other rights of employees, the Group rolled out relevant policies based on the actual cases, including Staff Manual of Haitian Group (海天集團員工手冊), Management Measures on Qualifications for Promotion and Demotion (任職資格等級晉升與降等管理辦法) and Management Policy of Education (學歷教育管理政策). We provide a working environment that values each employee individually from different aspects. We provide performance-based bonus, promotion track, arrangements for employees seconded to overseas locations to return to China on a regular basis, annual health-check for our employees in China, offer festive welfare allowance and Company shuttle bus service etc.

Environmental, Social and Governance Report

II. Basic Information of Employees

We had a total workforce of approximately 6,390 employees as of 31 December 2018.

The tables below show the details of our employees by job location, age group, gender and educational level:

Location of Employees

Location	Numbers	Percentage
China	5,991	93.7%
Overseas	399	6.3%
Total	6,390	100.0%

Age Group of Employees

Age Group	Numbers	Percentage
30 or below	2,066	32.3%
31– 40	2,349	36.8%
41– 50	1,224	19.1%
51 or above	751	11.8%
Total	6,390	100.0%

Gender of Employees

Gender	Numbers	Percentage
Female	733	11.5%
Male	5,657	88.5%
Total	6,390	100.0%

Educational Level of Employees

Educational Level	Numbers	Percentage
Postgraduate or above	97	1.5%
Undergraduate and technical college	2,691	42.1%
Secondary technical high school and secondary high school	1,932	30.2%
Secondary technical junior school, secondary junior school or below	1,670	26.2%
Total	6,390	100.0%

The table below shows figures of turnover rate of our employees in 2017 and 2018:

	2018	2017
Turnover rate	4.50%	4.69%

Environmental, Social and Governance Report

III. Workplace safety

We pay much attention to build and run a safe workplace for our employees. In addition to initial workplace safety training for new employees, we arrange regular demonstration and rehearsal for proper handling of incidents at workplace and invite workplace safety experts to examine our facilities and make recommendation for improvement in safety measures. Since 2017, the Group has adopted the OHSAS18001 occupation health and safety management system to strength occupation safety for employees. Below is the OHSAS18001 Certificate of the Group.



The table below shows figures of work injuries and loss in work-day in 2017 and 2018:

Year	Incidents of work injuries	Loss in work days
2017	80	4,034
2018	52	1,043

We would investigate the reasons for each incident of work injury, enhance the preventive measures for similar incident and raise the awareness for work-place safety of our employees.

Environmental, Social and Governance Report

IV. Work Training

We understand the importance of different knowledge and skills required for different posts and the need for our employees to keep improving their professional knowledge and skills. Therefore we improve the systems and policies relating to employee training and career development by amending the Staff Manual of Haitian Group and so forth. We also provide continuous internal training opportunity which conducted by experts in different areas. Internal training programs mainly include aspects of management, self-development, general knowledge and professional skills, and our employees can select courses which are relevant to their posts or their personal development. With regard to different talents (including business elites, junior, middle and senior management and people with multi-skills and high-qualified talents), we also arranged training program with quality external lecturers to improve employees' professional skills and work management skills. Meanwhile, we also rolled out relevant policies of Management Policy of Education to encourage our employees to pursue academic qualification study and continue learning. For instance, the Company would offer half of the tuition fee as subsidies for employees who have finished the degree education program.

The table below shows the relevant data of our staff training in 2017 and 2018:

Year	Total number of staff training entries	Average training entry per staff	Total number of hours of training (hours)	Average number of hours of training per staff (hours)
2017	20,013	3.3	72,584	12.0
2018	19,598	3.07	52,332	8.19



V. Diversified After-work Activities

While we emphasize on employees' performance at work, we pay equal attention to a healthy lifestyle for our employees after-work. The recreational clubs under Haitian Group Union organized different activities including competitions for mountain-bike, badminton, table-tennis, basketball, amateur chess, calligraphy and painting, outdoor photography and yoga activities for our employees to participate, feel cheerful, foster good habits and develop personal interests. The co-workers can also improve communication and mutual understanding outside work-place. In addition, Haitian Symphonic Orchestra was set up in 2018 and performed in the employee congress of Haitian.



Environmental, Social and Governance Report



On 28 October 2018, “Haitian Champion” Mountain-bike Competition was held in Maoyangshan, Xiaogang Town of Bei Lun District. The participants were from recreational clubs of Ningbo City. Among which, 11 of them were female and the oldest was 61 years old. There were also 11 special athletes which were elected from Ningbo City Disabled Persons Federation:



Haitian Choirs participated in the “Songs of New Era” of Third Employee Signing Contest on 11 May. They won the gold award by singing “Haitian Road (海天路)” and “Se Enker Baryarl (歡樂的那達慕)”:



Environmental, Social and Governance Report

VI. Compliance with laws

We comply with laws and regulations in China and overseas countries applicable to our recruitment, employment, and termination of employment. We adopt specific guidance for all such procedures and we have implemented rules for specific area as set out below.

Social security and other benefits

We provide the following benefits to our employees in China and overseas locations according to the applicable regulations:

- social security programs including medical, work injury and retirement insurance schemes
- paid annual leave
- overtime-work compensation

Anti-discrimination

We have adopted anti-discrimination policy for our employees in China to ensure they receive fair treatment at work in different aspects and would not be discriminated as a result of gender, race, age, religion, sex orientation and social status.

Prohibition on child labour

We have adopted policy that strictly prohibits employment of child labour. Our staff responsible for recruitment will check the identity documents of the candidate to verify their ages and the supervisor of the department of the new recruits will check again their identity documents to verify their ages and identities on first day of work. Our human resource department will also conduct random check to verify ages and identity of our employees at different department.

(4) Supply Chain Management

The majority of our suppliers are companies in China. Under the emphasis of transformation towards a sustainable economic development by the Chinese Government, all industries are paying more attention to the interaction between economic activities and environmental protection and social responsibility.

For processing which we out-source to third party contractors and involving potential pollution to the environment, we request the contractors to obtain relevant license from the environmental protection bureau of the local government to ensure they are qualified to perform the relevant work in compliance with the environmental protection requirements.

We foresee a sustainable economic development becoming the major trend in the world and awareness for environmental protection and social responsibility will increase with support from the government and enterprises. We will share such information with our suppliers and ensure sufficient preparation will be made for the future.

(5) Product Responsibility

Product Quality Assurance

Our products are industrial equipment and there are different industrial benchmarks and standards in China and overseas countries. In some regions such as Europe, the standards are backed by regulations. These are often the basic requirements in our industry and we will provide products which, on top of such basic requirements, can meet the specifications set by our customers.

We have set up a complete product quality assurance system which involves specific personnel monitoring quality at different points in our business flow from procurement of components, processing and assembly, final products testing and commissioning. We provide full-service to our customers after our products are put into full operation and ensure our customers receive prompt feedback and solutions.



Environmental, Social and Governance Report

Ever since establishment, we are committed to uphold our core principle of providing good quality with employee participation as the foundation. We formulated the concept of comprehensive quality control to allow customers having the products with “Highest price – performance ratio”. We see quality control as the initial starting point and emphasize the quality culture of “formulate character before formulating the brand”. The quality is under stable control after the lifecycle quality control of sales, design, procurement and service of the product.

The overall quality control of products has gradually achieved informatization. Currently, quality control of assembling machine (including safety control of products of assembling machine) has all achieved informatization (which integrated in the production process of the system of manufacturing enterprise). Precision machining quality control of critical components has also achieved informatization, and the precision machining quality control for other components will be informatized in 2019.

In the future, we will be approaching to “outstanding” and promoting strategy planning of “great quality”. We will lead and support the development of the Company to enter into a “quality era”.

Intellectual Property Rights

We have registered our trademarks in over 90 countries and regions in the world which offer protection to our business in such countries and regions. We also have a team of engineers focusing on development and application of patents.

Our four wholly-owned subsidiaries in China below have obtained certification under Intellectual Property Rights Management Certification:

Haitian Plastic Machinery Group Co., Ltd.
Ningbo Haitian Huayuan Machinery Co., Ltd.
Ningbo Zhafir Plastics Machinery Co., Ltd.
Wuxi Haitian Machinery Co., Ltd.

(6) Anti-corruption

We adopt a zero-tolerance policy on illegal activities such as bribery, extortion, fraud and money laundering in our operation. Any employee or officer involved in such activities will have their employment terminated and relevant acts reported to the authority. We also request our suppliers in China to undertake that no benefit or gift, in whatever form, will be provided to our employees or officers in the course of business activities with us. We will terminate business relationship with any supplier which breaches such undertaking.

(7) Social Responsibility

The development and success of Haitian Group in the past 50 years were results of contribution by its employees, customers, business partners and governmental support. Therefore we have consistently emphasized the importance of a successful enterprise not only in the contribution to the development of business, technology and industry, but also the commitment of social responsibility. In addition to the environment, caring of employees and abiding by the laws and regulations, we provide direct assistance to disadvantaged groups in the society which may not have been able to share the success of social development to allow better use of social resources.

Since the founding of Haitian Group, our efforts to contribute to our community have never stopped. We have funded the reconstruction of facility of nearby communities, offered scholarship to students in financial needs and financed the establishment of Haitian Park. Our employees also contributed personally for aids to natural disasters and this was echoed with “One-Day Donation” since 2003. The total contribution from Haitian Group till 2017 for these purposes had reached RMB177 million. In order to conduct such charitable activities in a scientific, systematic and consistent manner, Haitian Group started to prepare for the set up of a charity foundation in 2012.

Environmental, Social and Governance Report

Zhejiang Haitian Charity Foundation was set up in 2013. The initial capital came from personal donation of Mr. Zhang Jingzhang, chairman of our Group. Later we had received further donation from the management of Haitian Group in 2015, 2016 and 2017. The purpose of the foundation is to provide aid to people in need of help in our community such as children deprived of education opportunity, people in financial needs due to sickness, physical disability, loss of family members, and to provide assistance to our employees through work-place assistance and daily life support. Below is the Evaluation Grade Certificate of Zhejiang Haitian Charity Foundation:



Environmental, Social and Governance Report

The photo above was the Charity Model Award of the 5th Ningbo Charity Award (the top government award in the charity work of Ningbo City) received by Mr. Zhang Jingzhang.

In 2018, we have conducted various service items under the support of the foundation:

I. Regular Activities

1. Support for medical, educational and household expenses

- medical: provide financial support to people in need as a result of severe sickness or who cannot afford medical expenses.
- educational: provide financial support to families having difficulties in sending children to school and for senior high-school and university level educational needs. For the renowned universities which are closely worked with Zhejiang Province, we provided subsidies for the students with good academic performance and conduct, from needy families and who are all-round developed. Subsidy of RMB296,000 was expensed in 2018. We intend to spend RMB888,000 in 2017-2019.
- household: provide financial support to families in need as a result of natural disasters, accidents or severe sickness.

2. Support to local community

Provide financial support to families in need at Yaqian, Shanxia and Qianjin villages in Xiaogang, Beilun, Ningbo before Chinese Lunar New Year. We spent a total of RMB400,000 in 2018.

3. Support to special groups of people in need

In joint operation with Ningbo Beilun Xiaogang Jiedao Women Association, we visited women in financial needs and who are suffering from cancer and helped the youths in need to improve their livelihood and learning.

4. Free medical check-up

Provide free initial medical check-ups and seminar on common disease preventive measures and treatment by doctors with different expertise



5. Haitian Charity Day

Already its 6th anniversary, the Haitian Charity Day covers free services such as hair-cutting, photography, eye-checking, bicycle and household electronics maintenance, key-making, blood testing, book exchange, social dating, psychology consultation, plant seed distribution, distribution of hand-painted environmental friendly handbags, etc.



Environmental, Social and Governance Report

6. Staff voluntary work

We also encourage our employees to organize new charity activities so that in addition to participation, they are able to input their idea in the design, planning and implementation of such activities and the Foundation would provide financial support. The following are activities which were organized by our employees in 2018.

I. Maintenance of bicycles and motor vehicles



II. Maintenance of household electronics



III. Community Service

Collection and recycling of clothes and book exchange



Environmental, Social and Governance Report

Reading Camp

We organized bookcrossing activity and reading sharing session to build up good reading habits for the children based on the principle of "Give, participate and gain". Children can read as many good books as possible with little cost. They can make friends in this reading camp, promote self-development and initiate parent-child reading time.



Social dating

Through social dating activities, long-lasting caring services were provided for the singles. A systemized dating platform with shared resources was set up for singles of the appropriate age to have a date.



Environmental, Social and Governance Report

II. Specific Activity

1. Summer Camp

In July and August 2018, taking into account the enrolment of summer camp in 2017, age groups of children and convenience of neighborhood transportation, Haitian Charity Foundation organized, in cooperation with Ningbo Professional Training Institution for Teenagers (寧波專業少兒培訓機構), a summer camp with upper and lower classes for 100 primary school students in Haitian Drive System Training Center. Full-time teachers and university students volunteers stayed with the children to jointly go through the approximately 30-day summer camp, by participating experiential programs, teaching programs and fun games such as Chinese classics recitation, mathematic thinking, robotic program, Latin American dancing, arts, African drum, young master of ceremony etc. They helped the participated children to have a different learning experience, widen their perspective, enrich their life experiences, explore their abilities and potentials, and train them for social participation.



Environmental, Social and Governance Report

2. Organizing Scratch Program Design Course for teenagers

In order to enrich weekend life of the children of employees, elevating their creative ability and cultivating the skill of basic program design, Haitian Charity Foundation organized, in cooperation with Ningbo Joy Code Voluntary Service Center (寧波市快樂代碼志願服務中心), a scratch program design course in Haitian Drive System Training Center for 41 employees' children who were in primary two to six.

The course was conducted in 8 lessons and taught by 3 voluntary students from University of Nottingham Ningbo China each in an edutainment way. They guided the children to learn the concept and method of program design by finishing animation, games and website items. The course popularized the education of teenage program design and artificial intelligence, and at the same time developed the way of analysis and problem-solving of students and nurtured their creative thinking.



We believe the success in business shall go hand-in-hand with responsibility to community and provision of help to groups in need. At the same time, such activities provide valuable opportunities for our employees and partners to contribute to community with their own skills, time and resources.

Innovation

**CORPORATE
GOVERNANCE
REPORT**



Corporate Governance Report

Haitian International Holdings Limited (the “Company”) recognises the importance of good corporate governance to its healthy growth and has therefore devoted much efforts into formulating corporate governance practices that agree with its business needs. The Company has applied the principles set out in the Corporate Governance Code (“CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) by adopting the relevant code provisions. The Company periodically reviews its corporate governance practices to ensure its continuous compliance with the CG code. The directors of the Company (“Directors”) consider that the Company complied with all the applicable code provisions set out in the CG Code for the year ended 31 December 2018.

Board of Directors

The Board of Directors (the “Board”) comprises 5 Executive Directors, 5 Non-executive Directors and 5 Independent Non-executive Directors.

The Directors who held office during the year and up to the date of this report were:

Executive Directors

Mr. Zhang Jingzhang (*Chairman*)
Mr. Zhang Jianming (*Chief Executive Officer*)
Mr. Zhang Jianfeng
Mr. Chen Weiqun*
Mr. Zhang Bin*

Non-executive Directors

Mr. Guo Mingguang
Mr. Liu Jianbo
Prof. Helmut Helmar Franz
Mr. Zhang Jianguo*
Ms. Chen Ningning*

Independent Non-executive Directors

Mr. Lou Baijun
Mr. Jin Hailiang
Mr. Guo Yonghui
Dr. Yu Junxian#
Mr. Lo Chi Chiu#
Dr. Steven Chow#

* Mr. Chen Weiqun and Mr. Zhang Bin were appointed as Executive Directors on 20 April 2018 and Mr. Zhang Jianguo and Ms. Chen Ningning were re-designated as Non-executive Directors on the same date.

Dr. Steven Chow resigned as Independent Non-executive Director on 1 February 2019 and Dr. Yu Junxian and Mr. Lo Chi Chiu were appointed as Independent Non-executive Directors on the same date.



Corporate Governance Report

According to rule 3.10A of the Listing Rules, the Company is required to appoint independent non-executive directors representing at least one-third of the members of the Board. Following the re-designation of Mr. Zhang Jianguo and Ms. Chen Ningning from executive directors to non-executive directors and the appointment of Mr. Chen Weiqun and Mr. Zhang Bin as executive directors on 20 April 2018, the number of independent non-executive directors on the Board represents less than one-third of the members of the Board.

Following the resignation of Dr. Steven Chow as an independent non-executive director of the Company and appointment of Dr. Yu Junxian and Mr. Lo Chi Chiu as independent non-executive directors of the Company on 1 February 2019, the Board comprises fifteen directors with five executive directors, five non-executive directors and five independent non-executive directors and accordingly, the Company complies with the requirement under Rule 3.10A of the Listing Rules for having independent non-executive directors representing at least one-third of the Board.

The Board has a balance of skill, experience and diversity of perspectives that are essential to and would promote the business of the Group. It also has a balanced composition of Executive and Non-Executive Directors and is responsible to formulate overall strategy of the Group, monitor its operational and financial performance and oversight of the management of the Company's business and affairs. The Board, especially the Independent Non-Executive Directors, is also responsible to decide on acquisitions or disposals where there is conflict of interests for any Director(s). The Board has delegated the day-to-day responsibility to the Executive Directors and senior management of the Company. The biographies and relevant relationships amongst them are set out in the Directors and Senior Management Section of this annual report.

The Chairman and the Chief Executive Officer of the Company are Mr. Zhang Jingzhang and Mr. Zhang Jianming respectively. The roles of the Chairman and the Chief Executive Officer are segregated and assumed by two separate individuals. It is aimed at striking a balance of power and authority so that the job responsibilities are not concentrated on any one individual. The Chairman is responsible for the leadership and effective running of the Board, while the Chief Executive Officer is delegated with the authorities to manage the business of the Group in all aspects effectively. The division of responsibilities between the Chairman and the Chief Executive Officer have been clearly established and set out in writing.

The Non-executive Directors, with diversified industry expertise but not involved in the day-to-day management of the Group, serve the important function of advising the Board on strategic development of the Group, and ensure that the Board maintains

high standards of financial and other mandatory reporting as well as provide adequate checks and balances for safeguarding the interests of the Company and the shareholders of the Company as a whole. The Company has received confirmations of independence from all existing Independent Non-executive Directors and considers them independent, in accordance with the Rule 3.13 of the Listing Rules. All Directors have a term of office of three years and are required to retire and, being eligible, can offer themselves for re-election in accordance with the articles of association of the Company.

The Company has arranged appropriate insurance cover in respect of legal action against its directors and senior management. The Board will also review this arrangement from time to time to ensure the insurance cover is well enough for our directors and senior management.

Board Meetings

It is intended that the Board should meet regularly so that all directors are kept updated with the business development of the Group. Special meetings the Board will be convened if the situation requires so. For the year ended 31 December 2018, the Board convened a total of four Board meetings and the individual attendance record of the Directors is tabulated as follows:

Attendance

Executive Directors

Mr. Zhang Jingzhang (<i>Chairman</i>)	4/4
Mr. Zhang Jianming (<i>Chief Executive Officer</i>)	4/4
Mr. Zhang Jianfeng	3/4
Mr. Chen Weiqun*	4/4
Mr. Zhang Bin*	4/4

Non-executive Directors

Mr. Guo Mingguang	3/4
Mr. Liu Jianbo	4/4
Professor Helmut Helmar Franz	3/4
Mr. Zhang Jianguo*	3/4
Ms. Chen Ningning*	4/4

Independent Non-executive Directors

Mr. Lou Baijun	4/4
Dr. Steven Chow#	2/4
Mr. Jin Hailiang	3/4
Mr. Guo Yonghui	4/4

* Mr. Chen Weiqun and Mr. Zhang Bin were appointed as Executive Directors on 20 April 2018 and Mr. Zhang Jianguo and Ms. Chen Ningning were re-designated as Non-Executive Directors on the same date.

Dr. Steven Chow resigned as Independent Non-executive Director on 1 February 2019.

Corporate Governance Report

Model Code for Securities Transactions by Directors of the Company

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. Specific enquiry has been made to all directors who were in office during year 2018 and they all have confirmed that they had complied with the required standard set out in the Model Code for the Reported Period.

Relationship of the Directors

Among the members of the Board, Mr. Zhang Jingzhang, the Chairman, is the father of Mr. Zhang Jianming and Mr. Zhang Jianfeng, the father-in-law of Mr. Guo Mingguang and Mr. Liu Jianbo and the grandfather of Mr. Zhang Bin, all of whom are also directors of the Company. Mr. Zhang Jianming is also the Chief Executive Officer of the Company.

Nomination Committee

The Board had set up its Nomination Committee to, among others, review the structure, size and composition of the Board and make recommendations to the Board on the appointment of Directors. The Nomination Committee has also adopted a policy of diversity for memberships of the Board which aims to achieve diversity in the Board against a range of different perspectives, including but not limited to professional and industry experience, skills and knowledge, cultural and educational background. These criteria will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately. In reviewing and assessing the composition of the Board, the Nomination Committee will consider all different perspectives, including the aforesaid criteria, in order to maintain a diverse Board. And in recommending new appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria including the ones set out above, with due regard for the benefits of diversity of the Board.

Nomination Policy

The Nomination Committee shall nominate suitable candidates to the Board on the appointment of directors and succession planning for directors. When making recommendations regarding the appointment of any proposed candidate to the

Board or re-appointment of any existing member(s) of the Board, the Committee shall consider a variety of factors including without limitation the following in assessing the suitability of the proposed candidates:

- Reputation for integrity;
- Accomplishment and experience in the manufacturing industry and other relevant sectors;
- Commitment in respect of available time and relevant interest; and
- Diversity in all its aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

The appointment of any proposed candidate to the Board or re-appointment of any existing member(s) of the Board shall be made in accordance with the Company's Articles of Association and other applicable rules and regulations.

Under the Nomination Policy, the Nomination Committee should upon receipt of the proposal on appointment of new director and the biographical information of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship. The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable. For any person that is nominated by a shareholder for election as a director at the general meeting of the Company, the Nomination Committee should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship. Where appropriate, the Nomination Committee should make recommendation to shareholders in respect of the proposed election at the general meeting.

The composition of the Nomination Committee and the attendance of the one meeting of the Nomination Committee during year 2018 are set out below:

Attendance

Mr. Zhang Jingzhang (<i>Chairman of Committee</i>)	1/1
Mr. Jin Hailiang	1/1
Mr. Guo Yonghui	1/1

The Nomination Committee had reviewed the structure, size, composition and diversity of the Board, the background information and suitability of new director and assessed the independence of independent non-executive directors and make recommendations on re-election of directors at general meetings.

Corporate Governance Report

Board Diversity Policy

The Board has formulated a Board Diversity Policy to improve the standard of management through achieving diversity on the Board in terms of management skills, experience and perspectives, and thereby enhance the quality of the management and the performance of the Company. The Board Diversity Policy requires that the appointment of Board members should be based on the talents of the candidates. Factors including diversity in age, gender, education and cultural background, professional expertise, industry experience and independence should also be considered and assessed during the selection process to ensure diversity. The Nomination Committee of the Board monitors the implementation of the Board Diversity Policy and reports in the corporate governance report of the Company on an annual basis. The Nomination Committee will also review the Board Diversity Policy and make recommendations for revision to the Board for consideration and approval when necessary. The Board considers that it has made progress on achieving diversity of the Board by including members of different gender and education background and professional qualifications. The Board will continue to strive for diversity of the Board in accordance with the Board Diversity Policy.

Audit Committee

The Company has set up an audit committee in compliance with Rule 3.21 of the Listing Rules, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises three independent non-executive directors of the Company. The Audit Committee has reviewed the Group's condensed consolidated financial information for the year ended 31 December 2018, including the accounting principles adopted by the Group, with the Company's management. The audit committee, together with the management and the external auditors, has regularly reviewed the accounting principles and practices adopted by the Group, discussed auditing, internal control and financial reporting matters and reviewed the financial results of the Group.

The composition of the Audit Committee and the attendance of the two meetings of the Audit Committee during year 2018 are set out below:

Attendance

Mr. Lou Baijun (<i>Chairman of Committee</i>)	2/2
Mr. Jin Hailiang	2/2
Mr. Guo Yonghui	2/2

The Audit Committee met two times during year 2018. During the meetings, the Audit Committee considered the annual results of the Group for the year ended 31 December 2017 and the interim results of the Group for the six months ended 30 June 2018 as well as reports prepared by the external auditors relating to accounting and internal control issues and major findings in the course of audit/review.

Remuneration Committee

The Remuneration Committee is responsible to review the policy for remuneration of the Directors and other senior management of the Group and to make recommendations to the Board on the remuneration packages of each Director and senior management. The Group's policy for remuneration (including basic salary and performance bonus) of the Directors and other senior management is based on skills, knowledge, involvement and performance of the individuals by reference to the Company's performance and profitability, as well as industry practice.

Remuneration Policy

The objective of the Company's Remuneration Policy is to help establish fair and competitive remuneration packages based on our business requirements and industry practice. In order to determine the level of remuneration and fees paid to members of the Board, markets rates and factors such as each director's workload, responsibility and job complexity are taken into account. The following factors are considered when determining the remuneration packages of directors and senior management of the Company:

- Business requirements;
- Individual performance and contribution to results;
- Company performance and profitability;
- Retention considerations and the potential of individuals;
- Corporate goals and objectives;
- Changes in relevant markets, including supply and demand fluctuations and changes in competitive conditions; and
- General economic situation.

The composition of the Remuneration Committee and the attendance of the one meeting of the Remuneration Committee during year 2018 are set out below:

Attendance

Mr. Jin Hailiang (<i>Chairman of Committee</i>)	1/1
Mr. Zhang Jianming	1/1
Mr. Guo Yonghui	1/1

The Remuneration Committee had concluded that the packages of the Directors and senior management are in line with market standards for companies in the industry which the Group belongs to.

Corporate Governance Report

Training and Support for Directors

The Company recognizes the importance of keeping the Directors updated with latest information of duties and obligations of a director of a company which shares are listed on the Stock Exchange of Hong Kong Limited and the general regulatory requirements and environment for such listed company. To meet this goal, each newly appointed Director would receive an introductory training regarding the statutory and regulatory obligations of a director of a listed company in Hong Kong. The Company would also provide regular updates in relation to the latest developments regarding Listing Rules and other applicable regulations.

During year 2018, the Directors had participated in the following types of continuous professional development:

	Type of continuous professional development
Executive Directors	
Mr. Zhang Jingzhang	B
Mr. Zhang Jianming	B
Mr. Zhang Jianfeng	B
Mr. Chen Weiqun	B
Mr. Zhang Bin	B
Non-executive Directors	
Mr. Guo Mingguang	B
Mr. Liu Jianbo	B
Prof. Helmut Helmar Franz	B
Mr. Zhang Jianguo	B
Ms. Chen Ningning	B
Independent Non-executive Directors	
Mr. Lou Baijun	B
Dr. Steven Chow	B
Mr. Jin Hailiang	B
Mr. Guo Yonghui	B
Dr. Yu Junxian	*
Mr. Lo Chi Chiu	*

Note:

- A: attending seminars and/or in-house trainings relating to duties of directors of listed companies
- B: reading guidance notes and updates relating to regulatory requirements for listed companies and obligations of their directors
- * Dr. Yu Junxian and Mr. Lo Chi Chiu were appointed as Independent Non-executive Directors on 1 February 2019 and therefore no continuous professional development record is shown for 2018.

Risk Management, Internal Control and Corporate Governance

The Board has overall responsibility for the establishment, maintenance and annual review of the Group's risk management, system of internal control and corporate governance. In 2018, the Board has conducted a review with the management of the effectiveness of the risk management, system of internal control and corporate governance of the Company and its subsidiaries and considered that the risk management, internal control system and corporate governance measures are effective.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of risk management and internal control systems. The Company has developed and adopted different risk management procedures and guidelines with a clear division of power and responsibility. The Company would conduct self-assessment each year to confirm that all departments and the Company have properly complied with the risk management and internal control policy.

During the year, all departments conduct regular internal control evaluation to identify risks with potential impact on the Group's business and other aspects including major operational and financial procedures, regulatory compliance and information security. The management with the leader of the department would evaluate the chance of risk occurrence to provide response plan and monitor the progress of risk management.

In the last year, the internal control department reviewed important issues such major operational policies and regulatory compliance and provided its findings and recommendations to the Company for improvement.

Handling the dissemination of inside information

The Group is committed to a consistent practice of time, accurate and sufficiently detailed disclosure of material information and has adopted a policy on disclosure of inside information of the Group. The handling and dissemination of inside information of the Group is strictly controlled and remains confidential including but not limited by the following ways:

1. Restrict access to inside information to a limited number of employees on a need-to-know basis;

Corporate Governance Report

2. Reminder to employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality;
3. Ensure appropriate confidentiality agreements are in place when the Group enters into significant negotiations or dealings with third party;
4. Inside information is handled and communicated by designated persons to outside third party; and
5. The board and the senior management review the safety measures regularly to ensure inside information is properly handled and disseminated.

Internal Audit

The Group has set up an internal control department since 2012 to support the Board in its maintenance and review of the Group's risk management and internal control systems. The internal control department is a department independent from other departments inside the Group and directly reports to the Executive Directors of the Company. Its main roles include the followings:

1. to monitor different business units and subsidiaries of the Group in their compliance with internal guidelines, policies and procedures covering budget, financial reporting, procurement, risk management etc.;
2. to make recommendations on risk control procedures to the management to address risks identified in the business operations of the Group;
3. to support and monitor the Group's compliance with laws and regulations relevant to its operations; and
4. to assist the audit committee of the Board in its work.

Directors' and Auditor's Acknowledgement

The Board acknowledges its responsibility for preparing the accounts of the Company are in accordance with statutory requirements and applicable accounting standards. The management provides all relevant information and records to the Board, which enable it to prepare the accounts and to make above assessments. The statement of the auditor of the Company on its reporting responsibilities on the financial statements of the Group is set out in the Auditor's Report on pages 66 and 67.

Auditor's Remuneration

During the year, the auditor of the Company, PricewaterhouseCoopers, charged RMB3.56 million for audit services.

Company Secretary

Mr. Suen Waiyu, the company secretary of the Company resigned as the company secretary effected from 1 February 2019. During the year ended 31 December 2018, Mr. Suen has taken no less than 15 hours of relevant professional trainings to update his skills and knowledge.

On 1 February 2019, the Company has engaged Fair Wind Secretarial Service Limited, external service provider, and Ms. Lee Ka Man ("Ms. Lee") has been appointed as the company secretary of the Company in replacement of Mr. Suen Waiyu. Ms. Lee is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She has over 15 years of experience in the fields of company secretarial and compliance. Ms. Lee's primary contact at the Company is Mr. Dai Feng, General Counsel of the Company. During the year ended 31 December 2018, Ms. Lee has taken no less than 15 hours of relevant professional trainings to update her skills and knowledge. All directors have access to the advice and services of the company secretary on corporate governance and board practices and matters.

Dividend Policy

The Board has established a Dividend Policy setting out the principles and guidelines that the Company intends to apply when considering the declaration, payment or distribution of its net profits as dividends to the shareholders of the Company. The Company is subject to the Articles of Association of the Company and all applicable laws (including the Cayman Company Laws), rules and regulations, during declaration and payment of dividends to shareholders of the Company.

Corporate Governance Report

Investor Relations and Shareholders' Communication

The Company continues to pursue a proactive policy of promoting investor relations and communications by conducting analysts' briefings, road shows, participating in investors' conferences and making corporate presentations during the conferences, arranging company visits to the Company and maintaining regular meetings with institutional shareholders and analysts. The Company's annual general meeting provides a good opportunity for communications between the Board and its shareholders. Shareholders are encouraged to attend the annual general meeting. Notice of the annual general meeting and related papers are sent to shareholders at least 20 business days before the meeting and will also be made available on the Stock Exchange's website. The Directors will answer questions on the Company's business at the meeting. External auditors will also attend the annual general meeting. All votings at the annual general meeting will be conducted by poll and poll results will be posted on the website of the Stock Exchange on the business day following the annual general meeting. As a channel to further promote effective communication, the Company maintains a website (www.haitianinter.com) to disseminate the Company's announcements and other relevant financial and non-financial information electronically on a timely basis.

The annual general meeting held in year 2018 was held on 25 May 2018 and the attendance record of the Directors at the meeting is set out below:

Attendance

Executive Directors

Mr. Zhang Jinzhang (<i>Chairman</i>)	1/1
Mr. Zhang Jianming (<i>Chief Executive Officer</i>)	0/1
Mr. Zhang Jianfeng	0/1
Mr. Chen Weiqun*	0/1
Mr. Zhang Bin*	0/1

Non-executive Directors

Mr. Guo Mingguang	0/1
Mr. Liu Jianbo	0/1
Prof. Helmut Helmar Franz	0/1
Mr. Zhang Jianguo*	1/1
Ms. Chen Ningning*	1/1

Independent Non-executive Directors

Mr. Lou Baijun	1/1
Dr. Steven Chow [#]	0/1
Mr. Jin Hailiang	1/1
Mr. Guo Yonghui	1/1
Dr. Yu Junxian [#]	N/A
Mr. Lo Chi Chiu [#]	N/A

* Mr. Chen Weiqun and Mr. Zhang Bin were appointed as Executive Directors on 20 April 2018 and Mr. Zhang Jianguo and Ms. Chen Ningning were re-designated as Non-executive Directors on the same date.

[#] Dr. Steven Chow resigned as Independent non-executive Director on 1 February 2019. Dr. Yu Junxian and Mr. Lo Chi Chiu were appointed as Independent non-executive Directors on 1 February 2019 and therefore was not required to attend the annual general meeting in 2018.

Shareholders' Rights

How shareholders can convene an extraordinary general meeting

Any one or more shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall have the right to make a written requisition to the Board or the Company Secretary to convene an extraordinary general meeting pursuant to article 58 of the Company's articles of association. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the shareholder(s) who make the requisition may convene the extraordinary general meeting.

Procedures by which enquiries regarding business or operation of the Company can be made

Shareholders can contact the Investor Relations Department for enquiries in relation to the business or other operations of the Company. The contact information of the Investor Relations Department is set out in the "Investor Information" on page 20 of this report. Shareholders are also encouraged to attend the annual general meeting of the Company to express their view and make enquiries on the business or operation operations of the Company.

Procedures for putting forward proposals at general meeting

There are no provisions under the Company's articles of association or the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands governing shareholder's rights to put forward proposals at an annual general meeting. Shareholders who wish to put forward proposals may however follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

Efficiency



**REPORT OF
THE DIRECTORS**



Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 31 December 2018.

Principal Activities and Business Review

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 7 to the financial statements. An analysis of the Group's performance for the year by business segments and geographical segments are set out in note 24 to the financial statements.

Further discussion and analysis on the activities of the Group, including review of its businesses, discussion of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's businesses can be found in the Management Discussion and Analysis section in Chairman's Statements as set out on pages 4 to 8 of the annual report. Review of the Group's financial key performance can be found in the Financial Review section in CEO's Report as set out on pages 9 to 12. These discussions form part of this director's report.

Environmental Policies and Performance

The Group's environmental policies are driven towards two main targets, namely compliance with environmental related laws and regulations and additional measures to protect the environment in the area of energy-saving and waste reduction. For compliance with laws and regulations, the Group's major production facilities are located in China and there is a specific team inside the Group to continuously monitor the regulatory requirements and the Group's compliance with such requirements. The Group also engaged professional expert to conduct analysis of energy efficiency and waste generation in its operation and provide recommendations for area which can be improved. The Board believes that the Group has complied with environmental related laws and regulations in China and adopted additional measures which enhanced the energy efficiency and reduced waste production in its operation. Please refer to the Environmental, Social and Governance Report on pages 22 to 40 for details of the Group's environmental policies and performance.

Compliance with Laws and Regulations

The Board considers compliance with laws and regulations an important element in the business operation of the Group. The Group's major production facilities and over half of its sales are located and generated in China and compliance with domestic laws and regulations in China is particularly important. The Group has specific personnel to handle and update compliance works in China and they also have the assistance from external legal advisors. With the Group's continuous expansion into overseas markets and setting up of local entities in overseas countries, the exposure to foreign laws and regulations is increasing and the management of the Group is well aware of the compliance risk involved. Local external legal and other professional experts are engaged from the stage of establishment and continuous advice is sought before and during business operation in such overseas countries. The Board considers that the Group's compliance with laws and regulations in both China and overseas countries is well monitored.

Results and Appropriations

The results of the Group for the year are set out in the consolidated statement of profit or loss on page 70. The directors declared an interim dividend of HK25.0 cents per share, totalling RMB354,312,000 which was paid on 6 September 2018. The directors declared the payment of a second interim dividend of HK19.0 cents per share, totalling approximately RMB259,179,000.

Report of the Directors

Closure of Register of Members

The register of members of the Company will be closed from 3 April 2019 to 8 April 2019 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the second interim dividend, all properly completed shares transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 2 April 2019.

The register of members of the Company to attend the AGM will be closed from 22 May 2019 to 27 May 2019 (both days inclusive). In order to be eligible to attend the AGM, all properly completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 21 May 2019, for registration.

Key Relationships with Employees, Customers and Suppliers and Others

Employees are remunerated equitably and competitively. Continuing training and development opportunities are provided to equip them to deliver their best performance and achieve corporate goals. During the reporting period, our staffs continuously pursue training and career development through our training system.

Customers' feedback and advice could be taking into account via customer communication channel.

The Group uses suppliers that reflects its values and commitment. The Group has policies and procedures to select suppliers and contractors who share our social, environmental and labour practice standards.

Key Risks and Uncertainties

Foreign Currency Risk

The Group has transactional currency exposure. These exposures arise from sale the products to international markets. In order to minimise the impact of foreign exchange exposure, the Group has entered into several specially designed agreements, including but not limited to borrowing certain Euro denominated bank loans to hedge the exchange risk of Euro denominated receivables arising from export sales.

Fair Value and Cash Flow Interest Rate Risk

The Group's interest rate risk arises from bank deposits, loans to employees, entrusted loans and borrowings. Bank deposits, loans to employees and entrusted loan within one year at fixed rates expose the Group to fair value interest rate risk. Long-term entrusted loans generated at variable rates and borrowings obtained at variable rates expose the Group to cash flow interest rate risk. The Group has not used any financial instruments to hedge its exposure to cash flow interest rate risk.

As at 31 December 2018, as for all borrowings have fixed interest rates, interest rate risk is avoided.

Credit Risk

The Group has policies in place to ensure credit sales are made to customers with an appropriate credit history. Most of the Group's sales are covered by guarantees from distributors, credit arrangement from insurance companies in Mainland China, or letters of credit issued by banks. The Group grants its customers credit terms ranging from 15 days to 36 months.

Liquidity Risk

Prudent liquidity risk management implied maintaining sufficient cash and cash equivalents, the availability of fund through adequate amounts of committed credit facilities. The Group's objective is to maintain adequate committed credit facilities to ensure sufficient and flexible funding is available to the Group.



Report of the Directors

Charitable Donations

Charitable donations made by the Group during the year amounted to RMB20 million.

Permitted Indemnity

Under the Articles of Association, the Directors are indemnified secured harmless out of the assets and profits of the Group from and against all actions, costs, charges, losses, damages and expenses, which they or any of them incur as a result of any act or failure to act in carrying out their functions other than such liability (if any), that they may incur by reason of their own fraud or dishonesty. Such permitted indemnity provision has been in force for the year ended 31 December 2018. The Group has arranged appropriate liability insurance coverage for the Directors.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 17 to the financial statements.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in note 6 to the financial statements.

Share Capital

Details of the movements in share capital of the Company are set out in note 16 to the financial statements.

Distributable Reserves

The Company's reserves available for distribution represent the share premium, contributed surplus and retained earnings which in aggregate amounted to RMB2,485.8 million as at 31 December 2018. Under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Articles of Association and provided that immediately following the distribution or payment of dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

Convertible Bonds

In February 2014, the Company issued US dollar denominated 2.00 coupon convertible bonds ("CB") due 2019 of USD200 million for general corporate purposes. The maturity date of the CB is 13 February 2019 and unless previously redeemed, converted or purchased and cancelled, the Company will redeem the CB at 100 per cent of its principal amount upon maturity. The holders of the CB had the right to request the Company to redeem all or some of the CB at 100 per cent of the principal amount of the CB on 13 February 2017. Please refer to the Company's announcement dated 9 January 2014 for details of the CB.

As of 14 January 2017 which was the end of the period during which holders of the CB could request the Company to redeem the CB, the Company received requests of redemption of CB for an aggregate principal amount of USD75,250,000 (the "Redeemed Bonds"). The Redeemed Bonds were redeemed at 100% of their principal amount, together with any accrued but unpaid interest, on 13 February 2017 and were cancelled upon redemption. The remaining outstanding aggregate principal amount of the CB was reduced to USD124,750,000, representing 62.375% of the total principal amount of the CB originally issued. Please refer to the Company's announcement dated 16 January 2017 for details.

Report of the Directors

Conversion price and shares to be issued upon full conversion

The initial conversion price of the CB was HK\$24.6740 and is subject to adjustment for, among others, subdivision, consolidation and bonus issues of shares, rights issue, distributions (including dividends) and certain other dilutive events. After the first interim dividend of 2018 as declared by the Board, the conversion price of the CB will become HK\$21.8638. On 13 February 2019, the CB has been mature and fully repaid by the Company. No shares of the CB were converted, so that there was no impact on the shareholding structure of the Company stated as follows:

Shareholder	Existing shareholdings of the Company		Shareholdings of the Company with best estimation of nil conversion of CB	
	No. of shares	Per cent. of issued shares capital of the Company	No. of shares	Per cent. of issued shares capital of the Company
Sky Treasure Capital Limited ⁽¹⁾	944,737,672	59.19	944,737,672	59.19
Schroders Plc ⁽¹⁾	94,102,966	5.9	94,102,966	5.9
Bondholders	0	0	0	0
Other shareholders	557,159,362	34.91	557,159,362	34.91
Total	1,596,000,000	100.00	1,596,000,000	100.00

Notes:

⁽¹⁾ These shareholders were holders of 5% or more issued shares of the Company as of 31 December 2018. Please refer to section headed "Interests and Short Positions of Shareholders" for details of their shareholdings.

For dilutive impact on earnings per share upon full conversion of the CB, please refer to note 31 of the financial statements.

As at 31 December 2018, the Group's total cash and cash equivalents amounted to RMB3,769.6 million. The Directors consider the Company has ability to meet the repayment obligations under the CB.

Financial Summary

A summary of the results for the year ended and of the assets and liabilities of the Group as at 31 December 2018 and for the previous four financial years are set out on page 156.

Share Option Scheme

The Company adopted a share option scheme (the "Scheme") on 25 October 2007. No option had been issued under Scheme and the Scheme expired on 24 October 2017. The Company does not have any existing share option scheme as of the date of this report.

Report of the Directors

Directors

The Directors who held office during year 2018 and up to the date of this report were:

Executive Directors

Mr. Zhang Jingzhang (*Chairman*)
Mr. Zhang Jianming (*Chief Executive Officer*)
Mr. Zhang Jianfeng
Mr. Chen Weiqun*
Mr. Zhang Bin*

Non-executive Directors

Mr. Guo Mingguang
Mr. Liu Jianbo
Prof. Helmut Helmar Franz
Mr. Zhang Jianguo*
Ms. Chen Ningning*

Independent Non-executive Directors

Mr. Lou Baijun
Dr. Steven Chow#
Mr. Jin Hailiang
Mr. Guo Yonghui
Dr. Yu Junxian#
Mr. Lo Chi Chiu#

* *Mr. Chen Weiqun and Mr. Zhang Bin were appointed as Executive Directors on 20 April 2018 and Mr. Zhang Jianguo and Ms. Chen Ningning were re-designated as Non-executive Directors on the same date.*

Dr. Steven Chow resigned as Independent Non-executive Director on 1 February 2019 and Dr. Yu Junxian and Mr. Lo Chi Chiu were appointed as Independent Non-executive Directors on the same date.

In accordance with Article 87(1) of the Company's Articles of Association, Mr. Zhang Jingzhang, Mr. Zhang Jianming, Mr. Guo Mingguang, Prof. Helmut Helmar Franz and Ms. Chen Ningning will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. In accordance with Article 86(3) of the Company's Articles of Association, Dr. Yu Junxian and Mr. Lo Chi Chiu, being new directors appointed on 1 February 2019, shall hold office until the annual general meeting and being eligible, shall offer themselves for re-election. The Company has received from each independent non-executive director a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers such directors to be independent.

Directors' Service Contracts

Each of the executive directors, has entered into a service contract with the Company for a term of commencing from three years, unless terminated by not less than three months' notice in writing served by either party on the other.

Each of the non-executive directors, has entered into a service contract with the Company for a term of commencing from three years, unless terminated by not less than one month's notice in writing served by either party on the other.

Each of the independent non-executive directors has entered into a service contract with the Company for a term of three years, all of which may also be terminated by either party by giving the other party as least three months' written notice.

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has entered or has proposed to enter into any service agreement with the Company or any other member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Report of the Directors

Directors' Interests in Contracts

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year except as disclosed under Continuing Connected Transactions stated below and note 35 to the financial statements.

Director's Right to Acquire Shares or Debentures

Save as disclosed in the annual report, at no time during the year of 2018 and up to the date of this annual report were rights to acquire benefits by means of acquisition of shares in or debentures of the Group granted to any Director or their respective spouse or minor children, or were any such rights exercised by them, or was any member of the Group a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Biographical Details of and Remunerations to Directors and Senior Management

Brief biographical details of the directors and senior management are set out on pages 13 to 20.

For details of the remunerations paid to the directors, please refer to note 38 of the financial statements.

During the year ended 31 December 2018, total remunerations paid to members of senior management (who are not directors) are as follows:

	Year ended 31 December 2018 RMB'000
Salaries	1,605
Pension costs and mandatory provident fund contributions	81
	1,686

The remunerations of the senior management are within the following bands:

	Number of individuals
Nil – RMB1,000,000	4

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2018, the directors and chief executives of the Company and their associates had the following interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"):

Report of the Directors

Long position in shares and underlying shares of the Company

Name of Director	Capacity/Nature of interest	Total number of Shares	Approximate percentage of shareholding in the Company
Mr. Zhang Jingzhang	Corporate Interest ⁽¹⁾	944,737,672 (L)	59.19%
	Corporate Interest ⁽²⁾	535,000 (L)	0.03%
Mr. Zhang Jianming	Corporate Interest ⁽¹⁾	944,737,672 (L)	59.19%
	Corporate Interest ⁽²⁾	3,104,000 (L)	0.19%
Prof. Helmut Helmar Franz	Personal Interest	4,212,000 (L)	0.26%
	Corporate Interest ⁽²⁾	3,250,000 (L)	0.20%
Mr. Liu Jianbo	Corporate Interest ⁽²⁾	520,000 (L)	0.03%

(L) denotes a long position

Notes:

- (1) Mr. Zhang Jingzhang and Mr. Zhang Jianming were deemed under the SFO to be interested in 944,737,672 shares of the Company held by Sky Treasure Capital Limited.
- (2) These directors were deemed under the SFO to be interested in the respective shares of the Company held by their wholly-owned investment holding companies.

Long Position in Shares and Underlying Shares of Associated Corporations of the Company

Name of Director	Name of association corporation ⁽¹⁾	Capacity/Nature of interest	Approximate percentage of shareholding in the associated corporations
Mr. Zhang Jingzhang	Sky Treasure Capital Limited ("Sky Treasure")	Founder of a trust ⁽²⁾	14.49%
		Corporate ⁽³⁾	54.07%
Mr. Zhang Jianming	Sky Treasure	Founder of a trust ⁽²⁾	9.83%
		Corporate ⁽³⁾	54.07%
Mr. Zhang Jianguo	Sky Treasure	Founder of a trust ⁽²⁾	5.89%
Mr. Zhang Jianfeng	Sky Treasure	Founder of a trust ⁽²⁾	5.53%
Ms. Chen Ningning	Sky Treasure	Founder of a trust ⁽²⁾	3.07%
Mr. Guo Mingguang	Sky Treasure	Beneficiary under a trust ⁽⁴⁾	1.85%
Mr. Liu Jianbo	Sky Treasure	Beneficiary under a trust ⁽⁴⁾	1.54%

Notes:

- (1) As at 31 December 2018, Sky Treasure was the holder of 59.19% of the issued share capital of the Company and therefore was an associated corporation under the SFO.
- (2) Such Directors were deemed under the SFO to be interested in shares of Sky Treasure which were held by discretionary trusts set up by them respectively.
- (3) Mr. Zhang Jingzhang and Mr. Zhang Jianming were separately entitled to exercise or control the exercise of one third or more voting power in the general meetings of Cambridge Management Consultants (PTC) Ltd. and Premier Capital Management (PTC) Ltd. Premier Capital Management (PTC) Ltd. was the trustee of the Haitian Employee Discretionary Equity Trust which was interested in 35.04% equity interests in Sky Treasure while Cambridge Management Consultants (PTC) Ltd. was the trustee of the Haitian Employee Fixed Equity Trust and the Haitian Employee Fixed Equity Trust II which collectively were interested in 19.03% equity interests in Sky Treasure. Accordingly, they were deemed under SFO to be interested in such shares in Sky Treasure.
- (4) Such Directors are beneficiaries under a trust which was interested in 14.28% shares of Sky Treasure.

Report of the Directors

Save as disclosed above, as at 31 December 2018, none of the directors and chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company and the Stock Exchange pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code. At no time during the year was the Company, or any of its holding companies, its subsidiaries or its fellow subsidiaries a party to any arrangement to enable the directors and chief executives of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

Interests and Short Positions of Shareholders

As at 31 December 2018, the persons or corporations (not being a Director or chief executive of the Company) who have interests or short positions in the shares, underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO or have otherwise notified to the Company were as follows:

Name of Shareholder	Capacity/Nature of interest	Total number of Shares	Approximate percentage of shareholding
Sky Treasure Capital Limited	Beneficial owner	944,737,672 (L)	59.19%
Premier Capital Management (PTC) Ltd.	Interest in a controlled corporation ⁽¹⁾	944,737,672 (L)	59.19%
UBS Trustees (B.V.I) Limited	Trustee	944,737,672 (L)	59.19%
Schroders Plc	Interest in a controlled corporation ⁽²⁾	97,467,673 (L)	6.11%

(L) denotes a long position

Notes:

(1) Premier Capital Management (PTC) Ltd. is deemed under the SFO to be interested in 944,737,672 shares held by Sky Treasure Capital Limited as at 31 December 2018.

(2) Schroders Plc is deemed under the SFO to be interested in 97,467,673 shares held by its wholly-owned entities.

Save as disclosed above, as at 31 December 2018, the Directors are not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company.

Management in Transactions, Arrangements and Contracts

During the year, the Company did not enter into any transaction, arrangement and contract in respect of the management or administration of the entire business or any significant business of the Group nor any such contract subsisting.

Major Customers and Suppliers

During the year, sales to the five largest customers and purchases from the five largest suppliers of the Group accounted for less than 30% of the Group's total sales and total purchases, respectively, for the year. Save as disclosed under "Continuing Connected Transactions" below, none of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in these major suppliers or customers at all times.

Report of the Directors

The Group places great emphasis on a long-term and stable relationship with its customers and suppliers for the continuous success and growth of its business. As a market leader in the plastic injection moulding machinery industry, the Group has an extensive sales network across China and exports to over 100 countries worldwide and to manage such network requires a close working relationship with our customers directly and through distributors, agents and other business partners. The Group's continuous effort to build trust and emphasize mutual benefits with its customers and suppliers has contributed to the long-term relationships with them.

Equity-Linked Agreements

The Group has not entered into any equity-linked agreement for the year ended 31 December 2018.

Significant Investments

During the year ended 31 December 2018, the Company has no significant investment.

Future Plans for Material Investments or Capital Assets and Expected Sources of Funding

The Company has no specific future plans for material investments or capital assets as at 31 December 2018.

Controlling Shareholders' Interest

No contracts of significance were entered into between the Company or any of its subsidiaries and any Controlling Shareholders or any of its subsidiaries or any contracts of significance for the provision of services to the Company or any of its subsidiaries by any Controlling Shareholders or any of its subsidiaries.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

Zhejiang Keqiang Intelligence Control Co., Ltd. ("Zhejiang Keqiang") is a strategic supplier for the Group, which manufactures and sells intelligence control system to the Group. The Group originally holds 46.51% equity interest in Zhejiang Keqiang before 30 June 2018. Pursuant to certain Equity Transfer Agreement, the Group further acquired 53.49% equity of Zhejiang Keqiang who became the subsidiary of the Group since 30 June 2018.

Competing Business

None of the Directors had any interest in any competing business with the Company or any of its subsidiaries during the year ended 31 December 2018.

Each member of the Haitian Management (as defined in the prospectus of the Company dated 11 December 2006), if applicable, has confirmed to the Company that he/she has complied with the non-competition undertaking as disclosed in the prospectus of the Company dated 11 December 2006.

Continuing Connected Transactions

Certain related party transactions as disclosed in note 35 to the financial statements also constituted continuing connected transactions under the Listing Rules which are required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules. The following transactions between certain connected persons (as defined in the Listing Rules) and the Company have been entered into and are ongoing for which relevant information had been disclosed in the Company's announcement dated 21 November 2014 and circular dated 8 January 2015.

Report of the Directors

Purchase of Servo Systems and Components

On 21 November 2014, the Group entered into a purchase framework agreement with Ningbo Haitian Drive Systems Co., Ltd. (formerly known as Ningbo Haitian Electric Machinery Co., Ltd.) (“HDS”) relating to the purchase of servo systems (the “2014 Framework Agreement”), linear motion guides, ball screws and hydraulic parts for a term of three years commencing from the 1 January 2015 and ended on 31 December 2017, whereby the Group agreed to purchase these systems and components from HDS and its related companies at the price no less favourable than the terms at which HDS offers to independent third parties for the same or similar products. As the 2014 Framework Agreement has expired in 31 December 2017, the Company has in 26 January 2018 entered into a purchase framework agreement with HDS (the “2018 Framework Agreement”) with a term of three years commencing from 1 January 2018 to 31 December 2020. HDS was an associate of Mr. Zhang Jingzhang, Mr. Zhang Jianming, Mr. Zhang Jianfeng, Mr. Guo Mingguang and Mr. Liu Jianbo, each of them a director of the Company and therefore are connected persons by virtue of Rule 14A.07 of the Listing Rules.

For the year ended 31 December 2018, the Group’s purchase of these systems and components from HDS and its related companies amounted to RMB810.9 million.

The independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms; and
- (3) in accordance with the agreement entered into on terms which are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company’s auditor was engaged to report on the Group’s continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 “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 issued his unqualified letter containing his conclusions in respect of the continuing connected transactions disclosed by the Group on page 58 of the annual report in accordance with paragraph 14A.56 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A copy of the auditor’s letter has been provided by the Company to the Stock Exchange of Hong Kong Limited.

Connected Transactions

Purchase of CNC turning machines and machining centres

For the year ended 31 December 2018, the Group purchased automatic processing line, CNC turning machines, machining centres and related equipment from Ningbo Haitian Precision Machinery Co., Ltd. (“Haitian Precision”) for approximately RMB140.5 million. Such equipment was purchased for processing parts and components for the manufacture of products of the Group. Haitian Precision is an associate of Mr. Zhang Jingzhang, Mr. Zhang Jianming, Mr. Zhang Jianfeng, Mr. Guo Mingguang and Mr. Liu Jianbo, each of them a director of the Company and therefore is a connected person of the Company. The transaction was pursuant to a machinery equipment purchase agreement entered into with Haitian Precision on 13 April 2018. Please refer to the Company’s announcements dated 13 April 2018 for details of such purchases.

Other Related Party Transactions

Details of the Company’s transactions with other related parties during the financial year ended 31 December 2018 are set out in note 35 of the financial statements.

Report of the Directors

The transactions with Ningbo Anson CNC Technique Co., Ltd., Ningbo STF Hydraulic Transmissions Co., Ltd. and Ningbo Hilectro Precision Machinery Co., Ltd. were under the continuing connected transactions for purchase of servo systems, linear motion guides, ball screws and hydraulic parts and components as described on page 59 of this report. The transaction with Ningbo Haitian Precision Machinery Co., Ltd. was under the connected transaction for purchase of automatic processing line, CNC turning machines, machining centres and related equipment as described above.

In addition, for the year ended 31 December 2018, the Group entered into transactions with Ningbo SPP Hydraulics Co., Ltd., Ningbo Hilectro Power Technology Co., Ltd. and Ningbo Haitian Drive Systems Co., Ltd. The Group also provided loans to some Directors during such period. All such parties are connected persons of the Company but the relevant transactions were exempted from reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

The transaction with Zhejiang Keqiang Intelligence Control System Co., Ltd. did not constitute connected transaction under the Listing Rules.

Pre-Emptive Rights

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

Purchases, Sale or Redemption of Shares

The Company has not redeemed any of its listed shares during the Reported Period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed shares during the Reported Period.

Auditor

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for reappointment.

Public Float

As at the date of this report, based on information available to the Company and within the knowledge of the Directors, the Company has satisfied the public float as required by the Listing Rules.

Dividends for the financial year

The Board has declared a second interim dividend for the year ended 31 December 2018 of HK\$0.19 per share which, together with the interim dividend of HK\$0.25 per share paid in September 2018, will constitute a total dividend of HK\$0.44 per share for the full year.

On behalf of the Board
Zhang Jianming
Chief Executive Officer

18 March 2019

Independent Auditor's Report



羅兵咸永道

**TO THE SHAREHOLDERS OF
HAITIAN INTERNATIONAL HOLDINGS LIMITED**
(Incorporated in Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Haitian International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 68 to 156, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated statement of profit or loss 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 statement of cash flows 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 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

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羅兵咸永道

**TO THE SHAREHOLDERS OF
HAITIAN INTERNATIONAL HOLDINGS LIMITED**
(Incorporated in Cayman Islands with limited liability)

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. 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 HKICPA’s Code of Ethics for Professional Accountants (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, 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:

- Provision for impairment of trade and bills receivable
- Provision for write-down of inventories



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Key Audit Matter

How our audit addressed the Key Audit Matter

Provision for impairment of trade and bills receivable

Refer to notes 4 (Critical accounting estimates and judgements) and 11 of the consolidated financial statements.

Management applied the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and bills receivable since 1 January 2018.

Management exercised judgement on the recoverability of trade and bills receivable and made estimates of the impairment provision based on the ageing pattern, and credit and settlement history of the relevant customers. Management adjusted the historical loss rates by taking the time value of money into consideration and to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

We focused on this area due to the significance of the balances of trade and bills receivable and the related provision for impairment, and the involvement of management's significant judgement and estimates of the provision for impairment.

We understood, evaluated and tested management's controls in respect of assessing impairment of trade and bills receivable.

We obtained the detailed listings of trade and bills receivable together with the ageing analysis and agreed the balances to the general ledgers for those operating entities which have been identified as significant components to the Group. We tested the ageing analysis on sample basis by checking to relevant supporting documents, including sales invoices, sales contracts, and goods delivery notes.

We obtained the management's expected credit losses assessment along with the historical payment profile and agreed the transactions to the general ledgers for those operating entities which have been identified as significant components to the Group. We tested the historical payment profile on sample basis by checking bank slips and bank statements. We recalculated the historical loss rate for each time bucket of trade and bills receivable and agreed the results to management's calculations.

We inquired with management and assessed the reasonableness of their judgements on the recoverability of trade receivables, the adequacy of the impairment provision, and the considerations of the time value of money and adjustments due to the current and forward-looking information on macroeconomic factors, primarily based on the information and evidence collected by management for the purpose of their assessment. We performed subsequent settlement tests to agree the relevant trade receivable balances to post year end cash receipts.

Based on the above, we considered that management had made reasonable judgements and estimates that were supported by the available evidence for their assessment of the provision for impairment.



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Key Audit Matter

How our audit addressed the Key Audit Matter

Provision for write-down of inventories

Refer to notes 4 (Critical accounting estimates and judgements) and 10 of the consolidated financial statements.

Due to the continual innovation of the Group's products, the net realised value ("NRV") of certain finished goods may fall below their cost and certain slow moving raw materials with specific useful lives may become obsolete.

Inventories are carried at the lower of cost and NRV in the consolidated financial statements, provisions were provided for those inventories if their NRVs were lower than the cost.

Management assessed the provision for write-down of inventories at each balance sheet date on an item-by-item basis and identified slow moving and obsolete inventories, in particular for those items aged over one year.

For finished goods, management estimated the NRV based on the latest market information. For raw materials which were identified as obsolete and to be disposed of as scrap material, the NRV was determined according to the estimated selling price of the respective scrap material in the recycling market.

We focused on this area due to the significance of the balances of inventories, and the involvement of management's estimates on the determination of the NRV and inventory provision.

We understood, evaluated and tested management's controls in respect of the identification of slow moving and obsolete inventories. We reviewed management's assessment of the inventory provision which was supported by the inventory ageing analysis and management's NRV estimation.

We obtained detailed inventory list with the related ageing report of those operating entities which have been identified as significant components to the Group and agreed the balances to the respective general ledgers. We performed tests on the inventory ageing on sample basis by checking the relevant supporting documents, including suppliers' invoices and goods received notes. For the estimated NRV of finished goods, we checked the amounts to supporting documents, including the latest sales contracts with customers. For the estimated NRV of raw materials which were identified as obsolete items, we checked the estimated NRV to supporting information, including the price quotation from the scrap material recycling market. We checked the calculation of inventory provisions to ensure arithmetical accuracy.

Based on the above, we considered that management's estimates of the inventory provision were properly supported by the available evidence.



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Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the management discussion and analysis (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the chairman's statement, chief executive officer's report ("CEO report"), environmental, social and governance (ESG) report, corporate governance report and report of the directors which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will 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 identified above 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the chairman's statement, CEO report, environmental, social and governance (ESG) report, corporate governance report and report of the directors, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate action considering our legal rights and obligations.

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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 is responsible for overseeing the Group's financial reporting process.



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**TO THE SHAREHOLDERS OF
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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 HKSAs 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 HKSAs, we exercise professional judgement 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.



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**TO THE SHAREHOLDERS OF
HAITIAN INTERNATIONAL HOLDINGS LIMITED**

(Incorporated in Cayman Islands with limited liability)

- 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 Lo Kai Leung, Thomas.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 18 March 2019

Consolidated Balance Sheet

As at 31 December 2018
(Amounts expressed in RMB)

	Note	2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Land use rights	5	487,485	361,794
Property, plant and equipment	6	3,552,607	3,287,040
Investment in an associate	8	—	16,744
Intangible assets	9	56,462	—
Deferred income tax assets	22	120,113	88,070
Other financial assets at amortised cost	12	8,838	—
Other receivables	12	—	13,045
Trade and bills receivables	11	117,152	160,599
Term deposits	15	50,000	100,000
		4,392,657	4,027,292
Current assets			
Inventories	10	2,708,011	2,771,531
Trade and bills receivable	11	2,950,611	3,252,825
Other financial assets at amortised cost	12	88,432	—
Prepayments and other assets	13	181,883	—
Prepayments, deposits and other receivables	12	—	242,393
Prepaid income tax		6,708	692
Financial assets at fair value through profit or loss		4,349,616	—
Available-for-sale financial assets		—	4,779,309
Restricted bank deposits	15	244,990	190,613
Term deposits	15	100,000	—
Cash and cash equivalents	15	3,769,637	3,029,252
		14,399,888	14,266,615
Total assets		18,792,545	18,293,907
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital	16	160,510	160,510
Share premium	17	1,331,913	1,331,913
Other reserves	17	1,526,670	1,129,513
Retained earnings	17	8,901,433	7,938,917
		11,920,526	10,560,853
Non-controlling interests		6,586	500
Total equity		11,927,112	10,561,353

Consolidated Balance Sheet (Continued)

As at 31 December 2018
(Amounts expressed in RMB)

	Note	2018 RMB'000	2017 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income	21	30,286	9,987
Deferred income tax liabilities	22	192,314	267,695
Convertible bonds	23	—	915,591
		222,600	1,193,273
Current liabilities			
Trade and bills payable	18	2,669,190	3,368,057
Accruals and other payables	19	1,046,344	1,840,435
Contract liabilities	19	756,807	—
Current income tax liabilities		308,327	158,767
Bank borrowings	20	1,009,397	1,172,022
Convertible bonds	23	852,768	—
		6,642,833	6,539,281
Total liabilities		6,865,433	7,732,554
Total equity and liabilities		18,792,545	18,293,907

The accompanying notes on pages 74 to 156 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors on 18 March 2019 and were signed on its behalf by:

Zhang Jianming
Director

Zhang Bin
Director

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

(Amounts expressed in RMB)

	Note	2018 RMB'000	2017 RMB'000
Revenue	24	10,851,245	10,186,066
Cost of sales	25	(7,424,960)	(6,589,259)
Gross profit		3,426,285	3,596,807
Selling and marketing expenses	25	(811,495)	(813,986)
General and administrative expenses	25	(694,300)	(511,263)
Other income	26	145,447	127,109
Other gains/(losses) — net	27	171,496	(25,778)
Operating profit		2,237,433	2,372,889
Finance income	29	165,267	229,628
Finance costs	29	(42,434)	(139,616)
Finance income — net	29	122,833	90,012
Share of profit of an associate	8	2,147	4,640
Profit before income tax		2,362,413	2,467,541
Income tax expense	30	(446,181)	(462,241)
Profit for the year		1,916,232	2,005,300
Profit attributable to:			
Shareholders of the Company		1,916,883	2,005,394
Non-controlling interests		(651)	(94)
		1,916,232	2,005,300
Earnings per share for profit attributable to shareholders of the Company during the year (expressed in RMB per share)			
— basic	31	1.20	1.26
— diluted	31	1.20	1.26

The accompanying notes on pages 74 to 156 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018
(Amounts expressed in RMB)

	2018 RMB'000	2017 RMB'000
Profit for the year	1,916,232	2,005,300
Other comprehensive income:		
<i>Items that may be reclassified to profit or loss</i>		
Change in value of available-for-sale financial assets	—	63,224
Currency translation differences	145,361	(2,102)
Total comprehensive income for the year	2,061,593	2,066,422
Total comprehensive income attributable to:		
Shareholders of the Company	2,062,207	2,066,532
Non-controlling interests	(614)	(110)
	2,061,593	2,066,422

The accompanying notes on pages 74 to 156 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

(Amounts expressed in RMB)

	Attributable to shareholders of the Company						Non-controlling interests RMB'000	Total equity RMB'000
	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000		
Balance at 1 January 2017		160,510	1,331,913	904,915	6,721,130	9,118,468	610	9,119,078
Comprehensive income								
Profit for the year		—	—	—	2,005,394	2,005,394	(94)	2,005,300
Other comprehensive income								
Change in value of available-for-sale financial assets		—	—	63,224	—	63,224	—	63,224
Currency translation differences		—	—	(2,086)	—	(2,086)	(16)	(2,102)
Total comprehensive income for the year ended 31 December 2017		—	—	61,138	2,005,394	2,066,532	(110)	2,066,422
Transactions with owners								
Dividend paid								
— 2016 second interim		—	—	—	(283,900)	(283,900)	—	(283,900)
— 2017 interim	32	—	—	—	(340,247)	(340,247)	—	(340,247)
Appropriations		—	—	163,460	(163,460)	—	—	—
Total transactions with owners		—	—	163,460	(787,607)	(624,147)	—	(624,147)
Balance at 31 December 2017		160,510	1,331,913	1,129,513	7,938,917	10,560,853	500	10,561,353
Balance at 1 January 2018		160,510	1,331,913	1,129,513	7,938,917	10,560,853	500	10,561,353
Change in accounting policy		—	—	(124,308)	124,308	—	—	—
Restated total equity at 1 January 2018		160,510	1,331,913	1,005,205	8,063,225	10,560,853	500	10,561,353
Comprehensive income								
Profit for the year		—	—	—	1,916,883	1,916,883	(651)	1,916,232
Other comprehensive income								
Currency translation differences		—	—	145,324	—	145,324	37	145,361
Total comprehensive income for the year ended 31 December 2018		—	—	145,324	1,916,883	2,062,207	(614)	2,061,593
Transactions with owners								
Dividend paid								
— 2017 second interim	32	—	—	—	(348,222)	(348,222)	—	(348,222)
— 2018 interim	32	—	—	—	(354,312)	(354,312)	—	(354,312)
Appropriations		—	—	376,141	(376,141)	—	—	—
Capital injection from non-controlling interests		—	—	—	—	—	6,700	6,700
Total transactions with owners		—	—	376,141	(1,078,675)	(702,534)	6,700	(695,834)
Balance at 31 December 2018		160,510	1,331,913	1,526,670	8,901,433	11,920,526	6,586	11,927,112

The accompanying notes on pages 74 to 156 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

(Amounts expressed in RMB)

	Note	2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash generated from operations	33(a)	2,002,423	2,161,954
Interest paid		(42,202)	(40,903)
Income tax paid		(411,938)	(323,359)
Net cash generated from operating activities		1,548,283	1,797,692
Cash flows from investing activities			
Purchase of property, plant and equipment		(503,036)	(804,672)
Purchase of land use rights		(135,419)	—
Entrusted loans granted		(520,000)	(2,731)
Entrusted loans repayments		504,018	203,455
Interest received from banks		64,901	216,045
Interest received from entrusted loans		13,469	1,331
Dividends received from an associate	8	—	953
Proceeds from disposal of land use rights	33(b)	—	18,267
Proceeds from disposal of structured deposits		10,000	10,000
Purchase of structured bank deposits		—	(10,000)
Proceeds from disposal of property, plant and equipment	33(b)	7,417	17,440
Purchase of financial assets at fair value through profit or loss	3.3(b)	(11,451,100)	—
Proceeds from disposal of financial assets at fair value through profit or loss	3.3(b)	12,108,317	—
Purchase of available-for-sale financial assets	3.3(b)	—	(5,430,000)
Proceeds from disposal of available-for-sale financial assets	3.3(b)	—	4,442,959
Loan to a related party		—	(25,000)
Investment in a subsidiary		(52,829)	—
Net cash used in investing activities		45,738	(1,361,953)
Cash flows from financing activities			
Proceeds from bank borrowings	33(c)	1,060,000	1,489,696
Repayments of bank borrowings	33(c)	(1,217,802)	(1,018,886)
Capital injections from non-controlling interests		6,700	—
Dividends paid to the Company's shareholders	32	(702,534)	(624,147)
Repayments of convertible bonds		—	(517,043)
Net cash used in financing activities		(853,636)	(670,380)
Net increase/(decrease) in cash and cash equivalents		740,385	(234,641)
Cash and cash equivalents at beginning of year	15	3,029,252	3,263,893
Cash and cash equivalents at end of year	15	3,769,637	3,029,252

The accompanying notes on pages 74 to 156 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

1. General Information

Haitian International Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) are principally engaged in the manufacturing and distribution of plastic injection moulding machines.

The Company was incorporated in Cayman Islands on 13 July 2006, as an exempted company with limited liability under the Companies Law of Cayman Islands. The Company’s registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The ultimate holding company of the Company is Sky Treasure Capital Limited, a company incorporated in the British Virgin Islands.

The Company’s shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited on 22 December 2006.

These consolidated financial statements are presented in Chinese Renminbi (“RMB”), unless otherwise stated. They have been approved for issue by the Company’s Board of directors on 18 March 2019.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these 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 of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRS”). The consolidated financial statements have been prepared under the historical cost convention, except for the following:

- Financial assets at fair value through profit or loss (Financial assets at FVPL) - measured at fair value, and
- Convertible bonds-measured at fair value

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following new and amended standards are mandatory for the first time for the financial year beginning 1 January 2018. The impact of adopting following standards are disclosed in note 2.1(d) below

- HKFRS 9 Financial Instruments
- HKFRS 15 Revenue from Contracts with Customers
- Annual Improvements 2014-2016 cycle
- Interpretation 22 Foreign Currency Transactions and Advance Consideration

(b) New standards, amendments and interpretations mandatory for the first time for the financial year beginning 1 January 2018 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

- Classification and Measurement of Share-based Payment Transactions — Amendments to HKFRS 2
- Transfers to Investment Property — Amendments to HKAS 40

(c) New standards and interpretations 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.

HKFRS 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 standard will affect primarily the accounting for the Group's operating leases. As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB3,168 thousand of which approximately RMB2,496 thousand relate to short-term leases that will be recognised on a straight-line basis as expense in profit or loss. The Group's activities as a lessee or a lessor are not material and hence the Group does not expect any significant impact on the financial statement. However, some additional disclosures will be required from next year.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply simplified transition approach, and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

(d) Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's financial statements.

	31 December 2017			1 January 2018
	As originally presented	HKFRS 9	HKFRS 15	Restated
	RMB('000)	RMB('000)	RMB('000)	RMB('000)
ASSETS				
Non-current assets				
Land use rights	361,794	—	—	361,794
Property, plant and equipment	3,287,040	—	—	3,287,040
Investment in an associate	16,744	—	—	16,744
Deferred income tax assets	88,070	—	—	88,070
Other financial assets at amortised cost	—	13,045	—	13,045
Other receivables	13,045	(13,045)	—	—
Trade and bills receivables	160,599	—	—	160,599
Term deposits	100,000	—	—	100,000
Current assets				
Inventories	2,771,531	—	—	2,771,531
Trade and bills receivables	3,252,825	—	—	3,252,825
Prepayments, deposits and other receivables	242,393	(242,393)	—	—
Prepayments and other assets	—	156,049	—	156,049
Other financial assets at amortised cost	—	86,344	—	86,344
Prepaid income tax	692	—	—	692
Available-for-sale financial assets	4,779,309	(4,779,309)	—	—
Financial assets at fair value through profit or loss	—	4,779,309	—	4,779,309
Restricted cash	190,613	—	—	190,613
Cash and cash equivalents	3,029,252	—	—	3,029,252
Total assets	18,293,907	—	—	18,293,907

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

(d) Changes in accounting policies (Continued)

	31 December 2017			1 January 2018
	As originally presented	HKFRS 9	HKFRS 15	Restated
	RMB('000)	RMB('000)	RMB('000)	RMB('000)
LIABILITIES				
Non-current liabilities				
Deferred income	9,987	—	—	9,987
Deferred income tax liabilities	267,695	—	—	267,695
Convertible bonds	915,591	—	—	915,591
Current liabilities				
Trade and bills liabilities	3,368,057	—	—	3,368,057
Accruals and other payables	1,840,435	—	(861,909)	978,526
Contract liabilities	—	—	861,909	861,909
Current income tax liabilities	158,767	—	—	158,767
Bank borrowings	1,172,022	—	—	1,172,022
Total liabilities	7,732,554	—	—	7,732,554
Net assets	10,561,353	—	—	10,561,353
EQUITY				
Share capital	160,510	—	—	160,510
Share premium	1,331,913	—	—	1,331,913
Other reserves	1,129,513	(124,308)	—	1,005,205
Retained earnings	7,938,917	124,308	—	8,063,225
Non-controlling interests	500	—	—	500
Total equity	10,561,353	—	—	10,561,353

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

(d) Changes in accounting policies (Continued)

(i) HKFRS 9 Financial Instruments — Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relates to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Group's financial liabilities that are designated at fair value through profit or loss are convertible bonds. There are no significant impact on the Group's accounting for financial liabilities.

The adoption of HKFRS 9 Financial Instruments from 1 January 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 notes 2.9 below. In accordance with the transitional provisions in HKFRS 9 (7.2.15), the Group chose not to restate the accounting of prior periods. As a consequence, the Group recognised the difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening retained earnings.

i) Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 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 HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

	HKAS 39 carrying amount 31 December 2017 (RMB'000)	Reclassification (RMB'000)	HKFRS 9 carrying amount 1 January 2018 (RMB'000)
Available-for-sale financial assets	4,779,309	(4,779,309)	—
Financial assets at FVPL	—	4,779,309	4,779,309
Prepayments, deposits and other receivables	242,393	(242,393)	—
Other financial assets at amortised cost			
— current	—	86,344	86,344
Prepayments and other assets	—	156,049	156,049
Other receivables	13,045	(13,045)	—
Other financial assets at amortised cost			
— non-current	—	13,045	13,045

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

(d) Changes in accounting policies (Continued)

(i) HKFRS 9 Financial Instruments — Impact of adoption (Continued)

i) Classification and measurement (Continued)

The impact of these changes on the Group's equity is as follows:

	HKAS 39 carrying amount 31 December 2017 (RMB'000)	Reclassification (RMB'000)	HKFRS 9 carrying amount 1 January 2018 (RMB'000)
Retained earnings	7,938,917	124,308	8,063,225
Other comprehensive income — change in value of available-for-sale financial assets	1,129,513	(124,308)	1,005,205

(a) Reclassification from available-for-sale to financial assets at FVPL

Certain wealth management products were reclassified from available-for-sale financial assets to financial assets at FVPL (RMB4,779,309 thousand as at 1 January 2018). They do not meet the HKFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest.

Related fair value gains of RMB124,308 thousand were transferred from the other comprehensive income to retained earnings on 1 January 2018.

ii) Impairment of financial assets

The Group has three types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- trade receivables for sales of inventory
- financial assets at amortised cost, and
- financial guarantee contract.

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets, and the Group revised its impairment methodology under HKFRS 9 for these financial assets.

Based on the assessments undertaken, the Group does not identify any material change to the loss allowance for these classes of assets.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

(d) Changes in accounting policies (Continued)

(ii) HKFRS 15 Revenue from Contracts with Customers — Impact of adoption

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies. The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated. Following adjustment were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018):

	HKAS 18 carrying amount 31 December 2017 (RMB'000)	Reclassification (RMB'000)	HKFRS 15 carrying amount 1 January 2018 (RMB'000)
Contract liabilities	—	861,909	861,909
Accruals and other payables	1,840,435	(861,909)	978,526

The Group's obligations to provide a refund for faulty products are under the standard warranty terms. Accumulated experience is used to estimate such returns at the time of sale. It is highly probable that a significant reversal in the cumulative revenue recognised will not occur. Therefore, no refund liability for goods return was recognised. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date. As a result, no accounting impact for refunds while applying HKFRS 15.

The Group didn't introduce any customer loyalty programme which is likely to be affected by the HKFRS 15.

The Group have certain contracts, where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Group has accessed the amount of financing component within the contract price which is immaterial to the financial statements.

No additional cost occurs to fulfil the contract was identified.

Contract liabilities are recognised when the payment is made or the payment is due (whichever is earlier), if customers pay consideration, or have a right to an amount of consideration that is unconditional, before the Group transfers goods or service to the customer.

As a result, other than certain reclassifications of contract liabilities, the adoption of HKFRS 15 did not result in any impact to the financial statements as the timing of revenue recognition on sales of products is not changed.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.2 Subsidiaries

2.2.1 Consolidation

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 to direct the activities of 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.

The acquisition method of accounting is used to account for business combinations by the Group.

(a) Business combinations

The Group applies 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. 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, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any gains or losses arising from such remeasurement are recognised in profit or loss.

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 HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, 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. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(b) 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 profit or loss. 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. 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 mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRS.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost 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 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

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates 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 profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in reserves is reclassified to profit or loss where appropriate.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated statement of profit or loss, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against 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 an associate' in the consolidated statement of profit or loss.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.3 Associates (Continued)

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements 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 statement of profit or loss.

2.4 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 the executive committee that makes strategic decisions. The executive committee comprises all executive directors and top management.

2.5 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. 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 consolidated statement of profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of profit or loss within 'finance income/costs'. All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss within 'other gains/(losses) — net'.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.5 Foreign currency translation (Continued)

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each consolidated statement of profit or loss 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 dates of the transactions); and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

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.

(d) 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 shareholders of the Company are reclassified to profit or loss.

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 profit or loss. 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 profit or loss.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.6 Property, plant and equipment

Construction-in-progress represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses. Cost includes the costs of construction and acquisition. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated below.

Freehold land is stated at cost less accumulated impairment losses, if any. Cost represents consideration paid for the purchase of the land. Freehold land is not subject to depreciation.

Other property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. 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 any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost less impairment loss (if any) of the assets, other than freehold land and construction-in-progress, to their residual value over their estimated useful lives:

Buildings	30 years
Plant and machinery	10-15 years
Vehicles (i)	5/20 years
Office equipment and related software	5 years

(i) The depreciation period of main vehicles is 5 years and the certain vehicle is 20 years according to the estimated useful life.

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 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains/(losses) — net', in the consolidated statement of profit or loss.

2.7 Land use rights

The up-front prepayments made for land use rights are accounted for as operating leases. They are expensed in the statement of profit or loss on a straight-line basis over the periods of the lease, or when there is impairment, the impairment is expensed in the statement of profit or loss.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.8 Intangible Assets

(a) Goodwill

Goodwill is measured as described in note 2.2. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or Groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or Groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (note 24).

(b) Licences and other intangible assets

Acquired licences and other intangible assets are shown at historical cost. Licences and other intangible assets acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

2.9 Impairment of investments in subsidiaries, associates and non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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 costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or Groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Impairment testing of the investments in subsidiaries or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate 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.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.10 Investments and other financial assets

2.10.1 Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will be recorded in profit or loss. The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.10.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2.10.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

2.10.4 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 Group's asset. There are two 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 solely payments of principal and interest 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 gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- Financial assets at FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at financial assets 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 other gains/(losses) in the period in which it arises.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.10 Investments and other financial assets (Continued)

2.10.5 Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 3.1(c) and note 11 for further details.

2.10.6 Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

(i) Classification

Until 31 December 2017 the Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables, and
- available-for-sale financial assets.

The classification determined on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period. See note 13 for details about each type of financial asset.

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

The Group classifies financial assets at FVPL if they are acquired principally for the purpose of selling in the short term, ie are held for trading. They are presented as current assets if they are expected to be sold within 12 months after the end of the reporting period; otherwise they are presented as non-current assets. The Group has not elected to designate any financial assets at FVPL.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.10 Investments and other financial assets (Continued)

2.10.6 Accounting policies applied until 31 December 2017 (Continued)

(i) **Classification** (Continued)

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Otherwise they are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and bills receivable', 'other receivables', 'restricted bank deposits' and 'cash and cash equivalents' in the balance sheet (notes 2.14 and 2.15).

(c) *Available-for-sale financial assets*

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories (at financial assets at FVPL, loans and receivables or held-to-maturity investments) are also included in the available-for-sale category.

The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within 12 months of the end of the reporting period.

(ii) **Reclassification**

The Group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

(iii) **Recognition and derecognition**

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.10 Investments and other financial assets (Continued)

2.10.6 Accounting policies applied until 31 December 2017(Continued)

(iv) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at FVPL are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:

- for 'financial assets at FVPL' — in profit or loss within other income or other expenses
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency — translation differences related to changes in the amortised cost of the security are recognised in profit or loss and other changes in the carrying amount are recognised in other comprehensive income
- for other monetary and non-monetary securities classified as available-for-sale — in other comprehensive income

Dividends on financial assets at FVPL and available-for-sale equity instruments are recognised in profit or loss as part of revenue from continuing operations when the Group's right to receive payments is established.

Interest income from financial assets at FVPL is included in the net gains/(losses). Interest on available-for-sale securities and loans and receivables calculated using the effective interest method is recognised in the statement of profit or loss as part of revenue from continuing operations.

Details on how the fair value of financial instruments is determined are disclosed in note 3.3(a).

2.11 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.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.12 Financial guarantee contracts

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 HKFRS 9 Financial Instruments and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 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 are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

2.13 Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Cost includes the reclassification from equity of any gains or losses on qualifying cash flow hedges relating to purchases of raw material but excludes borrowing costs. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.14 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables 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.

Trade receivables are recognised initially at the amount of consideration that is unconditional and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See note 11 for further information about the Group's accounting for trade receivables and note 3.1 for a description of the Group's impairment policies.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.15 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

2.16 Share capital

Ordinary shares are classified as equity (note 16).

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 90 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss 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 prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

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 reporting period.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.19 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get 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.

Other borrowing costs are expensed in the period in which they are incurred

2.20 Convertible bonds

Convertible bonds issued by the Company (including related embedded derivatives) are designated at fair value through profit or loss on initial recognition with transaction cost charge to the profit or loss accounts. At each end of the reporting period subsequent to initial recognition, the entire convertible bonds are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

2.21 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates 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.

(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 consolidated financial statement. However, 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 substantially 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.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.21 Current and deferred income tax (Continued)

(b) Deferred income tax (Continued)

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and an associate, 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. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

(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 tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.22 Employee benefits

Group companies operate various defined contribution retirement benefit schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. 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 the employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.23 Provisions

Provisions for legal claims, service warranty and make good obligations 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 can be reliably estimated. Provisions are not recognised for future operating losses.

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 management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.24 Government grants

Government grants are recognised at their fair value, when 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 in the consolidated statement of profit or loss over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in liabilities as deferred income and are recognised in the consolidated statement of profit or loss on a straight-line basis over periods and in the proportions in which depreciation on these assets is charged.

2.25 Revenue recognition

The Group manufactures and sells plastic injection moulding machines and related products in market. Sales are recognised when control of the products has transferred, being when either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The product is often sold with retrospective volume discounts based on aggregate sales over a 12 months period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in accruals and other liabilities) is recognised for expected volume discounts payable to customers in relation to sales made until the end of the reporting period.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. And for contracts which the term between goods delivery and payment exceed one year, the Group has accessed the amount of financing component within the contract price which is immaterial to the financial statements.

The warranties provided by the Group cannot be purchased by the customers separately. Such warranties are intended to safeguard the customers against existing defects and does not provide any incremental services to the customers. As a result, these warranties are accounted for in accordance with HKAS 37 (Note 2.23) of which the estimated costs are recorded as a liability when the Group transfers the product to the customer.

The accounting treatments are the same before and after adopting the HKFRS 15.

2.26 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 34). Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of profit or loss on a straight-line basis over the period of the lease.

2.27 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.28 Interest income

Interest income and fair value changes from financial assets at FVPL are included in 'other gains/(losses) — net' on these assets, see note 2.7 for further details.

Interest income is presented as finance income where it is earned from bank deposits, entrusted loans (2017: bank deposits, entrusted loans and available for sale financial assets).

3. Financial Risk Management

3.1 Financial risk factors

(a) Foreign exchange risk

The Group mainly operates in Mainland China. The functional currency of the Company and most of its subsidiaries is RMB. Most of the Group's transactions, assets and liabilities are denominated in RMB, United States dollars ("USD"), Euro and Japanese Yen ("JPY"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities, such as trade receivables, cash and cash equivalents, trade payables, and bank borrowings.

Exposure

The Group's major exposure to foreign currency risk at the end of the reporting period, expressed in RMB, was as follows:

	31 December 2018		
	USD RMB'000	EUR RMB'000	JPY RMB'000
Cash and cash equivalents	1,388,611	221,094	25,392
Trade receivables	676,801	235,430	153
Bank borrowings	—	(79,397)	—
Trade payables	(1,298)	(11,008)	(19,024)

	31 December 2017		
	USD RMB'000	EUR RMB'000	JPY RMB'000
Cash and cash equivalents	1,287,766	296,338	13,410
Trade receivables	519,729	226,533	353
Bank borrowings	—	(352,022)	—
Trade payables	(7,136)	(15,734)	(4,989)

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(a) Foreign exchange risk (Continued)

Amounts recognised in profit or loss and other comprehensive income

During the year, the following foreign-exchange related amounts were recognised in profit or loss:

	For the year ended 31 December	
	2018 RMB'000	2017 RMB'000
Other (losses)/gains — net	(83,721)	(39,746)
Finance costs — exchange gains/(losses)	22,700	(56,512)
	(61,021)	(96,258)

As at 31 December 2018, if RMB had weakened/strengthened by 4.9% (2017: strengthened/weakened by 6.2%) against the USD and HKD with all other variables held constant, profit before income tax would have been approximately RMB54,988 thousand higher/lower (2017: RMB54,367 thousand lower/higher) mainly as a result of foreign exchange difference on translation of USD and HKD denominated trade receivables, cash and cash equivalents and trade payables. The ranges of such sensitivity disclosed above were based on the observation on the historical trend of related exchange rate during the previous year under analysis.

As at 31 December 2018, if RMB had weakened/strengthened by 0.6% (2017: 6.8%) against the Euro with all other variables held constant, profit before income tax would have been approximately RMB1,915 thousand lower/higher (2017: RMB16,908 thousand higher/lower) mainly as a result of foreign exchange difference on translation of Euro denominated trade receivables, cash and cash equivalents, trade payables and bank borrowings. The ranges of such sensitivity disclosed above were based on the observation on the historical trend of related exchange rate during the previous year under analysis.

As at 31 December 2018, if RMB had weakened/strengthened by 6.9% (2017: strengthened/weakened by 2.9%) against the JPY with all other variables held constant, profit before income tax would have been approximately RMB560 thousand higher/lower (2017: RMB272 thousand lower/higher) mainly as a result of foreign exchange difference on translation of JPY denominated trade receivables, cash and cash equivalents and trade payables. The ranges of such sensitivity disclosed above were based on the observation on the historical trend of related exchange rate during the previous year under analysis.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(b) Fair value and cash flow interest rate risk

The Group's interest rate risk arises from bank deposits, loans to employees, entrusted loans and borrowings. Bank deposits, loans to employees and entrusted loan within one year at fixed rates expose the Group to fair value interest rate risk. Long-term entrusted loans generated at variable rates and borrowings obtained at variable rates expose the Group to cash flow interest rate risk.

The Group has not used any financial instruments to hedge its exposure to cash flow interest rate risk.

As at 31 December 2018 and 31 December 2017, as for all borrowings have fixed interest rates, interest rate risk is avoided.

(c) Credit risk

The Group has policies in place to ensure credit sales are made to customers with an appropriate credit history. Most of the Group's sales are covered by guarantees from distributors, credit arrangement from insurance companies in Mainland China, or letters of credit issued by banks. The Group grants its customers credit terms ranging from 15 days to 36 months.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2018 or 1 January 2018 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 Group has identified the credit rating by country in which it sells its goods and services to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(c) Credit risk (Continued)

On that basis, the loss allowances as at 31 December 2018 and 1 January 2018 (on adoption of HKFRS 9) were determined as follows for trade receivables:

	Current RMB'000	More than 1 year RMB'000	More than 2 years RMB'000	More than 3 years RMB'000	Total RMB'000
31 December 2018					
Gross carrying amount					
— trade receivables	2,913,023	173,350	26,324	22,313	3,135,010
Expected loss rate	0.29%	14.36%	43.86%	100%	
Loss allowance	8,491	24,896	11,547	22,313	67,247
1 January 2018					
Gross carrying amount					
— trade receivables	3,343,562	69,689	23,025	18,410	3,454,686
Expected loss rate	0.23%	11.59%	42.12%	100%	
Loss allowance	7,737	8,077	9,698	18,410	43,922

The Group provides guarantees to certain banks in connection with banking facilities granted to certain customers in connection with their purchases of the Group's plastic injection moulding machines. These customers are introduced by the Group's major distributors, who have provided the Group with counter guarantees.

The Group has policies to place its cash and cash equivalents only with major financial institutions, and limits the amount of credit exposure to any financial institution. As at 31 December 2018, most of the restricted bank deposits and cash and cash equivalents are placed with the major financial institutions in Mainland China. While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

The Group enters into the wealth management products contracts with relatively higher interest rates with certain financial institutions. These are reflected as financial assets at FVPL on the balance sheet. As at 31 December 2018, most of the wealth management products are bought from the major financial institutions in Mainland China and management has exercised due care when make investment decision with focus only on low risk wealth management products.

The Group enters into the entrusted loan contracts with variable interest rates with third parties. It is shown as other receivables on the balance sheet. As at 31 December 2018, the credit risk of entrusted loans has been reviewed cautiously by the management with focus on counterparties' credit reputation.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of fund through adequate amounts of committed credit facilities. The Group's objective is to maintain adequate committed credit facilities to ensure sufficient and flexible funding is available to the Group.

The table below analyses the Group's and the Company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed below were the contractual undiscounted cash flows:

	Within 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
Group				
At 31 December 2018				
Convertible bonds	861,330	—	—	—
Bank borrowings (i)	1,035,299	—	—	—
Trade and other payables	3,390,026	—	—	—
Financial guarantee contracts (ii)	840,947	—	—	—
At 31 December 2017				
Convertible bonds	16,303	918,987	—	—
Bank borrowings	1,187,817	—	—	—
Trade and other payables	4,060,141	—	—	—
Financial guarantee contracts	1,158,518	—	—	—

(i) The balance includes interest payments which is calculated based on borrowings outstanding as at 31 December 2018, without taking into account any subsequent changes in the amount of borrowings. Floating interest rates are based on current interest rate as at 31 December 2018.

(ii) The balance presents guarantee given to the banks in connection with banking facilities granted to customers.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

3. Financial Risk Management (Continued)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and 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.

As at 31 December 2018 and 2017, the Group was in a net cash position (total borrowings were less than the total of restricted bank deposits and cash and cash equivalents).

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total equity of the Group as shown in the consolidated balance sheet.

The gearing ratio was as follows:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Total convertible bonds (Note 23)	852,768	915,591
Total borrowings (Note 20)	1,009,397	1,172,022
Total equity	11,927,112	10,561,353
Gearing ratio	16%	20%

The decrease in the gearing ratio primarily resulted from fair value change of convertible bonds and repayment of the bank borrowings.

The Group had access to borrowing facilities which may be drawn at anytime. Such undrawn facilities amounted to approximately RMB6,502 million as at 31 December 2018 (31 December 2017: RMB4,606 million).

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2018 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- 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 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

3. Financial Risk Management (Continued)

3.3 Fair value estimation (Continued)

The table below presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2018.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at FVPL	—	—	4,349,616	4,349,616
Liabilities				
Convertible bonds	—	852,768	—	852,768

The table below presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2017.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets	—	—	4,779,309	4,779,309
Liabilities				
Convertible bonds	—	915,591	—	915,591

There were no significant transfers among level 1, 2 and 3 fair during the year.

(a) Financial instruments in level 2

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.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

3. Financial Risk Management (Continued)

3.3 Fair value estimation (Continued)

(a) Financial instruments in level 2 (Continued)

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- 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 31 December 2018, all the resulting fair value estimates are included in level 2 except for certain financial assets at FVPL as explained below.

(b) Financial instruments in level 3

The following table presents the changes in level 3 instruments for the year ended 31 December 2018.

	Financial assets at FVPL RMB'000
Opening balance	4,779,309
Additions	11,451,100
Addition due to business combination (Note 36)	2,000
Change in value of financial assets at FVPL	225,524
Disposals	(11,802,250)
Proceeds received (Under HKFRS 9)	(306,067)
Closing balance	4,349,616
Total gains or losses for the year realised in profit or loss for assets held at the end of the year, under 'Other gains/(losses) — net'	225,524

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

3. Financial Risk Management (Continued)

3.3 Fair value estimation (Continued)

(b) Financial instruments in level 3 (Continued)

The following table presents the changes in level 3 instruments for the year ended 31 December 2017.

	Available-for-sale financial assets RMB'000
Opening balance	3,729,044
Additions	5,430,000
Change in value of available-for-sale financial assets	63,224
Settlements	(4,631,597)
Gains recognised in profit or loss	188,638
Closing balance	4,779,309
Total gains or losses for the year realised in profit or loss for assets held at the end of the year, under 'Finance income — net'	188,638

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Description	Fair value at 31/12/2018 RMB'000	Valuation technique(s)	Unobservable input	Range (weighted average)	Relationship of unobservable inputs to fair value
Financial assets at FVPL	4,349,616	Discounted cash flow	Expected return rate	2.38%–5.00% (4.0%)	Higher expected return rate (+50 basis points (bps)) would increase FV by RMB200 thousand; lower expected return rate (-50bps) would decrease FV by RMB200 thousand

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

3. Financial Risk Management (Continued)

3.3 Fair value estimation (Continued)

(c) Valuation processes

The finance department of the Group includes a team that performs the valuations of financial assets at FVPL (2017: available-for-sale financial assets) required for financial reporting purposes, including level 3 fair values. Discussions of valuation processes and results are held between the management and the valuation team at least once every six months, in line with the Group's half-yearly reporting periods.

The main level 3 inputs used by the Group are return rates of the financial assets at FVPL (2017: available-for-sale financial assets), which are derived and evaluated based on the yield rate written in contracts by the counterparties.

4. Critical Accounting Estimates and Judgements

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

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

(a) Estimated impairment of goodwill and intangible assets with indefinite useful life

The Group tests annually whether goodwill and intangible assets with indefinite useful life have suffered any impairment, in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 9).

(b) Provision for impairment of trade and bills receivable

The Group's management applied the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and bills receivable since 1 January 2018. To measure the expected credit losses, trade and bills receivable have been grouped based on shared credit risk characteristics. For each Group, the expected loss rates were based on the payment profiles of sales over a period of 36 month before 31 December 2018 or 1 January 2018 and corresponding historical credit losses experienced within this period. The historical loss rates were adjusted by taking the time value of money into consideration and to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimations at the end of each reporting period. Management reassesses the provisions at each balance sheet date.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

4. Critical Accounting Estimates and Judgements (Continued)

(c) Provision for write-down of inventories

Net realisable value of inventory is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on management's intention on future use of the inventory, the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

(d) Useful lives and residual values of property, plant and equipment

The Group determines the estimated useful lives and residual values and consequently the related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase or decrease the depreciation charge where updated estimated useful lives of the property, plant and equipment are less or more than previously estimated useful lives. Actual economic lives and residual values may differ from estimated useful lives and residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expenses in the future periods.

(e) Current income tax and deferred income tax

The Group is subject to income tax in the jurisdictions where the Group has operations other than the Cayman Islands and the British Virgin Islands. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers that it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Deferred income tax liabilities relating to undistributed profits of subsidiaries incorporated in Mainland China are recognised when management expects to recover investments in those subsidiaries through dividends, unless it is estimated that such dividends will not be distributed in the foreseeable future. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and deferred tax liabilities and income tax charges in the period in which such estimates are changed.

(f) Provision for loss on guarantees

The Group provides guarantees for loans granted by Mainland China banks to some of the Group's end-user customers in connection with their purchases of the Group's products. If an end-user customer default on a loan, the Group is obliged to settle the remaining loan balances. The Group's management determines the provision for loss on the guarantees based on assessment of the possibility of default payments by individual end-user customers. This assessment is based on the credit history of its customers, the current market condition and requires the use of judgements and estimates. Management reassesses the provisions at each balance sheet date. Different estimates could significantly affect the provision amounts and materially impact the results of operations.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

5. Land Use Rights

The Group's interests in land use rights represent prepaid operating lease payments and their net book values are analysed below:

	2018 RMB'000	2017 RMB'000
At beginning of year		
Cost	430,602	434,714
Accumulated amortisation	(68,808)	(61,407)
Net book amount	361,794	373,307
Opening net book amount	361,794	373,307
Exchange differences	145	(471)
Additions	135,419	—
Disposals	—	(2,338)
Amortisation	(9,873)	(8,704)
Closing net book amount	487,485	361,794
At end of year		
Cost	566,195	430,602
Accumulated amortisation	(78,710)	(68,808)
Net book amount	487,485	361,794

Most of the Group's land use rights are located in Mainland China except for the one amounting to RMB5,685 thousand (2017: RMB5,693 thousand) which is located in Vietnam.

As at 31 December 2018, the remaining use periods of the land use rights range from 15 to 45 years (31 December 2017: 16 to 46 years).

Amortisation is charged to the consolidated statement of profit or loss as follows:

	2018 RMB'000	2017 RMB'000
General and administrative expenses	9,873	8,704

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

6. Property, Plant and Equipment

	Freehold land* and buildings RMB'000	Plant and machinery RMB'000	Vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2017						
Cost	1,963,262	1,685,732	138,072	97,727	146,964	4,031,757
Accumulated depreciation	(368,531)	(774,420)	(107,033)	(69,461)	—	(1,319,445)
Net book amount	1,594,731	911,312	31,039	28,266	146,964	2,712,312
Year ended 31 December 2017						
Opening net book amount	1,594,731	911,312	31,039	28,266	146,964	2,712,312
Exchange differences	6,506	83	(153)	79	419	6,934
Additions	—	156,925	73,734	6,865	559,402	796,926
Transfers	30,718	230,035	229,674	7,750	(498,177)	—
Disposals	(6,114)	(15,434)	(364)	(157)	—	(22,069)
Depreciation	(64,881)	(120,913)	(10,460)	(10,809)	—	(207,063)
Closing net book amount	1,560,960	1,162,008	323,470	31,994	208,608	3,287,040
At 31 December 2017						
Cost	1,986,217	2,030,251	435,932	111,297	208,608	4,772,305
Accumulated depreciation	(425,257)	(868,243)	(112,462)	(79,303)	—	(1,485,265)
Net book amount	1,560,960	1,162,008	323,470	31,994	208,608	3,287,040

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

6. Property, Plant and Equipment (Continued)

	Freehold land* and buildings RMB'000	Plant and machinery RMB'000	Vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 December 2018						
Opening net book amount	1,560,960	1,162,008	323,470	31,994	208,608	3,287,040
Exchange differences	(1,941)	74	13,901	(9)	(3,716)	8,309
Additions	592	203,995	10,255	24,402	253,550	492,794
Acquisition of a subsidiary	29,960	—	414	231	—	30,605
Transfers	50,681	195,973	1,924	1,762	(250,340)	—
Disposals	(1,561)	(6,003)	(394)	(621)	—	(8,579)
Depreciation	(63,078)	(154,325)	(23,632)	(16,527)	—	(257,562)
Closing net book amount	1,575,613	1,401,722	325,938	41,232	208,102	3,552,607
At 31 December 2018						
Cost	2,063,918	2,409,994	456,888	127,182	208,102	5,266,084
Accumulated depreciation	(488,305)	(1,008,272)	(130,950)	(85,950)	—	(1,713,477)
Net book amount	1,575,613	1,401,722	325,938	41,232	208,102	3,552,607

* Freehold lands are located in Brazil, Germany, Turkey and India as at 31 December 2018 (31 December 2017: Brazil, Germany, Turkey and India). They are stated at cost of RMB31,208 thousand as at 31 December 2018 (31 December 2017: RMB26,294 thousand) and is not subject to depreciation.

Depreciation is charged to the consolidated statement of profit or loss as follows:

	2018 RMB'000	2017 RMB'000
Cost of sales	199,164	165,559
General and administrative expenses	54,367	37,384
Selling and marketing expenses	4,031	4,120
	257,562	207,063

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

7. Subsidiaries

The following are the subsidiaries, which are unlisted, at 31 December 2018:

Name	Place of incorporation and type of legal entity	Paid in capital	Attributable equity interest to the Company		Principal activities and place of operations
			Direct	Indirect	
Dahai (H.K.) Company Limited	Hong Kong, limited liability company	HKD5,000,000	—	100%	Trading of machinery and related accessories, Hong Kong
Develop Kind Ltd.	British Virgin Islands ("BVI"), limited liability company	HKD11,000	—	100%	Investment holding, BVI
Guo Hua Limited	British Virgin Islands ("BVI"), limited liability company	HKD11,000	100%	—	Investment holding, BVI
Guo Hua Enterprises Group Limited	Hong Kong, limited liability company	HKD1	—	100%	Investment holding, trading of machinery related accessories, Hong Kong
Haitian Huayuan (Hong Kong) Limited	Hong Kong, limited liability company	HKD779,999	—	100%	Trading of machinery and related accessories, Hong Kong
Haitian Huayuan (Japan) Machinery Co., Ltd	Japan, limited liability company	JPY10,000,000	—	100%	Trading of machinery and related accessories, Japan
Haitian Huayuan Machinery (India) Private Limited	India, limited liability company	Indian Rupee 336,116,900	—	100%	Sale of plastic injection moulding machines, India
Haitian Huayuan Mexico Machinery, S. de R.L. de C.V.	Mexico, limited liability company	USD504,200	—	100%	Sale of plastic injection moulding machines, Mexico

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

7. Subsidiaries (Continued)

Name	Place of incorporation and type of legal entity	Paid in capital	Attributable equity interest to the Company		Principal activities and place of operations
			Direct	Indirect	
Haitian Huayuan Middle East Makina Dis Ticaret Limited Sirketi	Turkey, limited liability company	Turkish Lira 500,000	—	100%	Sale of plastic injection moulding machines, Turkey
Haitian Huayuan South America Com. De MAQS.Ltd	Brazil, limited liability company	Brazilian Real 5,360,000	—	100%	Sale of plastic injection moulding machines, Brazil
Haitian International Germany GmbH	Germany, limited liability company	Euro5,250,000	—	100%	Manufacture and sale of plastic injection moulding machines, Germany
Haitian Machinery (Thailand) Co., Ltd	Thailand, limited liability company	Thai Baht 12,000,000	—	100%	Sale of plastic injection moulding machines, Thailand
Huayuan (Vietnam) Machinery Co., Ltd.	Vietnam, limited liability company	Vietnam Dong (“VND”) 22,800,000,000	—	100%	Manufacture, processing and sale of plastic injection moulding machines, Vietnam
Haitian Plastics Processing Machinery Guangzhou Co., Ltd. (“Guangzhou Haitian”) (海天塑料機械(廣州)有限公司)	Mainland China, wholly owned foreign enterprise	USD2,400,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Haitian Plastics Machinery Group Co., Ltd. (“Haitian Plastic Machinery”) (海天塑機集團有限公司)	Mainland China, wholly owned foreign enterprise	USD276,460,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Hangzhou Keqiang Information Technology Co., Ltd. (“Keqiang Technology”) (杭州科強信息技術有限公司)	Mainland China, limited liability company	RMB20,000,000	—	66.5%	Manufacture and sale of intelligence control system, Mainland China
Mega Power Investment Development Limited	Hong Kong, limited liability company	HKD1	—	100%	Investment holding, Hong Kong

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

7. Subsidiaries (Continued)

Name	Place of incorporation and type of legal entity	Paid in capital	Attributable equity interest to the Company		Principal activities and place of operations
			Direct	Indirect	
New Choice Investment Development Limited	Hong Kong, limited liability company	HKD1	—	100%	Investment holding, Hong Kong
Niigata Haitian Injection Moulding Machine Co., Ltd.	Japan, limited liability company	JPY30,000,000	—	65%	Research and development of plastic injection moulding machines, Japan
Ningbo Daxie Development Zone Haitian Machinery Co., Ltd. (“Daxie Haitian”) (寧波大榭開發區海天機械有限公司)	Mainland China, foreign equity joint venture	USD1,550,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Beihua Science and Technology Co., Ltd. (“Haitian Beihua”) (寧波海天北化科技有限公司)	Mainland China, limited liability company	RMB10,000,000	—	100%	Research and development, manufacture, sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Huayuan Machinery Co., Ltd. (“Haitian Huayuan”) (寧波海天華遠機械有限公司)	Mainland China, foreign equity joint venture	USD51,000,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Logistic Co., Ltd. (“Haitian Logistic”) (寧波海天物流有限公司)	Mainland China, limited liability company	RMB10,000,000	—	100%	Logistic, sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Intelligent Manufacture Technology Co., Ltd. (“Haitian Software”) (寧波海天製造科技有限公司)	Mainland China, limited liability company	RMB6,000,000	—	100%	Sale of software of plastic injection moulding machines, Mainland China

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

7. Subsidiaries (Continued)

Name	Place of incorporation and type of legal entity	Paid in capital	Attributable equity interest to the Company		Principal activities and place of operations
			Direct	Indirect	
Ningbo Zhafir Plastics Machinery Co., Ltd. ("Ningbo Zhafir") (寧波長飛亞塑料機械製造有限公司)	Mainland China, foreign equity joint venture	USD30,000,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo bonded area Haitian trading co. LTD (“Haitian Trading”) (寧波保稅區海天貿易有限公司)	Mainland China, limited liability company	RMB50,000,000	—	100%	Logistic, sale of plastic injection moulding machines, Mainland China
Ningbo Guohua Enterprises Co., Ltd. (“Ningbo Guohua”) (寧波海天國華機械有限公司)	Mainland China, limited liability company	USD60,000,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Over the Rainbow Limited	British Virgin Islands (“BVI”), limited liability company	USD1	—	100%	Special purpose vehicle, BVI
PT. Haitian Huayuan Indonesia Machinery	Indonesia, limited liability company	USD312,500	—	100%	Sale of plastic injection moulding machines, Indonesia
Richhigh Investments Limited	British Virgin Islands (“BVI”), limited liability company	USD1	—	100%	Investment holding, BVI
Sunnew Investments Limited	British Virgin Islands (“BVI”), limited liability company	HKD1	—	100%	Investment holding, BVI

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

7. Subsidiaries (Continued)

Name	Place of incorporation and type of legal entity	Paid in capital	Attributable equity interest to the Company		Principal activities and place of operations
			Direct	Indirect	
Wuxi Haitian Machinery Co., Ltd. ("Wuxi Haitian") (無錫海天機械有限公司)	Mainland China, foreign equity joint venture	USD25,000,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Zhafir Plastics Machinery GmbH ("Zhafir Plastics")	Germany, limited liability company	Deutsche Mark 100,000	—	100%	Research and development of plastic injection moulding machines, Germany
Zhafir Plastics Machinery India Private Limited	India, limited liability company	Indian Rupee 1,000,000	—	100%	Manufacture, processing and sale of plastic injection moulding machines, India
Zhejiang Keqiang Intelligence Control Co., Ltd. ("Zhejiang Keqiang") (浙江科強智能控制系統有限公司)*	Mainland China, limited liability company	RMB18,000,000	—	100%	Manufacture and sale of intelligence control system, Mainland China

The English names of certain subsidiaries are translations made by the Group's management from their Chinese names as they do not have official English names.

* The Group acquired 53.49% equity of Zhejiang Keqiang in 2018 which became a wholly-owned subsidiary of the Group (Note 18 and 36).

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

8. Investment in an Associate

	2018 RMB'000	2017 RMB'000
Beginning of the year	16,744	13,057
Share of profit	2,147	4,640
Dividend received	—	(953)
Step-up acquisition to a subsidiary	(18,891)	—
End of the year	—	16,744

Zhejiang Keqiang Intelligence Control Co., Ltd. ("Zhejiang Keqiang") is a strategic supplier for the Group, which manufactures and sells intelligence control system to the Group. The Group originally hold 46.51% equity interests in Zhejiang Keqiang before 30 June 2018. Pursuant to certain Equity Transfer Agreement, the Group further acquired 53.49% equity of Zhejiang Keqiang who became the subsidiary of the Group since 30 June 2018 (Note 36).

9. Intangible Assets

	Opening net book amount	Acquisition of business (Note 36)	Impairment charge	Amortisation charge	Closing net book amount
Year ended 31 December 2018 (RMB'000)					
Goodwill	—	43,086	—	—	43,086
Licences and other intangible assets	—	14,036	—	(660)	13,376
	—	57,122	—	(660)	56,462

	Accumulated amortisation Cost and impairment	Net book amount
At 31 December 2018 (RMB'000)		
Goodwill	43,086	43,086
Licences and other intangible assets	14,036	13,376
	57,122	56,462

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

9. Intangible Assets (Continued)

Impairment tests for goodwill

The principal component of goodwill represents the excess of cost of acquisition of Zhejiang Keqiang over the fair value of the identified net assets acquired.

The recoverable amounts of Zhejiang Keqiang are determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate for revenue does not exceed the long-term average growth rate for the business in which Zhejiang Keqiang operates. The key assumption used for value-in-use calculations in 2018 are as follows:

The key assumptions used for the value-in-use calculation in 2018 are as follows:

	2018 RMB'000
Sales (% annual growth rate)	14.92%
Budgeted gross margin (%)	58.55%
Long term growth rate (%)	3.00%
Pre-tax discount rate (%)	16.30%

Management has determined the values assigned to each of the above key assumptions as follows:

Assumption	Approach used to determining values
Sales volume	Average annual growth rate over the five-year forecast period; based on past performance and management's expectations of market development.
Budgeted gross margin	Based on past performance and management's expectations for the future.
Long-term growth rate	This is the weighted average growth rate used to extrapolate cash flows beyond the budget period. The rates are consistent with forecasts included in industry reports.
Pre-tax discount rate	Reflect specific risks relating to the relevant segments and the countries in which they operate.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

10. Inventories

	2018 RMB'000	2017 RMB'000
Raw materials	1,137,224	1,206,516
Work-in-progress	160,411	221,497
Finished goods	1,410,376	1,343,518
	2,708,011	2,771,531

The cost of inventories recognised as expense and included in cost of sales amounted to approximately RMB7,407,340 thousand (2017: RMB6,593,435 thousand).

As at 31 December 2018, inventories with cost of RMB148,955 thousand (2017: RMB129,341 thousand) was considered obsolete. A provision of RMB133,809 thousand (2017: RMB116,189 thousand) was made as at 31 December 2018.

11. Trade and Bills Receivable

	2018			2017		
	Current RMB'000	Non- Current RMB'000	Total RMB'000	Current RMB'000	Non- Current RMB'000	Total RMB'000
Trade and bills receivable	3,016,892	118,118	3,135,010	3,294,087	160,599	3,454,686
Less: provision for impairment	(66,281)	(966)	(67,247)	(41,262)	—	(41,262)
	2,950,611	117,152	3,067,763	3,252,825	160,599	3,413,424

As at 31 December 2018, there was no individual customer with outstanding balance exceeding 10% of the Group's total trade and bills receivable (2017: None).

As at 31 December 2018, the carrying amount of the current portion of trade and bills receivable is considered to be the same as their fair value due to the short-term nature.

As at 31 December 2018, the non-current portion of trade and bills receivables was stated for receivables with due date over 1 year. The fair value of the non-current receivables approximates their carrying amounts.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

11. Trade and Bills Receivable (Continued)

Most of the Group's sales are covered by guarantees from distributors, credit arrangements from insurance companies in Mainland China, or letters of credit issued by banks. The Group grants its customers credit terms ranging from 15 days to 36 months. The ageing analysis of trade and bills receivable based on invoice date is as follows:

	2018 RMB'000	2017 RMB'000
Up to 6 months	2,506,970	2,863,170
6 months to 1 year	406,053	480,392
1 year to 2 years	173,350	69,689
2 year to 3 years	26,324	23,025
Over 3 years	22,313	18,410
	3,135,010	3,454,686

Trade and bills receivable are denominated in the following currencies:

	2018 RMB'000	2017 RMB'000
RMB	1,966,902	2,525,703
USD	676,801	519,729
Euro	235,430	226,533
VND	76,949	46,673
Mexico Peso	62,811	57,866
Brazilian Real	49,644	42,421
Others	66,473	35,761
	3,135,010	3,454,686

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

11. Trade and Bills Receivable (Continued)

Movements of the provision for impairment of trade receivables are as follows:

	2018 RMB'000	2017 RMB'000
At 1 January	41,262	47,817
Provision for/(reversal of) impairment of trade receivables	27,361	(4,706)
Written off as uncollectible	(1,376)	(1,849)
At 31 December	67,247	41,262

The provision for impaired receivables has been included in general and administrative expenses. Amounts charged to the allowance account are written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

The Group does not hold any collateral as security.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

12. Other Financial Assets at Amortised Cost

Other financial assets at amortised cost include the following debt investments:

	2018			2017		
	Current RMB'000	Non- current RMB'000	Total RMB'000	Current RMB'000	Non- current RMB'000	Total RMB'000
Receivables in relation to buyers' credit (i)	1,362	—	1,362	3,341	—	3,341
Loans to an associate (Note 35(c))	—	—	—	25,000	—	25,000
Loans to employees						
— Loans to key management (Note 35(c))	358	—	358	1,233	—	1,233
— Loans to other employees (ii)	6,642	8,838	15,480	7,188	11,250	18,438
Entrusted loans (iii)	21,834	—	21,834	4,057	1,795	5,852
Interest receivables	28,764	—	28,764	27,390	—	27,390
Structured bank deposits	—	—	—	10,000	—	10,000
Others	29,472	—	29,472	8,135	—	8,135
	88,432	8,838	97,270	86,344	13,045	99,389
Less: loss allowance for debt investments at amortised cost (Note 3.1)	—	—	—	—	—	—
	88,432	8,838	97,270	86,344	13,045	99,389

Note:

(i) Receivables in relation to buyers' credit are secured by guarantees provided by the relevant distributors who introduced the customers.

(ii) Loans to other employees are for their housing and car purchasing. The loans are due within six years, with interest bearing at rates ranging from 0% to 3.4% (2017: from 0% to 3.4%) per annum as at 31 December 2018.

The fair values of loans to other employees are based on cash flows discounted using a rate based on the borrowings rate of 3.6% (2017: 3.6%) and are within level 3 of the fair value hierarchy.

(iii) As at 31 December 2017, current portion of the entrusted loan of RMB3,121 thousand and RMB936 thousand were lent to two independent third parties with maturity dates on February 2018 and May 2018 respectively, and the non-current portion of RMB1,795 are with maturity dates in 2019.

As at 31 December 2018, current portion of the entrusted loan of RMB20,000 thousand and RMB1,834 thousand were lent to two independent third parties with maturity dates on September 2019 and August 2019 respectively.

As at 31 December 2018, the fair values of entrusted loans are based on cash flows discounted using a rate based on the borrowings rate 3.60% and are within level 3 of the fair value hierarchy.

The fair values of current portion of other receivables approximate their carrying amounts.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

13. Prepayments and Other Assets

	2018 RMB'000	2017 RMB'000
Prepayments and deposits		
— for purchases of raw materials	31,179	19,470
— for purchases of fixed assets and construction in progress	23,201	10,506
Value Added Tax recoverable and refundable	127,503	126,073
	181,883	156,049

14. Financial Instruments by Category

	Other financial assets at amortised cost RMB'000	Financial assets at FVPL RMB'000	Total RMB'000
31 December 2018			
Assets as per balance sheet			
Financial assets at FVPL	—	4,349,616	4,349,616
Trade and bills receivables and other financial assets at amortised cost	3,165,033	—	3,165,033
Restricted bank deposits	244,990	—	244,990
Term deposits	150,000	—	150,000
Cash at bank	3,769,157	—	3,769,157
Total	7,329,180	4,349,616	11,678,796

	Other financial liabilities at amortised cost RMB'000	Liabilities at FVPL RMB'000	Total RMB'000
Liabilities as per balance sheet			
Bank borrowings	1,009,397	—	1,009,397
Convertible bonds	—	852,768	852,768
Trade and other payables excluding non-financial liabilities	2,769,778	—	2,769,778
Total	3,779,175	852,768	4,631,943

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

14. Financial Instruments by Category (Continued)

	Loans and receivables RMB'000	Available- for-sale RMB'000	Total RMB'000
31 December 2017 (Under HKAS9)			
Assets as per balance sheet			
Available-for-sale financial assets	—	4,779,309	4,779,309
Trade and other receivables excluding prepayments	3,512,813	—	3,512,813
Restricted bank deposits	190,613	—	190,613
Term deposits	100,000	—	100,000
Cash at bank	3,028,788	—	3,028,788
Total	6,832,214	4,779,309	11,611,523
	Liabilities at FVPL RMB'000	Other financial liabilities at amortised cost RMB'000	Total RMB'000
Liabilities as per balance sheet			
Borrowings	—	1,172,022	1,172,022
Convertible bonds	915,591	—	915,591
Trade and other payables excluding non-financial liabilities	—	3,468,525	3,468,525
Total	915,591	4,640,547	5,556,138

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

15. Restricted Bank Deposits, Term Deposits and Cash and Cash Equivalents

	2018 RMB'000	2017 RMB'000
Restricted bank deposits — current	244,990	190,613
Term deposits — current	100,000	—
Term deposits — non-current	50,000	100,000
Total term deposits	150,000	100,000
Cash at bank	1,219,945	1,765,356
Cash in hand	480	464
Short-term bank deposits	2,549,212	1,263,432
Cash and cash equivalents	3,769,637	3,029,252
	4,164,627	3,319,865

Restricted bank deposits are bank deposits that could not be drawn until they mature, some of which are related to the finance facilities granted by banks for issuing bills payable.

As at 31 December 2018, the weighted average effective interest rate on restricted bank deposits and cash and cash equivalents of the Group is 0.55% (2017: 0.58%) per annum.

The restricted bank deposits have maturities of 6 months to 12 months at inception (2017: 6 months). The short-term bank deposits have maturities ranging from 1 week to 12 months at inception (2017: ranging from 6 months to 12 months).

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

15. Restricted Bank Deposits, Term Deposits and Cash and Cash Equivalents

(Continued)

Restricted bank deposits, term deposits and cash and cash equivalents are denominated in the following currencies:

	2018 RMB'000	2017 RMB'000
RMB	2,416,914	1,614,110
USD	1,388,611	1,287,766
Euro	221,094	296,338
Indian Rupee	70,821	47,252
JPY	25,392	13,410
Brazilian Real	12,782	13,046
VND	5,730	4,656
HKD	5,656	4,372
Others	17,627	38,915
	4,164,627	3,319,865

Majority of the restricted bank deposits and cash and cash equivalents are deposited with banks in Mainland China. The conversion of the RMB denominated balances into other currencies and the remittance of funds out of Mainland China are subject to the rules and regulations relating to foreign exchange control promulgated by the Mainland China government.

16. Share Capital

	Authorised share capital		
	Number of shares '000	Amount HKD'000	Amount RMB'000
As at 31 December 2017, and 31 December 2018 (shares with a par of HKD0.1 per share)	5,000,000	500,000	502,350

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

16. Share Capital (Continued)

	Issued and fully paid		
	Number of shares '000	Amount HKD'000	Amount RMB'000
As at 31 December 2017, and 31 December 2018 (shares with a par of HKD0.1 per share)	1,596,000	159,600	160,510

17. Reserves

	Share premium RMB'000	Merger reserve RMB'000	Statutory reserves RMB'000 <i>(note i)</i>	Financial assets at FVPL RMB'000	Translation differences RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2017	1,331,913	152,573	696,379	61,084	(5,121)	6,721,130	8,957,958
Profit for the year	—	—	—	—	—	2,005,394	2,005,394
Change in value of available-for-sale financial assets <i>(Note 14)</i>	—	—	—	63,224	—	—	63,224
Appropriations	—	—	163,460	—	—	(163,460)	—
Dividend paid							
— 2016 second interim	—	—	—	—	—	(283,900)	(283,900)
— 2017 interim <i>(Note 32)</i>	—	—	—	—	—	(340,247)	(340,247)
Currency translation differences	—	—	—	—	(2,086)	—	(2,086)
At 31 December 2017	1,331,913	152,573	859,839	124,308	(7,207)	7,938,917	10,400,343
Change of accounting policy	—	—	—	(124,308)	—	124,308	—
Profit for the year	—	—	—	—	—	1,916,883	1,916,883
Appropriations	—	—	376,148	—	(7)	(376,141)	—
Dividend paid							
— 2017 second interim <i>(Note 32)</i>	—	—	—	—	—	(348,222)	(348,222)
— 2018 interim <i>(Note 32)</i>	—	—	—	—	—	(354,312)	(354,312)
Currency translation differences	—	—	—	—	145,324	—	145,324
At 31 December 2018	1,331,913	152,573	1,235,987	—	138,110	8,901,433	11,760,016

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

17. Reserves (Continued)

(i) Statutory reserves

Subsidiaries in Mainland China are required to transfer certain percentages of their after-tax profit after offsetting accumulated losses from prior years to statutory reserves, namely statutory reserve fund, statutory welfare fund, enterprise expansion fund and discretionary reserve fund, before the corresponding subsidiaries can distribute any dividend to their shareholders. The percentage to be appropriated to statutory reserve fund is determined according to the relevant regulations in Mainland China at the rate of 10% of net profit. The subsidiaries may cease appropriation when the statutory reserve funds reach 50% of the subsidiaries' registered capital. The percentages to be appropriated to other funds are at the discretion of the Board of directors of the respective subsidiaries.

Such statutory reserves, depending on their nature, can only be used to offset accumulated losses or to increase capital of the respective subsidiaries, and cannot be distributed to shareholders of the subsidiaries. The balances of the statutory reserves after increasing capital shall remain at least 25% of the original registered capital of the respective subsidiaries. Movements in the statutory reserves are as follows:

	Statutory reserve fund RMB'000	Enterprise expansion fund RMB'000	Discretionary reserve fund RMB'000	Total RMB'000
At 1 January 2017	32,438	565,785	98,156	696,379
Additions	81	163,379	—	163,460
At 31 December 2017	32,519	729,164	98,156	859,839
Additions	322	375,826	—	376,148
At 31 December 2018	32,841	1,104,990	98,156	1,235,987

18. Trade and Bills Payable

	2018 RMB'000	2017 RMB'000
Trade payables	1,123,732	1,722,577
Bills payable	1,157,986	1,259,690
Trade and bills payable	2,281,718	2,982,267
Due to related parties (Note 35(b))	387,472	385,790
	2,669,190	3,368,057

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

18. Trade and Bills Payable (Continued)

The ageing analysis of the trade and bills payable based on invoice date is as follows:

	2018 RMB'000	2017 RMB'000
Up to 6 months	2,666,679	3,366,648
6 months to 1 year	2,462	289
1 year to 2 years	13	75
Over 2 years	36	1,045
	2,669,190	3,368,057

Trade and bills payable are denominated in the following currencies:

	2018 RMB'000	2017 RMB'000
RMB	2,608,908	3,295,846
JPY	19,024	4,989
Euro	11,008	15,734
Mexico Peso	9,684	10,545
Indian Rupee	9,587	12,789
HKD	5,498	17,688
USD	1,298	7,136
Others	4,183	3,330
	2,669,190	3,368,057

The fair values of trade and bills payable approximate their carrying amounts.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

19. Accruals and Other Liabilities

	2018 RMB'000	2017 RMB'000
Welfare payables	40,763	62,004
Salaries, wages and bonus payables	85,598	87,903
Accrued sales commission	620,248	591,616
Customers deposits	40,725	44,215
Payable for purchase of property, plant and equipment	67,881	78,123
Accrued operating expenses	89,017	44,598
Value Added Tax payables	66,271	47,336
Deferred income — current portion (Note 21)	3,134	386
Interest payables	1,302	2,593
Other payables	31,405	19,752
Accruals and other payables	1,046,344	978,526
Contract liabilities (i)	756,807	861,909
	1,803,151	1,840,435

The carrying amounts of trade and other payables are considered to be the same as their fair value.

Note:

(i) The Group's contract liabilities are advance from customers in relation to production selling contracts.

The revenue recognised in the current reporting period related to carried-forward contract liabilities were mainly in one year or less.

The Group did not have unsatisfied long-term contracts. As permitted under HKFRS15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

20. Bank Borrowings

	2018 RMB'000	2017 RMB'000
Unsecured	1,009,397	1,172,022
	2018 RMB'000	2017 RMB'000
At fixed rate		
— in EUR	79,397	352,022
— in RMB	930,000	820,000
	1,009,397	1,172,022

The weighted average effective interest rates (per annum) at year end are as follows:

	2018	2017
EUR	—	0.2%
RMB	3.8%	3.8%

The fair values of short-term bank borrowings approximate their carrying amounts.

21. Deferred Income

	2018 RMB'000	2017 RMB'000
Deferred government grants	33,420	10,373
Less: Current portion included in current liabilities (<i>Note 19</i>)	(3,134)	(386)
	30,286	9,987

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

21. Deferred Income (Continued)

Movements are as follows:

	2018 RMB'000	2017 RMB'000
At 1 January	10,373	10,076
Exchange differences	61	683
Amortised as income (Note 26)	(3,134)	(386)
Addition	26,120	—
At 31 December	33,420	10,373

22. Deferred Income Tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2018 RMB'000	2017 RMB'000
Deferred income tax assets to be recovered within 12 months	120,113	88,070
Deferred income tax liabilities to be settled after more than 12 months	161,847	232,826
Deferred income tax liabilities to be settled within 12 months	30,467	34,869
	192,314	267,695

(i) Deferred tax assets

	2018 RMB'000	2017 RMB'000
The balance comprises temporary differences attributable to:		
Provisions and accruals	80,632	58,316
Unrealised profit on inventories	33,338	29,754
Deferred income-government grants	6,143	—
Total deferred tax assets	120,113	88,070

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

22. Deferred Income Tax (Continued)

(i) Deferred tax assets (Continued)

The movements in deferred income tax assets are as follows:

	Provisions and accruals RMB'000	Unrealised profit on inventories RMB'000	Government grants RMB'000	Total RMB'000
At 1 January 2017	36,269	18,994	—	55,263
Recognised in the consolidated statement of profit or loss	22,047	10,760	—	32,807
At 31 December 2017	58,316	29,754	—	88,070
Recognised in the consolidated statement of profit or loss	22,316	3,584	6,143	32,043
At 31 December 2018	80,632	33,338	6,143	120,113

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB26,105 thousand (2017: RMB54,818 thousand) in respect of losses amounting to RMB117,641 thousand (2017: RMB228,221 thousand) that can be carried forward against future taxable income. In 2018, the tax loss of RMB2,366 thousand became invalid (2017: RMB42,276 thousand).

(ii) Deferred tax liabilities

	2018 RMB'000	2017 RMB'000
The balance comprises temporary differences attributable to:		
Financial assets at FVPL	6,602	—
Withholding tax	144,343	243,339
Accelerated tax depreciation	39,376	24,356
Revaluation	1,993	—
Total deferred tax liabilities	192,314	267,695

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

22. Deferred Income Tax (Continued)

(ii) Deferred tax liabilities (Continued)

The movements in deferred income tax liabilities are as follows:

	Withholding tax RMB'000	Accelerated tax depreciation RMB'000	Financial assets at FVPL RMB'000	Revaluation RMB'000	Total RMB'000
At 1 January 2017	222,654	14,526	—	—	237,180
Recognised in the consolidated statement of profit or loss	87,171	9,830	—	—	97,001
Transferred to tax payable	(66,486)	—	—	—	(66,486)
At 31 December 2017	243,339	24,356	—	—	267,695
Recognised in the consolidated statement of profit or loss	76,166	15,020	6,602	(99)	97,689
Acquisition of a subsidiary	—	—	—	2,092	2,092
Transferred to tax payable	(175,162)	—	—	—	(175,162)
At 31 December 2018	144,343	39,376	6,602	1,993	192,314

Withholding tax is levied on dividends to be declared to foreign investors from the foreign investment enterprises established in Mainland China in respect of earnings earned after 31 December 2007. The Group's subsidiaries in Mainland China are held by Guo Hua Enterprises Group Limited, which is a company incorporated in Hong Kong and the beneficial owner of these subsidiaries, and the applicable withholding tax rate is 10% (2017:5%).

The Group provide for the deferred income tax liabilities on the unremitted earnings except for those amount expected to be reinvested. Unremitted earnings that deferred income tax liabilities have not been recognised totally RMB4,486,145 thousand at 31 December 2018 (2017: RMB3,096,715 thousand). As at 31 December 2018, deferred income tax liabilities of RMB448,615 thousand (2017: RMB154,836 thousand) have not been recognised for the withholding tax that would be payable on such unremitted earnings of certain subsidiaries.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

23. Convertible Bonds

On 13 February 2014, the Company issued convertible bonds due 2019 in an aggregate principal amount of US\$200,000,000 (equivalent to approximately RMB1,221,400,000). Interest of 2.00% per annum will be paid semi-annually. The convertible bonds may be converted into ordinary shares of the company, at the option of the bond holders thereof, at any time after 26 March, 2014 up to the close of business on the day falling seven days prior to 13 February 2019 (the "Maturity Date") (both day inclusive) or if such convertible bonds shall have been called for redemption before Maturity Date, then up to and including the close of business on a date no later than seven days prior the date fixed for redemption thereof. The initial conversion price was HK\$24.6740 and is subject to adjustment for among other things, consolidation and subdivision of shares, capitalization of profits or reserves, right issues, distributions (including dividends) and certain other dilutive events.

On 13 February 2017, pursuant to the terms and conditions of the Bonds, the Company redeemed convertible bonds with an aggregate principal amount of US\$75,250,000 according to the requirement of the Bondholders. Accordingly, the Redeemed Bonds were redeemed at 100% of their principal amount, together with any accrued but unpaid interest thereon on 13 February 2017. The Redeemed Bonds were cancelled upon redemption and the remaining outstanding aggregate principal amount of the Bonds was reduced to USD\$124,750,000.

The Convertible bonds are designated as financial liabilities at FVPL.

Financial liabilities at FVPL are measured at fair value at initial recognition with transaction cost charge to the profit or loss accounts. Subsequently, the fair values are remeasured, gains and losses from changes therein are recognised in the profit or loss account.

None of convertible bonds were converted into ordinary shares of the Company during the year.

	Convertible bonds RMB'000
At 1 January 2017	1,391,965
Change in fair value of convertible bonds (Note 29)	40,669
Repayment of convertible bonds	(517,043)
At 31 December 2017	915,591
Change in fair value of convertible bonds (Note 29)	(62,823)
At 31 December 2018	852,768

The fair value of the convertible bonds as at 31 December 2018 is approximately USD 124,252 thousand (2017: USD 140,123 thousand), equivalent to approximately RMB852,768 thousand (2017: RMB915,591 thousand), which is determined by valuation technique using observable inputs (Level 2): quoted prices for identical or similar instruments in active markets.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

24. Revenue and Segment Information

	2018 RMB'000	2017 RMB'000
Sales of plastic injection moulding machines and related products	10,851,245	10,186,066

The chief operating decision-maker has been identified as the executive committee, which comprises all executive directors and senior management. The executive committee reviews the Group's internal reporting in order to assess performance and allocate resources. Based on these internal reports, the executive committee has determined that no segment information is presented as substantially all of the Group's sales and operating profits are derived from the sales of plastic injection moulding machines, and no geographical segment information is presented as management reviews the business performance based on type of business, not geographically.

The Group is domiciled in Mainland China. Analysis of its sales to external customers in different countries, based on the customers' locations is as follows:

	2018 RMB'000	2017 RMB'000
Mainland China	7,499,857	7,134,943
Hong Kong and overseas countries	3,351,388	3,051,123
	10,851,245	10,186,066

The total of non-current assets other than term deposits, trade and bills receivables, other financial assets at amortised cost and deferred income tax assets located in different countries is as follows:

	2018 RMB'000	2017 RMB'000
Total non-current assets other than term deposits, trade and bills receivables, other financial assets at amortised cost and deferred income tax assets		
— Mainland China	3,564,847	3,134,925
— Hong Kong and overseas countries	531,707	530,653
	4,096,554	3,665,578

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

25. Expenses by Nature

	2018 RMB'000	2017 RMB'000
Depreciation and amortisation (Notes 5, 6 and 9)	268,095	215,767
Raw materials and consumables used	6,465,866	6,455,650
Changes in inventories of finished goods and work in progress	(7,380)	(692,005)
Operating lease for buildings	10,413	9,190
Sales commission and after-sales service expenses	507,042	542,794
Provision for/(reversal of) impairment of trade receivables (Note 11)	27,361	(4,706)
Provision for/(reversal of) write-down of inventories (Note 10)	17,620	(32,762)
Employment costs (Note 28) (i)	954,964	873,100
Freight charges	85,091	74,442
Utilities	108,338	111,728
Travelling expenses	31,657	29,425
Auditor's remuneration		
— Audit services	3,560	3,560
Others	458,128	328,325
Total cost of sales, selling and marketing expenses and general and administrative expenses	8,930,755	7,914,508

(i) For the year ended 31 December 2018, the employment costs related to the research and development activities were RMB141,190 thousand (2017: RMB111,751 thousand).

26. Other Income

	2018 RMB'000	2017 RMB'000
Government grants (i)	142,313	126,723
Amortisation of deferred income (Note 21)	3,134	386
	145,447	127,109

(i) Government grants mainly represent subsidies and assistance received from local municipal governments in connection with the Group's achievements in developing innovative and high technology plastic injection moulding machines.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

27. Other Gains/(Losses) — Net

	2018 RMB'000	2017 RMB'000
Interest income on financial assets at FVPL	225,524	—
Investment income from business combination	21,997	—
Net foreign exchange losses	(83,721)	(39,746)
(Losses)/gains on disposals of property, plant and equipment and land use rights, net	(1,162)	11,300
Others	8,858	2,668
	171,496	(25,778)

28. Employment Costs

	2018 RMB'000	2017 RMB'000
Salaries, wages and bonus	795,453	745,788
Pension cost — defined contribution plans (a)	54,197	45,051
Other benefits (b)	105,314	82,261
	954,964	873,100

(a) Pension cost — defined contribution plans

As stipulated by rules and regulations in Mainland China, the Group has participated in state-sponsored defined contribution retirement schemes for its employees in Mainland China. The Group's employees make monthly contributions to the schemes at approximately 8% of their basic salaries, while the Group contributes 14% to 19% of employees' basic salaries and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees.

The Group has arranged for its Hong Kong and overseas employees to join local pension schemes in respective countries' jurisdictions. The monthly contributions made by the Group for its employees in each country are not material. The Group has no further obligations for post-retirement benefits beyond the monthly contributions.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

28. Employment Costs (Continued)

(b) Other benefits

In addition, the Group's employees in Mainland China participate in state-sponsored employee social security plans, including medical, housing and other welfare benefits. The Group contributes 7% to 9% of employees' basic salaries to the medical plan and 6% to 10% of employees' basic salaries to the housing plan. The Group has no further obligation beyond the contributions.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included three (2017: two) directors whose emoluments are reflected in the analysis presented in Note 38. The emoluments payable to the remaining two (2017: three) individuals during the year are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	2,467	3,735

The emoluments fall within the following bands:

	Number of individuals	
	2018	2017
Nil — HKD1,000,000 (equivalent to approximately RMB845,000)	2	1
HKD1,000,001 (equivalent to approximately RMB845,000) — HKD1,500,000 (equivalent to approximately RMB1,268,000)	2	2
HKD1,500,001 (equivalent to approximately RMB1,268,000) — HKD2,000,000 (equivalent to approximately RMB1,690,000)	1	2

- (d) During the year ended 31 December 2018, no emoluments were paid by the Company to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2017: Nil).

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

29. Finance Income/Costs

	2018 RMB'000	2017 RMB'000
Finance costs:		
Change in fair value of convertible bonds		
— resulted from change in exchange rate	—	55,216
— resulted from change in bond value	—	(95,885)
Interest expense	(42,434)	(42,435)
Net foreign exchange losses	—	(56,512)
	(42,434)	(139,616)
Finance income:		
Change in fair value of convertible bonds		
— resulted from change in exchange rate	(41,043)	—
— resulted from change in bond value	103,866	—
Net foreign exchange gains on financing activities	22,700	—
Interest income on restricted bank deposits, term deposits and cash and cash equivalents	66,275	39,659
Interest income on financial assets at FVPL	—	188,638
Interest income on entrusted loans	13,469	1,331
	165,267	229,628
Finance income, net	122,833	90,012

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

30. Income Tax Expense

This note provides an analysis of the Group's income tax expense, shows what amounts are recognised directly in equity and how the tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the Group's tax position.

	2018 RMB'000	2017 RMB'000
(a) Income tax expense		
<i>Current tax</i>		
Current tax on profits for the year	392,077	402,441
Adjustments for current tax of prior periods	(11,542)	(4,394)
Total current tax expense	380,535	398,047
<i>Deferred income tax</i>		
Increase in deferred tax assets (note 22)	(32,043)	(32,807)
Deferred tax liabilities recognised in the consolidated statement of profit or loss (note 22)	97,689	97,001
Total deferred tax expense	65,646	64,194
Income tax expense	446,181	462,241
Income tax expense is attributable to:		
Profit from continuing operations	446,181	462,241
	446,181	462,241

Haitian Plastic Machinery Group Limited ("Haitian Plastic Machinery") renewed its status as a High and New Technology Enterprises ("HNTE") in 2017. Ningbo Zhafir Plastic Machinery Co., Ltd. ("Ningbo Zhafir") renewed its HNTE status in 2016. Zhejiang Keqiang Intelligence Control System Co., Ltd. ("Zhejiang Keqiang") renewed its HNTE status in 2016. Wuxi Haitian Machinery Co., Ltd. ("Wuxi Haitian") renewed its HNTE in 2018. These entities were entitled to a reduced income tax rate of 15% for three years commencing from the first year when these entities were granted the HNTE status. They are required to re-apply for preferential tax treatment after the current preferential tax periods expire.

The other major operating subsidiaries of the Group in Mainland China are subject to enterprise income tax rate of 25% for the year 2018 (2017: 25%).

Subsidiaries established in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% on the taxable income for the year 2018 (2017: 16.5%).

Taxation on overseas (other than Mainland China and Hong Kong) profits has been calculated on the estimated assessable profits for the year 2018 at the applicable rates of taxation prevailing in the countries in which the Group operates.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

30. Income Tax Expense (Continued)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2018 RMB'000	2017 RMB'000
Profit before income tax expense, after excluding share of profit of an associate	2,360,266	2,462,901
Tax at the Hong Kong tax rate of 16.5% (2017–16.5%)	389,444	406,909
Effect of different tax rates	19,694	(33,275)
Research and development expenditure supper deduction	(15,166)	(8,782)
Expensed not deductible for tax expense	14,984	10,541
Adjustments for current tax of prior periods	(11,542)	(4,394)
Deferred tax not accounted for tax losses	803	4,071
Effect of withholding tax on certain unremitted profits of subsidiaries in Mainland China	76,166	87,171
Previously unrecognised tax losses now recouped to reduce current tax expense	(28,202)	—
Income tax expense	446,181	462,241

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

31. Earnings Per Share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year (Note 16).

	2018 RMB'000	2017 RMB'000
Profit attributable to shareholders of the Company	1,916,883	2,005,394
Weighted average number of ordinary shares in issue (thousands)	1,596,000	1,596,000
Basic EPS (RMB per share)	1.20	1.26

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company issued convertible bonds in 2014.

The convertible bonds are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the convertible bonds.

For the year ended 31 December 2018, the diluted earnings per share amounted to RMB1.20 (31 December 2017: RMB1.26).

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

32. Dividends

	2018 RMB'000	2017 RMB'000
Interim dividend paid of HK25.0 cents (2017: HK25.0 cents) per ordinary share	354,312	340,247
Second interim dividend of HK19.0 cents (2017: HK27.0 cents) per ordinary share	259,179	348,222
	613,491	688,469

On 18 March 2019, the Company's Board of Directors has declared payment of a second interim dividend of HK19.0 cents per share for the year ended 31 December 2018 (2017: HK27.0 cents per share). Such dividend is to be approved by the Board Meeting which is compliance with the related regulations in Cayman Island. The second interim dividend has not been reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2019.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

33. Notes to the Consolidated Statement of Cash Flows

(a) Cash generated from operations

	2018 RMB'000	2017 RMB'000
Profit before income tax	2,362,413	2,467,541
Adjustments for:		
— share of profit of an associate (Note 8)	(2,147)	(4,640)
— amortisation of land use rights (Note 5)	9,873	8,704
— depreciation of property, plant and equipment (Note 6)	257,562	207,063
— amortisation of intangible assets (Note 9)	660	—
— amortisation of deferred income (Note 21)	(3,134)	(386)
— losses/(gains) on disposal of property, plant and equipment and land use right (Note 27)	1,162	(11,300)
— gains from the deemed disposal of an associate (Note 27)	(21,997)	—
— provision for/(reversal of) impairment of trade receivables (Note 25)	27,361	(4,706)
— provision for/(reversal of) write-down of inventories (Note 25)	17,620	(32,762)
— interest income from financial assets at FVPL (Note 27)	(225,524)	—
— finance income — net (Note 29)	(122,833)	(90,012)
Changes in working capital:		
— increase in restricted bank deposits	(54,377)	(77,872)
— (increase)/decrease in term deposits	(50,000)	50,000
— decrease/(increase) in trade and other receivables	300,096	(857,061)
— decrease/(increase) in inventories	58,283	(1,018,665)
— (decrease)/increase in trade and bills payables	(700,660)	1,226,989
— increase in accruals and other payables	148,065	299,061
Cash generated from operations	2,002,423	2,161,954

(b) In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment and land use right comprise:

	2018 RMB'000	2017 RMB'000
Net book amount (Note 5 and 6)	8,579	24,407
(Losses)/gains on disposal of property, plant and equipment and land use rights (Note 27)	(1,162)	11,300
Proceeds from disposal of property, plant and equipment and land use rights	7,417	35,707

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

33. Notes to the Consolidated Statement of Cash Flows (Continued)

(c) Net debt reconciliation

The reconciliation of liabilities arising from financing activities is as follows:

	2018 RMB'000	2017 RMB'000
Borrowings — repayable within one year (including overdraft)	(1,009,397)	(1,172,022)
Convertible bonds	(852,768)	(915,591)
Net debt	(1,862,165)	(2,087,613)
Gross debt — fixed interest rates	(1,009,397)	(1,172,022)
Convertible bonds	(852,768)	(915,591)
Net debt	(1,862,165)	(2,087,613)

	Bank borrowings RMB'000	Convertible bonds RMB'000	Total RMB'000
As at 31 December 2017	1,172,022	915,591	2,087,613
Cash flows			
— Inflow from financing activities	1,060,000	—	1,060,000
— Outflow from financing activities	(1,217,802)	—	(1,217,802)
Non-cash changes			
— Fair value losses	—	(103,866)	(103,866)
— Currency translations	(4,823)	41,043	36,220
As at 31 December 2018	1,009,397	852,768	1,862,165

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

34. Commitments

(a) Capital commitments

	2018 RMB'000	2017 RMB'000
Acquisition of property, plant and equipment — Contracted but not provided for	233,002	284,002

(b) Operating lease commitments

The Group leases certain of its office premises and plant and equipment under non-cancellable operating lease agreements. The leases have renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2018 RMB'000	2017 RMB'000
Not later than 1 year	2,942	6,024
Later than 1 year and no later than 5 years	226	499
	3,168	6,523

35. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The Group is controlled by Sky Treasure Capital Limited (the immediate holding company), a company incorporated in the British Virgins Islands, which owns 59.77% of the Company's shares. The Company's directors regard Sky Treasure Capital Limited as being the ultimate holding company.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

35. Related Party Transactions (Continued)

The following companies are considered to be related parties of the Group:

Company name	Relationships
Ningbo Haitian Precision Machinery Co., Ltd. ("Haitian Precision") (寧波海天精工機械有限公司)	Controlled by directors of the Group
Ningbo Anson CNC Technique Co., Ltd. ("Ningbo Anson") (寧波安信數控技術有限公司)	Controlled by directors of the Group
Zhejiang Keqiang Intelligence Control System Co., Ltd. (“Zhejiang Keqiang”) (浙江科強智能控制系統有限公司)	Associate of the Group before 30 June 2018
Ningbo STF Hydraulic Transmissions Co., Ltd. ("Ningbo STF") (寧波斯達弗液壓傳動有限公司)	Controlled by directors of the Group
Ningbo Haitian Drive Systems Co., Ltd. ("HDS") (海天驅動有限公司)	Controlled by directors of the Group
Ningbo SPP Hydraulics Co.,Ltd. ("Ningbo SPP") (寧波住精液壓工業有限公司)	Controlled by directors of the Group
Ningbo Hilectro Precision Machinery Co.,Ltd. ("Hilectro Precision") (寧波海邁克精密機械製造有限公司)	Controlled by directors of the Group
Ningbo Hilectro Power Technology Co.,Ltd.("Hilectro Power") (寧波海邁克動力科技有限公司)	Controlled by directors of the Group

(a) Transactions with related parties:

The following material transactions were carried out with related parties:

	2018 RMB'000	2017 RMB'000
(i) Purchases of goods from:		
Ningbo Anson	624,106	685,047
Ningbo STF	139,515	169,625
Hilectro Precision	47,313	23,839
Zhejiang Keqiang	18,403	32,474
Ningbo SPP	1,071	1,246
	830,408	912,231

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

35. Related Party Transactions (Continued)

(a) Transactions with related parties: (Continued)

	2018 RMB'000	2017 RMB'000
(ii) Purchase of equipment from:		
Haitian Precision	140,505	54,604
Hilectro Precision	—	4,349
Hilectro Power	2,070	—
	142,575	58,953
(iii) Rental fees paid to:		
HDS	2,618	2,595

In the opinion of the Company's directors and the Group's management, the above related party transactions were carried out in the ordinary course of business, and in accordance with the terms of the underlying agreements and/or the invoices issued by the respective parties.

(b) Balances with related parties:

The Group had the following significant balances with its related parties as at 31 December 2018 and 2017:

	2018 RMB'000	2017 RMB'000
Payables arising from purchase of goods:		
— Ningbo Anson	335,014	296,444
— Ningbo STF	38,147	66,044
— Hilectro Precision	13,997	13,092
— Hilectro Power	174	—
— Ningbo SPP	140	411
— Zhejiang Keqiang	—	9,799
	387,472	385,790
Payables arising from purchase of equipment:		
— Haitian Precision	16,030	6,589
— Hilectro Power	903	—
	16,933	6,589

Balances with related parties were unsecured, non-interest bearing, and had no pre-determined repayment terms.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

35. Related Party Transactions (Continued)

(c) Loans to related parties

	2018 RMB'000	2017 RMB'000
(i) Loans to key management		
At 1 January	1,233	776
Loans advanced during the year	143	585
Loan repayments received	(1,018)	(128)
At 31 December	358	1,233

The information about loans advanced to key management have the following terms and conditions:

Name of key management	Outstanding amount at beginning of year RMB'000	Outstanding amount at end of year RMB'000	Maximum outstanding during this year RMB'000	Fallen due but not been paid RMB'000	Provisions for doubtful/bad debts made	Term	Interest rate	Security
2018								
Mr Zhang Jingzhang	152	—	—	—	—	Repayable on demand	Nil	Nil
Mr Zhang Jianming	733	143	1,476	—	—	Repayable on demand	Nil	Nil
Mr Zhang Jianfeng	348	215	218	—	—	Repayable on demand	Nil	Nil
2017								
Mr Zhang Jingzhang	45	152	152	—	—	Repayable on demand	Nil	Nil
Mr Zhang Jianming	427	733	733	—	—	Repayable on demand	Nil	Nil
Mr Zhang Jianfeng	304	348	348	—	—	Repayable on demand	Nil	Nil

(ii) Loans to an associate

	2018 RMB'000	2017 RMB'000
At 1 January	25,000	—
Loans advanced during the year	—	25,000
Decrease due to step-up acquisition to a subsidiary	(25,000)	—
At 31 December	—	25,000

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

35. Related Party Transactions (Continued)

(d) Key management compensation:

Key management includes directors, general managers of certain subsidiaries, Chief Financial Officer, Investment Relations Manager, Company Secretary and the Head of Human Resources and Administration. The compensation paid or payable to key management for employee services is:

	2018 RMB'000	2017 RMB'000
Salaries and bonus	6,820	7,688
Pension costs	63	83
Other benefits	172	227
	7,055	7,998

(e) Related party commitments:

Related party commitments which are contracted but not recognised in the consolidated balance sheet as at balance sheet date are as follows:

	2018 RMB'000	2017 RMB'000
Capital commitment for acquisition of property, plant and equipment		
— Haitian Precision	48,219	48,194

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

36. Business Combination

(a) Acquisition of 53.49% equity interest in Zhejiang Keqiang

The Group originally held 46.51% equity interests in Zhejiang Keqiang, an associate of the Company, before 30 June 2018. In June 2018, the Group entered into an Equity Transfer Agreement (the "Agreement") with five independent third parties (the "Transferors") who were former shareholders holding 53.49% equity shares of Zhejiang Keqiang. Pursuant to the Agreement, the Group agreed to acquire 53.49% equity interest of Zhejiang Keqiang at a cash consideration of RMB53,480,000 from the Transferors. Upon completion of the transaction on 30 June 2018, Zhejiang Keqiang became a 100% subsidiary of the Group.

As a result of the acquisition, the Group expected to integrate supply chain resources, making use of intelligence control technology.

Details of purchase consideration are as follows:

	RMB'000
Consideration as at 30 June 2018	
Total cash consideration transferred	53,480
Fair value of equity in Zhejiang Keqiang held before the business combination	40,888
Total consideration	94,368
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	30,605
Intangible assets	14,036
Financial assets at FVPL	2,000
Inventories	12,382
Trade receivables, prepayments and other receivables — current portion	22,946
Cash and cash equivalents	651
Deferred income tax liabilities	(2,092)
Trade and other payables — current portion	(29,246)
Total identifiable net assets	51,282
Goodwill	43,086

The goodwill is attributable to the workforce and the high profitability of the acquired business. It will not be deductible for tax purposes.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

37. Balance Sheet and Reserve Movement of the Company

Balance sheet of the Company

	Note	As at 31 December	
		2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries		778,077	778,077
Due from subsidiaries		71,184	895,123
		849,261	1,673,200
Current assets			
Due from subsidiaries		2,649,748	3,613,295
Cash and cash equivalents		154	132
		2,649,902	3,613,427
Total assets		3,499,163	5,286,627
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital		160,510	160,510
Share premium	<i>i</i>	1,331,913	1,331,913
Other reserves	<i>i</i>	314,789	314,789
Retained earnings	<i>i</i>	839,088	534,365
Total equity		2,646,300	2,341,577

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

37. Balance Sheet and Reserve Movement of the Company (Continued)

Balance sheet of the Company (Continued)

	Note	As at 31 December	
		2018 RMB'000	2017 RMB'000
LIABILITIES			
Non-current liabilities			
Convertible bonds		—	915,591
		—	915,591
Current liabilities			
Due to subsidiaries		—	2,028,646
Other payables		95	813
Convertible bonds		852,768	—
		852,863	2,029,459
Total liabilities		852,863	2,945,050
Total equity and liabilities		3,499,163	5,286,627

Note (i) Reserve movement of the Company

	Share premium RMB'000	Contributed surplus RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2017	1,331,913	314,789	525,926	2,172,628
Profit for the year	—	—	632,586	632,586
Dividend paid				
— 2016 second interim	—	—	(283,900)	(283,900)
— 2017 interim (Note 32)	—	—	(340,247)	(340,247)
At 31 December 2017	1,331,913	314,789	534,365	2,181,067
Profit for the year	—	—	1,007,257	1,007,257
Dividend paid				
— 2017 second interim (Note 32)	—	—	(384,222)	(384,222)
— 2018 interim (Note 32)	—	—	(354,312)	(354,312)
At 31 December 2018	1,331,913	314,789	839,088	2,485,790

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

38. Benefits and Interests of Directors

(a) Directors' emoluments

The remuneration of every director is set out below:

Name of Director	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking				Total RMB'000
	Fees RMB'000	Salaries RMB'000	Pension cost RMB'000	Estimated value of other benefits RMB'000	
2018					
Executive directors					
— Mr. Zhang Jingzhang	—	800	—	18	818
— Mr. Zhang Jianming (CEO)	—	830	9	25	864
— Mr. Zhang Jianfeng	—	780	9	25	814
— Mr. Zhang Bin*	—	600	9	25	634
— Mr. Chen Weiqun*	—	760	9	25	794
	—	3,770	36	118	3,924
Non-executive director					
— Professor Helmut Helmar Franz	—	226	—	—	226
— Mr. Guo Mingguang	—	—	—	—	—
— Mr. Liu Jianbo	—	—	—	—	—
— Mr. Zhang Jianguo*	—	450	—	—	450
— Ms. Chen Ningning*	—	450	—	—	450
	—	1,126	—	—	1,126
Independent non-executive directors					
— Mr. Jin Hailiang	78	—	—	—	78
— Mr. Guo Yonghui	78	—	—	—	78
— Mr. Lou Baijun	78	—	—	—	78
— Dr. Steven Chow	84	—	—	—	84
	318	—	—	—	318
	318	4,896	36	118	5,368

* Mr. Zhang Bin and Mr. Chen Weiqun were appointed as executive directors replacing former executive directors Mr. Zhang Jianguo and Ms. Chen Ningning who were appointed as non-executive directors since 2018.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

38. Benefits and Interests of Directors (Continued)

(a) Directors' emoluments (Continued)

Name of Director	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking				Total RMB'000
	Fees RMB'000	Salaries RMB'000	Pension cost RMB'000	Estimated value of other benefits RMB'000	
2017					
Executive directors					
— Mr. Zhang Jingzhang	—	800	—	18	818
— Mr. Zhang Jianming (CEO)	—	830	8	26	864
— Mr. Zhang Jianfeng	—	780	8	26	814
— Mr. Zhang Jianguo	—	550	8	26	584
— Ms. Chen Ningning	—	500	8	26	534
	—	3,460	32	122	3,614
Non-executive director					
— Professor Helmut Helmar Franz	—	226	—	—	226
— Mr. Guo Mingguang	—	—	—	—	—
— Mr. Liu Jianbo	—	—	—	—	—
	—	226	—	—	226
Independent non-executive directors					
— Mr. Jin Hailiang	78	—	—	—	78
— Mr. Guo Yonghui	78	—	—	—	78
— Mr. Lou Baijun	78	—	—	—	78
— Dr. Steven Chow	87	—	—	—	87
	321	—	—	—	321
	321	3,686	32	122	4,161

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

38. Benefits and Interests of Directors (Continued)

(a) Directors' emoluments (Continued)

Aggregate emoluments paid to or receivable by directors in respect of their services as directors, whether of the Company or its subsidiary undertaking		Aggregate emoluments paid to or receivable by directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking		Total	Total
2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
318	321	5,050	3,840	5,368	4,161

Mr. Guo Mingguang and Mr. Liu Jianbo have waived the emoluments during the years ended 31 December 2017 and 2018. None of other directors waived any emoluments during the year ended 31 December 2018 (2017: None).

During the year ended 31 December 2018, no emoluments paid or receivable in respect of a person's services as a director (whether of the Company or its subsidiary undertaking) other than those disclosed in above tables, such as discretionary bonuses, housing allowance, or remunerations paid or receivable in respect of accepting office as director incurred in (2017: None), and no emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking incurred (2017: None).

(b) Directors' retirement benefits

During the year ended 31 December 2018, no retirement benefits operated by the Group were paid or made, directly or indirectly, to or receivable by a director in respect of his services as a director or other services in connection with the management of the affairs of the Company or its subsidiaries (2017: None).

(c) Directors' termination benefits

During the year ended 31 December 2018, no payments or benefits in respect of termination of director's services were paid or made, directly or indirectly, to or receivable by a director; nor are any payable (2017: None).

(d) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2018, no consideration was provided to or receivable by third parties for making available director's services (2017: None).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There are no loans, quasi-loans or other dealings in favour of directors, controlled bodies corporate by and connected entities other than those disclosed in Note 35(c) (2017: None).

(f) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2017: None).

Financial Summary

The following table summarizes the consolidated results, assets and liabilities of the Group for the five years ended 31 December:

	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Results					
Revenue	10,851,245	10,186,066	8,098,053	7,336,445	7,560,266
Profit before income tax	2,362,413	2,467,541	1,913,662	1,676,302	1,596,433
Income tax expenses	(446,181)	(462,241)	(362,787)	(312,967)	(291,417)
Profit attributable to shareholders	1,916,232	2,005,300	1,550,890	1,363,335	1,305,016
Assets					
Non-current assets	4,392,657	4,027,292	3,264,794	3,421,849	3,136,099
Current assets	14,399,888	14,266,615	11,835,495	9,475,251	8,574,172
Total assets	18,792,545	18,293,907	15,100,289	12,897,100	11,710,271
Liabilities					
Non-current liabilities	222,600	1,193,273	1,638,859	1,475,551	1,387,269
Current liabilities	6,642,833	6,539,281	4,342,352	3,401,241	3,238,695
Total liabilities	6,865,433	7,732,554	5,981,211	4,876,792	4,625,964
Total equity	11,927,112	10,561,353	9,119,078	8,020,308	7,084,307
Capital and reserves attributable to shareholders of the Company	11,920,526	10,560,853	9,118,468	8,020,308	7,084,307



HAITIAN INTERNATIONAL HOLDING LIMITED
(Incorporated in the Cayman Islands With Limited Liability) Stock Code: 1882

