



南京三寶科技股份有限公司 NANJING SAMPLE TECHNOLOGY CO., LTD.*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
Stock code : 1708

Annual Report 2018



* for identification purpose only

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Corporate Information

EXECUTIVE DIRECTORS

Mr. Sha Min (Chairman)
Mr. Chang Yong
(Vice Chairman)
Mr. Zhu Xiang
(Chief Executive Officer)

NON-EXECUTIVE DIRECTOR

Mr. Ma Jun

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hu Hanhui
Mr. Gao Lihui
Mr. Shum Shing Kei

SUPERVISORS

Mr. Qiu Xiang Yang
Mr. Dai Jian Jun
Mr. Zou Tao

COMPANY SECRETARY

Ms. Wong Lai Yuk

AUDIT COMMITTEE

Mr. Shum Shing Kei (Chairman)
Mr. Hu Hanhui
Mr. Gao Lihui

REMUNERATION COMMITTEE

Mr. Hu Hanhui (Chairman)
Mr. Zhu Xiang
Mr. Shum Shing Kei

NOMINATION COMMITTEE

Mr. Hu Hanhui (Chairman)
Mr. Gao Lihui
Mr. Chang Yong

AUTHORISED REPRESENTATIVES

Mr. Zhu Xiang
Ms. Wong Lai Yuk

AUDITOR

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REGISTERED OFFICE

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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA

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Central, Hong Kong

STOCK CODE

1708

Chairman's Statement



Mr. Sha Min *Chairman*

“

*To all Shareholders:
On behalf of the board of directors (the
“Board”) of Nanjing Sample Technology
Company Limited (the “Company”), I hereby
present the annual report of the Company
(together with its subsidiaries referred
to as the “Group”) for the year ended 31
December 2018 (the “period under review”)
for your review and consideration.*

”

Chairman's Statement

RESULTS

Total operating income of the Group and the profit attributable to shareholders of the parent for the 2018 financial year amounted to RMB1,834,487,601.95 and RMB195,992,114.49 respectively (for the year ended 31 December 2017: total operating income and the profit attributable to shareholders of the parent amounted to RMB1,716,862,749.61 and RMB222,099,125.50, respectively), representing an increase of 6.85% and a decrease of 11.75%, respectively. The increase in total operating income was mainly due to the growth of income from intelligent terminal as compared with the same period last year. The decrease in profit attributable to shareholders of the parent was mainly due to the increase of investment in research and development during the period under review and the investment gain from the disposal of 82.61% equity interest of Jiangsu Cross-border E-Commerce Services Co., Ltd. which was completed by the Group in 2017.

DIVIDEND

During the period under review, the Board proposed to distribute a final dividend for the year ended 31 December 2018 of RMB0.1 per share.

BUSINESS AND OPERATION REVIEW

According to the Group's strategy, the strategic goals of 2018 was to continuously improve products and business form and help customers fulfil their needs through continuous and up-to-date insight of customer demand; focus on the main industrial areas and customer needs, and on the basis of ensuring the growth trend of basic transaction scale, the Group shall make great breakthroughs in the aspects of centralizing on customer needs (focusing), connecting ecological resources (empowering) and building shared ecosystems (taking initiatives) so as to overcome various challenges in the course of development of the Company. Following the above strategic goals and under the leadership of the Board, in 2018, the Company achieved outstanding results in various businesses such as active security intelligent customs clearance integration, data service mode innovation and user satisfaction improvement.

Focusing on core business, empowering customers and continuously creating value

Being considered as the new engine for growth of the global economy, the internet-of-things (IOT) has entered a new era of sharing. Sample Technology has dedicated itself in the industry of internet + internet-of-things for nearly twenty years, keeping abreast of the market and made continuous innovation in technology focusing on clients. In such an ever-changing era, the Group further concentrated its human, financial and material resources on its core business, and continued to promote the pace of its transition to become an intelligent system integration supplier for IOT and big data service provider, and achieved the goals of generating profits and cash and creating value in its core business. During the period under review, the Group worked closely in line with various suppliers, partners and financial institutions to build an ecosystem for jointly empowering customers.

Chairman's Statement

During the period under review, the Group took strengthening its capability in total solutions of city intelligent transportation as its core, continued to consolidate various elements including the data collection terminals for IOT and the intelligent information management platform, so as to construct a public transport service ecosystem based on intelligent city; at the same time, the Group actively promoted the transformation of its core competence from project implementation to capturing industry demand and analyzing big data, and actively extended the application of big data analysis in new business segments such as vehicle operation. By adhering to such customer-oriented principle, the Group conducted in-depth research on traffic model algorithms, further strengthened the understanding of the transportation industry and strived to build the two research and development teams of big data model and software development through independent research and development and external cooperation.

With the continuous opening of China to the outside world, the future free trade pilot area will need reformation of higher quality and higher standard, to improve the level of trade facilitation and promote the development of modern industry via the optimization of clearance process and specific trade forms regulation, while the higher level of open economy also brings stricter requirements on customs clearance efficiency and business environment. During the period under review, the Group strived to provide high quality and all-encompassing comprehensive customs platform supervision services by combining the values of servicing, openness, focusing and adding value for the customs in park control through diversified solutions such as full-chain clearance logistics visualization, warehousing in-depth regulation and finance, so as to effectively solve the critical points and difficulties in the informatization construction of the customs in park control. During the period under review, the Group assisted Nanjing Customs in successfully piloting the smart checkpoint system of the Jinguang Phase 2 works (金關二期工程智能卡口系統) by the General Administration of Customs, and completed the first vehicle operation in the cargo station of Jiangsu Eastern Airlines, which enabled vehicles to quickly pass through checkpoints, significantly shortened clearance time, ensured successful clearance for enterprises during the time of switching the old mode to the new one and speeded up the processing of cargos under regulation. Through years of data accumulation, the Group now provides clients with diversified platform and professional operation efficiency services, and further energizes small and medium sized enterprises and provides technical services such as processing trade, hazardous chemicals logistics regulation at the same time. In the future, the Group will also provide better and more comprehensive industrial chain services centering on customs.

During the period under review, the Group focused on empowering safety prevention systems for special commercial vehicles. The number of online vehicles in the industry regulatory platform for active safety and intelligent prevention and control system in Jiangsu Province, which was undertaken by the Group, exceeded 43,000 with a significant decrease in unsafe driving practices (by nearly 50%), vehicle violations of laws and regulations (by nearly 40%) and direct economic losses (by 80%); The Group formulated a complete service delivery system with the capability of providing financial products design and service for upstream and downstream ecological partners with a focus on empowering intelligent city and intelligent transportation domain through technology; focusing on liquidity management during the economic down cycle, and achieved initial results in the "liquidity defense battle " through joint efforts.

Chairman's Statement

In October 2017, Jiangsu Province began to comprehensively promote the application of active safety and intelligent prevention and control system for "Two Kinds of Buses and One Kind of Vehicle Carrying Dangerous Goods (兩客一危)". In order to ensure the effectiveness of system application, in June 2018, the transportation administration division under the Transportation Department in Jiangsu Province initiated the establishment of the "Industry Regulatory Platform for Active Safety and Intelligent Prevention and Control System for Road Transport Vehicles of Jiangsu Province" (hereafter referred as "Industry Regulatory Platform"). During the period under review, the Group won the bidding for the Industry Regulatory Platform establishment project, and successfully completed the delivery, inspection and acceptance in January 2019. As the first road transport vehicles safety industry regulator platform in China launched by Jiangsu Province, the platform provides effective technical support and decision-making basis for industry regulation precision, and plays an important facilitative role in improving the safety management level of the industry and reducing the occurrence of road transportation accidents. In the following stage, the Group will maintain its position in Jiangsu as it endeavors to promote its years of technology accumulation and successful practice experience acquired in the areas such as IOT, internet-of-vehicles and internet plus to the whole country, and to assist the regulatory authorities in bringing the management of "Two Kinds of Buses and One Kind of Vehicle Carrying Dangerous Goods" to a new level; the Group will contribute in building the "Jiangsu Mode" for vehicle safety by continuously building industry standards and raising industry barriers.

Promoting external exchange and cooperation and further strengthening brand influence

During the period under review, Nanjing City Intelligent Transportation Co., Ltd. (hereinafter referred to as "Intelligent Transportation Co.", a subsidiary of the Company), was honored as the "2017 Top 10 Outstanding Enterprise with the Most Originality Spirit in Intelligent Transportation of China" (2017 中國智能交通最具匠心精神十大優秀企業), Jiangsu Intellitrans Company Limited (a wholly-owned subsidiary of the Company) was honored as the "2017 Top 10 in Commercial Performance of China Highway and Electromechanical Market System Integration"(2017年中國高速公路機電市場系統集成商業績十強). Meanwhile, the application project for the Group's security intelligent lock in the supervision process of customs and the project of customs logistics information supervision system were awarded the Golden Ant Award-Innovative Demonstration Prize and the National Gold Card Project (25 years) Informatization Development Award, respectively.

During the period under review, the Group participated in the quality brand evaluation activity hosted by Nanjing Municipal Bureau of Industrial and Commercial Administration and was honored as one of the Top Ten Outstanding Brands in the Mind of Nanjing Citizens. Obtaining the honor is the result of profound accumulation of the Group in the field of intelligent transportation and intelligent logistics. The Group continued to facilitate the construction of new smart city through basing on the mode of internet plus internet of things, combing its own advantages in technology research and development and data platform, and conducted strategic, forward-looking deployment in the fields including automotive electronics, active safety prevention and AI, and facilitated the sustainable development of the industry. The Group has always been highly emphasizing on the protection of intellectual property rights and the construction of its own brand, adhering to the core values of benefiting others, empowering the platform and striving to forge ahead to become a longlasting brand.

Chairman's Statement

During the period under review, the Group was invited to participate in the first Road Traffic Safety Think Tank Conference of China (中國道路交通安全智庫大會) and signed a strategic cooperation agreement with China Safety Industry Association to set up the Auto Safety Branch of China Safety Industry Association to jointly build the car safety industry base to jointly promote the normative and orderly development of the auto safety industry. During the period under review, the Group, as a representative of the leading enterprises in the customs service industry, was invited to participate in the first International Intelligent Clearance Seminar and Expo in 2018 (2018首屆國際智慧通關研討暨博覽會) with its technology service solution of intelligent logistics ecosystem.

During the period under review, Intelligent Transportation Co., as an outstanding enterprise representative in the intelligent transportation industry, attended the 2018 China • Nanjing Intelligent Public Safety Summit Forum and the Second Intelligent Security Expo (2018中國•南京智慧公共安全高峰論壇暨第二屆智能安防博覽會) together with three major intelligent platform solutions (i.e. the big data operation platform of internet of vehicles, big data operation platform for intelligent parking and big data operation service platform for transportation). Intelligent Transportation Co. focuses on the field of intelligent transportation, obtains the real time transportation information of the city by means of internet of things, big data and cloud computing, including the real time information of person and vehicles, so as to realize data-based transportation management, security control, investigation and crime detection, patrol and prevention, anti-terrorism and handling emergencies and provide support for the city security. In the future, Intelligent Transportation Co. will continue to focus on the field of intelligent transportation, explore better intelligent solutions for city transportation and make city life more convenient and safer.

During the period under review, the Group was invited to various forum activities, including the Eighth Development and Exploration Forum for the Free Trade Area and Special Zone in China (第八屆中國自貿區及特殊區域發展探索論壇), China Wisdom Customs and Port Construction Exhibition 2018 (2018年中國智慧海關與口岸建設展覽會) and the Seventh Seminar on Intelligent Application and Efficient Operation in Special Supervision Areas of China Customs (第七屆中國海關特殊監管區域智慧應用和高效運營專題研討會) sponsored by China Customs Press, to discuss and exchange views on topics including the integration and optimization of customs business, construction of intelligent customs clearance, big data application of customs clearance, and it was proposed that the Group would provide personalized solutions centering on the customs logistics services and provide high quality and full-chain comprehensive customs platform regulatory services.

Chairman's Statement

Prospects

In the 21st century, which is essentially a competition for the power of discourse in the supply chain, China has taken the first step. The “One Belt, One Road” initiative aims to strengthen the connectivity with Eurasian countries through infrastructure construction, establishment of supply chain, trade cooperation, etc. In October 2017, the general office of the State Council issued the Guiding Opinions on Vigorously Advancing the Innovation on and Application of Supply Chains (《關於積極推進供應鏈創新與應用的指導意見》) and clearly pointed out that, by 2020, a batch of new technologies and modes for supply chain development in line with China's national conditions will be developed, and an intelligent supply chain system covering China's major industries will be established. By building new supply chains, China is playing a vital role in the new game involving great powers. Supply chains are the traces of human development and progress. As geopolitical competition is shifting from territorial competition to connectivity competition, which is mainly reflected in the competition for global supply chains, energy markets, industrial production, finance, technology, knowledge and talents, supply chain will replace any superpower or multinational coalition as the anchor of global stability. Supply chain connects the fast-growing mega cities around the world, which will have profound impact on geopolitics, economics, population, environment and social cognition. It can be predicted that in the future, almost all the world's population will be concentrated around the infrastructure corridors and supply chains, both real and virtual. But nowadays, a series of problems arising from globalization, including trade deficit, unemployment and employment crisis, the gap between rich and poor and others should be solved through the reconstruction of the global supply chain.

In the new era, high-quality development is vital to Sample Technology. High-quality development represents that, firstly, development arising from the creation of user value; secondly, development as a result of high compatibility with changes in the real economy. Value creation is crucial to survival and future development. Previously, the access to supply chain market depended on capital and resources. Nowadays, the integration of IOT and mobile internet technology, block chain and big data and the support of cloud computing technology has laid the foundation for taking initiatives in the reform of traditional supply chain by companies engaged in the IOT technology. In the future, we need to set up a main channel for new supply chains and for connecting subsidiaries, business divisions and external collaborative resources to “unite together and seek development”. We shall establish a middle office with high efficiency and truly implement the “client-orientated” concept with high level productivity and service deliverability. A front office is also required to identify customers, attract traffic and find more partners for the Company's high-quality development. In 2019, the Group will focus on its principal business, strengthen its organization and grow together with customers and prepare for the organizational reform under the goal of customer value creation and continuous value creation.

Chairman's Statement

Combining efforts of the whole company to focus on its principal business and core objectives

From 2019 onwards, the core goal of Sample Technology will be to discover valued customers and continue to create value for customers by focusing on new supply chain and organizational reform, while maintaining the stable development of smart city, intelligent logistics and intelligent transportation. The Company shall focus on its core objectives of carrying out the work of operation decision, investment decision, orientation for human resources service and financial service.

In 2019, the top priority of the Group will be the organizational evolution to form a new working mode for all staff to have in-depth understanding of customers, business scenarios and products, to deploy resources from the perspective of market and to form a single-minded developmental mindset with extremely clear strategy, extremely simple scenario, extremely effective product and extremely open organization. Meanwhile, the Group shall proactively facilitate the construction of the middle office, starting with the linking up of market and ecology to eventually serving customers. The Company is required to constantly invest in human and financial resources for the middle office to build a new type of driving force for the development from system-driven to data-driven. The Group shall push forward for obtaining the driving force with diversity, to invent and find new products and to create and share our values. Through such driving force, the Group can provide customers with standardized products, personalized services, exchange generic technologies and market resources with its ecological partners, and delivers system support and real time performance to front-line staff. With such mechanism, the Group will connect with customers at the system-level and change from a weak connection mode of single customer, single product in the past to an overall strong connection mode of core customers and core products.

Strengthening organization and sticking to the customer-oriented organizational reform

In 2019, the Group will break the traditional organizational structure of division and function, build a customer-oriented organizational structure and set up a big market division to achieve the goal of income, net profit and GMV; set up an extended product division to form a product matrix open to customers and establish the basic technical framework and interest exchange system to support product upgrading and iteration. The Group will also reconstruct the protection function of finance and human resources, strengthen the asset management capability for achieving its core objectives.

In 2019, the Group will focus on its core business to implement organizational evolution, allocate sufficient resources to its core business, utilizing the required energy, attention, manpower and financial resources to its core business and develop the main business with the spirit of craftsmanship. The Group shall focus on its core target market with firm positioning of Sample Technology in the field of the core business through market practice rather than being satisfied with what is broadly defined by the industry, keeping on the work persistently and using market and customers as its evaluation standard.

Chairman's Statement

Connecting with customers via effective channels, system driven and valued service to achieve growth together

In 2019, the Group will comprehensively improve the capacity of resource, structure and experience and form the iron triangle mode of effective connection, system driven and valued service through transforming from business contact into system connection and deeply connecting and serving valued customers to eventually achieving growth together with the industry, customers and staff.

In 2019, the Group will focus on customers to implement organizational evolution and examine the value created by the Company for its customers. In particular, it shall pay attention to the evaluation from core customers of the value created by the Company to measure the sustainability of income and profit. The Group will base on feedbacks of customers to break the internal and external boundaries, retain and stimulate customers with the capacity of the entire company.

On behalf of Sample Technology, I would like to extend my heart-felt gratitude to our customers, suppliers and shareholders for their unfailing support and faith. I will lead every staff member to continue to innovate development with dedicated efforts to enable the Group to achieve another pinnacle of performance.

By Order of the Board

Sha Min

Chairman

Nanjing, China

29 March 2019

Management Discussion and Analysis

FINANCIAL REVIEW

Total Operating Income

Total operating income of the Group for the year ended 31 December 2018 was approximately RMB1,834,487,601.95, representing an increase of approximately 6.85% over last year. The increase was mainly due to the growth of income from the intelligent terminal sales business as compared to that of last year.

Gross Profit

Gross profit margin of the Group for the year ended 31 December 2018 was approximately 28.13%, representing an increase of approximately 1.22% over last year.

Selling and Distribution Costs

Selling and distribution costs of the Group for the year ended 31 December 2018 was approximately RMB41,886,685.67, representing a decrease of approximately 4.78% over last year. The decrease was mainly attributable to the efforts devoted in self-media promotion which reduced the business promotion expenses to a certain extent.

Administrative Expenses

Administrative expenses of the Group for the year ended 31 December 2018 was approximately RMB63,670,452.74, representing an increase of approximately 11.32% over last year. The increase was mainly attributable to the increase of the remuneration for the relevant management staff during the Review Period.

Net Profit Attributable to Shareholders of the Parent Company

For the year ended 31 December 2018, the Group recorded a net profit attributable to the shareholders of the parent company of approximately RMB195,992,114.49, representing a decrease of 11.75% over last year. The decrease was mainly attributable to the increase in research and development investment during the Review Period and there was an investment income from the disposal of 82.61% equity interest in Jiangsu Cross-border E-Commerce Services Co., Ltd. in 2017.

Management Discussion and Analysis

Other Current Assets

As at 31 December 2018, the Group's other current assets were RMB31,831,942.89, representing a decrease of 20.95% as compared with that of the same period last year. The decrease was mainly due to the decrease in the deductible and pending for verification input tax of the Company for the Review Period as compared with that of the same period last year.

Other Non-current Assets

As at 31 December 2018, the Group's other non-current assets was significantly increased from that of last year to RMB74,825,893.61. The increase was mainly due to the Company's prepayment of RMB62,900,000 for equity investments in Hong Kang Life Insurance Co., Ltd..

Available-for-Sale Financial Assets

As at 31 December 2018, the Group's available-for-sale financial assets amounted to zero, representing a decrease of 100% as compared with the same period of last year. The main reason was that the Company reclassified the investments in available-for-sale financial assets into other equity instrument investments and other non-current financial assets in accordance with the new accounting standards.

FINANCIAL RESOURCES AND LIQUIDITY

For the year ended 31 December 2018, the shareholders' equity of the Group was approximately RMB2,080,991,757.97. Current assets were approximately RMB3,656,893,115.15, comprising cash and bank balances of approximately RMB532,958,036.92. Non-current liabilities were approximately RMB518,367,307.94. Current liabilities were approximately RMB2,212,332,553.41, mainly comprising accounts payable and other payables and advances from customers, short-term borrowings and tax payable. As at 31 December 2018, net assets per share of the Group was approximately RMB2.53 (31 December 2017: RMB6.16). The short-term borrowings of the Group were RMB639,300,000.00.

PLEDGE OF ASSETS

As at 31 December 2018, bank deposits of RMB36,413,835.27 were pledged to the bank for projects in progress (2017: RMB37,035,398.72).

GEARING RATIO

For the year ended 31 December 2018, gearing ratio (being bank loan and long-term loan less cash and cash equivalents divided by equity) of the Group was approximately 0.38 (2017: zero). This was mainly attributable to the increase of financing for market expansion by the Group.

Management Discussion and Analysis

FOREIGN CURRENCY EXPOSURE

Since the Group mainly conducts its business in the PRC and most of the sales and purchases of the Group were denominated in RMB, the Group's operating results were not exposed to any foreign currency risk.

Summary of key financial ratios

The following table sets forth the key financial ratios of the Group as of 31 December:

Key financial ratios	2018 ⁽⁷⁾	2017 ⁽⁸⁾
Net profit ratio (%) ⁽¹⁾	10.61%	12.81%
Return on net assets ratio (%) ⁽²⁾	9.26%	10.42%
Return on equity ratio (%) ⁽³⁾	9.26%	10.42%
Debt ratio (%) ⁽⁴⁾	56.75%	43.45%
Current ratio ⁽⁵⁾	1.65	2.02
Quick ratio ⁽⁶⁾	1.11	1.38

Note:

- (1) Net profit ratio refers to net profit divided by principle operating income
- (2) Return on net assets ratio refers to the net profit divided by net assets
- (3) Return on equity ratio refers to the net profit divided by shareholders' equity
- (4) Debt ratio refers to the total liabilities divided by total assets
- (5) Current ratio refers to total current assets divided by total current liabilities
- (6) Quick ratio refers to the formula for 2017 is the ratio of current assets less inventory divided by current liabilities. To maintain the same calibre, the formula for 2018 is the ratio of current assets less inventory and contract assets divided by current liabilities
- (7) The 2018 financial ratio data is derived from the data of the audited consolidated financial statements as of 31 December 2018
- (8) The 2017 financial ratio data is derived from the data of the audited consolidated financial statements as of 31 December 2017

Net profit ratio

The Group's net profit margin decreased from 12.81% in the same period of the previous year to 10.61%. The decrease was mainly attributable to the increase in research and development investment during the reporting period and there was an investment income from the disposal of 82.61% equity interest in Jiangsu Cross-border E-Commerce Service Co., Ltd. in 2017.

Return on net assets ratio

The Group's return on net assets decreased from 10.42% in the same period of the previous year to 9.26% which was mainly due to the decrease in profits during the reporting period.

Management Discussion and Analysis

Return on equity ratio

The Group's return on equity decreased from 10.42% in the same period of last year to 9.26% which was mainly due to the decrease in profits during the reporting period.

Debt ratio

The Group's debt ratio increased from 43.45% of last year to 56.75% which was due to the increase in interest-bearing debts at the end of the reporting period.

Current ratio

The Group's current ratio decreased from 2.02 of the same period last year to 1.65 which was mainly due to the extent of the increase in current liabilities during the reporting period was greater than the increase in current assets.

Quick ratio

The Group's quick ratio decreased from 1.38 of the same period last year to 1.11. The reason for the change in the quick ratio was same as the reason for the decrease in current ratio as abovementioned.

SUBSTANTIAL ACQUISITION AND DISPOSAL AND SIGNIFICANT INVESTMENT

On 4 April 2018, the Company entered into a Limited Partnership Agreement, pursuant to which, the Company, as a limited partner, has agreed to make a capital contribution to the limited partnership of RMB50,000,000 (the "Investment"). As at the date of this report, the limited partnership has been registered in the Nanjing Administration for Market Regulation, but the partners have yet to make their contributions. Details of the Investment can be referred to the Company's announcement dated 4 April 2018.

On 19 April 2018, the Company entered into the Share Subscription Agreement with Hong Kang Life Insurance Co., Ltd. ("Hong Kang Life"), pursuant to which the Company agreed to subscribe for not more than 34,000,000 shares (the "Subscription") in Hong Kang Life at the price of RMB1.85 per share, for a total consideration of not more than RMB62,900,000. As at the date of this report, the Subscription is under the process of approval by relevant regulatory authorities (including CIRC). Details of the Subscription can be referred to the Company's announcement dated 19 April 2018.

Save as disclosed above, the Group did not have any other material acquisition and disposal investment during the Review Period.

CAPITAL COMMITMENT

As at 31 December 2018, the Group did not have any material capital commitment.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any material contingent liabilities.

Management Discussion and Analysis

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, total employees' remuneration of the Group was approximately RMB71,451,611.05 (2017: RMB63,012,940.37) and the number of employees was 384 (2017: 335). The Group remunerated its staffs based on individual performance, educational background and experience and with reference to market price. The Group would grant discretionary bonus to the staffs based on individual performance as recognition of their contribution. Other benefits included contributions to the retirement scheme, medical scheme, unemployment insurance and housing allowances.

BUSINESS REVIEW

Business development

In the expressway intelligent transportation business domain, the Group continued to consolidate and improve its existing business by refining the management of project implementation in all aspects and developing new projects. At the same time, it developed new business projects in all aspects by active participation in bidding major projects, proactive commencement of strategic cooperation within the industry, expanded the clientele of the industry, secured both the increases in business revenue and client satisfaction of the sector. During the period under review, the Group successfully signed project contracts such as the mechanical and electrical engineering project of the Wenchuan-Maerkang Expressway in Sichuan, modification of the whole-vehicle weight measuring equipment of the G15 Shenhai Expressway (Wenzhou section), the modification and extension of Hangzhou-Nanjing Expressway (Zhejiang section). The depth and width of our market resources in the expressway and intelligent transport sector have been enhanced significantly. During the period under review, the Group actively implemented various major projects, actively explored business opportunities to construct intelligent service areas along expressways and achieved breakthroughs in project management. We aimed at constantly enhancing our data service capability, actively exploring the application of big data analysis related to transportation in new areas and extending the intelligent transportation concept to every business segment.

In the city intelligent transport business domain, the Group strengthened its capability to fulfil its core mission of offering comprehensive solutions of city intelligent transportation. To this end, it continued to integrate elements such as data collection terminals for internet-of-things (IOT) and intelligent information management platforms, creating the basis for ecological transport services in the construction of intelligent cities. During the period under review, the Group actively advanced the implementation of projects such as the reconstruction and extension project and mechanical and electrical installation project of the north section of Xuyi of Line G235 and Raocheng Section of Xuyi of 331 Provincial Highway, and the electromechanical integration project of the second stage of the project of Tianfu New District Meishan Double Creation Center (Meishan Huawei Big Data Center). To support its user demand-oriented scheme, the Group conducted in-depth research on traffic model algorithms via both self-development and external cooperation. By forming two teams dedicated to the big data model and software development, the Group further enhanced its understanding of the transportation sector. Meanwhile, the Group endeavored to shift its core competence from project implementation to an ability to seize on industry demand, analyze big data, and actively extend the application of big data analysis to new business segments such as commercial vehicle.

Management Discussion and Analysis

In the customs logistic business domain, the Group undertook the logistic monitoring project for the delivery of imported soybean futures to provide green channel for the delivery of imported soybean futures. We use current mainstream advanced IoT technologies to track the data of the entire circulation process of imported soybean in China, draw up the physical path of the entire process and abnormal alarms for the circulation process. This enabled us to realise online automatic monitoring of the circulation of imported soybean, enhance monitoring efficiency, promote the activity and trading of soybean futures contract and timely and comprehensively respond to regulatory requirements of State authorities. During the period under review, the Group has put the innovative customs logistics project the “Mobile Logistics 2.0”, an intelligent logistics system, into operation in the Nanjing Comprehensive Bonded Zone (Longtan Area), which solved congestion at the customs checkpoint, further improved logistics efficiency, enabled non-stop gate passing of vehicles at customs checkpoint during the whole logistics process and effectively improved the problem of vehicle accumulation at the customs checkpoint. During the period under review, the Group successfully completed the informatization of the Yingkou Comprehensive Bonded Zone PPP project, accessory facilities construction project for the opening of the port area at the harbour of Binzhou port, equipment purchase and installation for the information system of Xinyi bonded logistics center, equipment purchase and installation for Xuzhou Comprehensive Bonded Zone intelligent customs checkpoint system, and the construction of the universal customs checkpoint management platform of the Zhengzhou airport and tanker truck logistics monitoring system of Hongtu Logistics. At the same time, the Group developed and researched on software related to customs management system for enterprises’ books of account. The system speeds up the timeliness of customs clearing and logistics for processing, trading and import and export from other regions and ensures data accuracy and greatly enhances the efficiency for verification.

Research and development

During the period under review, the Group actively participated in the work of the national internet-of-things standard working group led by the China Electronics Standardization Institute of the Ministry of Industry and Information Technology. The Group led the formulation of a national standard “Internet-of-things Information Sharing Exchange Part 4: Data Interface” which is expected to be published officially in 2019. The three national standards the Group actively participated in the past several years, i.e. “Internet-of-things Information Sharing Exchange Part 1: Overall Structure”, “Internet-of-things Information Sharing Exchange Part 2: Universal Technical Requirements” and “Internet-of-things for Intelligent City Application Guide” were approved in 2018 for official publication which have been implemented on 1 January 2019, 1 January 2019 and will be implemented on 1 May 2019 respectively.

During the period under review, one provincial modern service industry (software) project and three municipal technology and emerging industry projects undertaken by the Group have been inspected and passed. The Group also actively promoted, built and implemented government projects including NDRC’s “Internet +”, Provincial Economic & Information Commission’s information and technology industrial transformation project and key e-commerce development project, the Provincial Intellectual Property Office’s strategic project for corporate intellectual property, and the Provincial high-value patent cultivation project.

Management Discussion and Analysis

During the period under review, the Group received the Second “Pan Gu Award” for outstanding innovative achievement of the China electronic information industry from China Information Technology Industry Federation, Information Development Award of State Gold Card Project (25 years) and 2018 Gold Ant Award (Innovation Exemplary Award) of State Gold Card Project from the State Gold Card Office. In addition, Mr. Zhu Xiang, Chief Executive Officer of the Company, was elected as 2018 Jiangsu Province Science and Technology Entrepreneur by the Organization Department of the CPC Jiangsu Provincial Committee. During the period under review, the Group attached great importance to the application and protection of intellectual property rights, filed new applications for 16 invention patents and 56 software copyrights, conducted 6 software products assessments, and was granted 1 invention patent and 1 utility model patent.

BUSINESS OUTLOOK

Future business development plan

In 2019, the Group will continue to focus on two core industries of intelligent transportation and intelligent logistics, centralize the resources of the Group, use information technologies such as the internet-of-things and “internet +” as its core to build the ecological system of an intelligent city, and promote innovation of the business model of the Company. Regarding the intelligent transportation domain, the Group will continue to consolidate the sourcing of goods over the internet-of-things and the “internet +” informationalization of management platform, and on top of which, to provide data service based on big data related to transportation. It will unceasingly improve municipal and communal service product lines and create total solutions. Regarding the intelligent logistics domain, the Group will continue to consolidate its own strength and increase market share, further increase its market share of the customs logistics business and lift the degree of satisfaction of customers by providing technical and resources support for share-participated companies and partners in an effort of further improving and consolidating the intelligent logistics ecology of Sample Technology.

At the end of 2018, the Group published the Sample Tech 2019 Development Strategy which stipulates to transform China’s conventional supply chain model with the latest technological means by giving full play to the Group’s technological advantages in the internet-of-things, internet +, big data and cloud computing, and the rich experience in implementation, operation and maintenance accumulated in previous projects. For the new strategy, it is decided that the Company will become a service provider in the new type of supply chain system of China with significant influence and a most important in-depth service provider for certain key commodities and specification. Under the layout of the new strategy, the Group will build the new intelligent supply chain platform for the era of the internet of everything, linking the supply-side and the demand-side, combining business flow, material flow, information flow and fund flow for collaboration and cooperation and enhancing the effectiveness of industrial supply chain with technology.

Management Discussion and Analysis

In 2019, the Group will adhere to the philosophy of “connection, development, sharing”, devote to technological innovation and promote industrial supply chain efficiency driven by technology, data and scenarios. Based on the “in custom, in warehouse, in transit, in factory, in use, in management” (“six ins” in brief) of goods to guide IoT scenario modification, enhance management effectiveness and obtain data so as to form linkages between the “six ins” with the corresponding scenarios and obtain dynamic and static data based on the scenarios. Dynamic and static data will also be generated through internet settlement based on transactions. With the support of core technologies such as big data and blockchain, new intelligent supply chain with closed loop flow, closed loop business, closed loop logistics, closed loop payment transaction and closed loop big data will be created by promoting participants of supply chains to become members of the chain alliances. Through the new intelligent supply chain platform of Sample Technology, users may select technological services with higher security, productivity, transparency of monitoring and convenience of trade and easier access of loan.

In 2019, the Group will collaborate with professional teams comprising top experts from the logistics, data, financial and risk management sectors to provide services across the entire supply chain such as customized and integrated digital intelligent production, intelligent warehousing, intelligent logistics, active security, visible monitoring and intelligent customs clearing according to users’ requirement. In the future, the Group intends to join hands with partners in the supply chain ecosystem to change the way of survival of small and medium enterprises and change the existing lagging response of the manufacturing industry through decentralized, customized and convenient means; and by providing diversified, personalized and customized services to users to help them maximise time efficiency and lower costs, which aims at fundamental strengthening of the industries and infrastructures and hastening the arrival of the fourth industrial revolution.

Research and Development strategies

In 2019, the Group will continue to rely on the National Radio Frequency Identification Device (RFID) System Engineering and Technology Research Center, carry out prospective and industrial common technology R&D related to the core industries, strengthen cooperation with relevant companies, universities and colleges and R&D institutes, consolidate the R&D strengths of all parties, focus on the needs for launching the “new supply chain” strategy of the Company, conduct R&D of new technologies and products; make planning on the intelligent city ecosystem of the Company, make good use of the industry status and influences of the national engineering centre, expand resource cooperation in the industries or related domains, and through cooperation with external parties, establish complementary advantages by uniting partners of the ecosystem; enhance the competitiveness of the products and services of the Company, raise the barrier of competition of the industries and protect the development strategies of the internet-of-things industry of the Company through core technologies, accumulation of intellectual property rights and upgrade and iteration of core products.

Biographical Details of Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. Sha Min (沙敏), aged 54, a senior engineer and senior economist, received postgraduate education, is an executive Director and Chairman of the Company. He is responsible for devising the Group's overall strategies and policies. Mr. Sha obtained a master's degree in engineering from Southeast University in 1990. He joined the Company in December 1997 and was first appointed as an executive Director and Chairman in December 1999. He is currently the president of China RFID Association, a committee member of the 12th Chinese People's Political Consultative Conference of Jiangsu Province, vice-chairman of Federation of Industry and Commerce of Jiangsu Province, chairman of ITS Association of Nanjing City, vice-chairman of Federation of Industry and Commerce of Nanjing, vice president of Nanjing Software Industry Association, vice-chairman of Nanjing Enterprises Association, president of Jiangsu Badminton Association and President of Nanjing Alumni Association of Southeast University etc. Mr. Sha is currently a non-executive director of Jiangsu NandaSoft Technology Company Limited (a company listed on the Hong Kong Stock Exchange, stock code: 8045). Mr. Sha currently holds directorship in Nanjing Wu Lian Wang Yan Jiu Yuan Development Co., Ltd. (南京物聯網研究院發展有限公司), the subsidiary of the Company.

Mr. Chang Yong (常勇), aged 52, a senior economist, received postgraduate education, is an executive Director, vice chairman and general manager, a member of nomination committee of the Company. He is responsible for implementing the Group's strategies and business plans. He obtained a master's degree in computer application studies from Harbin Institute of Technology in March 1990. Mr. Chang worked for the computer centre of the Nanjing Bureau of Finance from July 1990 to September 1992. He worked as a manager of Nanjing Kentucky Fried Chicken Company Limited from September 1992 to March 1993. Mr. Chang became vice general manager of Sample Group in June 1993 and was mainly responsible for the expansion, operation and management of Sample Group's business. Mr. Chang joined the Company and was first appointed as an executive director and president of the Company in December 1997, then became the vice-president of the Company in May 2014. Mr. Chang also currently holds the position as the chairman of the board of directors of Jiangsu Intellitrans Company Limited and Nanjing Wu Lian Wang Yan Jiu Yuan Development Co., Ltd. respectively, both of which are the subsidiaries of the Company, and holds directorships in Jiangsu Ruifu Intelligent Tech. Co., Limited and Nanjing City Intelligent Transportation Co., Ltd..

Mr. Zhu Xiang (朱翔), aged 42, a senior economist and a member of China Democratic League, received postgraduate education, is an executive Director and president and a member of the remuneration committee of the Company. He obtained a MBA degree from Nanjing University in June 2006. He joined Hainan Airlines Company Limited as assistant to secretary of the board of directors from July 2000 to February 2002. He worked for strategic development department of 江蘇金盛投資置業集團 as head of investment and assistant to manager from March 2002 to October 2002. He joined the Company in March 2003 and was appointed as executive Director and president in May 2014, and successively served as manager of the Company's investment department, secretary of the board of directors, vice president and president. Mr. Zhu was awarded the honorable title of "Tech Entrepreneur of Jiangsu Province" in 2018. Mr. Zhu also currently holds the position as the chairman of the board of directors of Nanjing City Intelligent Transportation Co., Ltd. (南京城市智能交通股份有限公司) and Nanjing Sample Chain Information Technology Co., Ltd. (南京三寶鏈式數據技術有限公司) respectively, both of which are the subsidiaries of the Company, and holds directorships in Jiangsu Intellitrans Company Ltd., Sample Technology (H.K.) Co., Ltd., Sun Supreme Enterprises Limited and Federal International Enterprise Limited, as well as serves as a director and general manager of Nanjing Wu Lian Wang Yan Jiu Yuan Development Co., Ltd..

Biographical Details of Directors, Supervisors and Senior Management

NON-EXECUTIVE DIRECTOR

Mr. Ma Jun (馬俊), aged 54, received university education, is a non-executive Director of the Company. He graduated from Nanjing University in economic management in 1995. He serves as the chairman and general manager of 南京福申房地產開發有限責任公司 from February 1998 till present. Mr. Ma was appointed as nonexecutive Director of the Company in May 2010.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Shum Shing Kei (沈成基), aged 48, holds a Master Degree, is an independent non-executive Director, the chairman of the audit committee and a member of the remuneration committee of the Company. Mr. Shum graduated from the Hong Kong Polytechnic University and majored in accountancy. He obtained a master degree in financial management from the University of London, the United Kingdom. He is also a fellow member of the Hong Kong Institute of Certified Public Accountants. From August 1993 to February 2002, he worked at Ernst & Young and mainly responsible for auditing. He was Group Chief Financial Officer and Company Secretary of China Data Broadcasting Holdings Limited from March 2002 to July 2005 and qualified accountant consultant to Great Wall Motor Company Limited from September 2004 to September 2008. Mr. Shum is currently a practicing partner of a certified public accountant firm in Hong Kong, mainly providing business advisory service and auditing service. Mr. Shum was appointed as independent non-executive Director of the Company in May 2011. Mr. Shum is currently the independent non-executive director of Zhejiang Shibao Company Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1057 and listed on Shenzhen Stock Exchange, stock code: 002703), the independent non-executive director of China Futex Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 8506), the chief financial officer and company secretary of Asia Cassava Resources Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 0841), the company secretary of Yusei Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 0096), the company secretary of Jiangsu NandaSoft Technology Company Limited (a company listed on the Hong Kong Stock Exchange, stock code: 8045) and the company secretary of Chengdu PUTIAN Telecommunications Cable Company Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1202).

Mr. Hu Hanhui (胡漢輝), aged 63, professor and instructor of doctorate students, is an independent non-executive Director, the chairman of the remuneration committee and the nomination committee and a member of the audit committee of the Company. He had served as the Associate Head of Department of Management Science and Engineering in Nanjing Institute of Technology, the Deputy Director of the Technology Research Institution and the president of the University's Union in Southeast University, a part-time researcher of the Humanities and Social Science Research Institution of Education Department in Dongbei University of Finance and Economics, a member of Professional Committee in China Development Bank and a member of the "Expert Group of Basic Requirements on Entrepreneurship Education in High Schools" in Ministry of Education. Currently, Mr. Hu has served as the Director of the Research Institution of Entrepreneur Group Economics and Industrial Organization of School of Economics and Management in Southeast University and an independent director of Nanjing Textiles Import & Export Corp., Ltd. (listed on the Shanghai Stock Exchange, stock code: 600250). Mr. Hu was appointed as an independent non-executive Director of the Company in May 2016.

Biographical Details of Directors, Supervisors and Senior Management

Mr. Gao Lihui (高立輝), aged 55, received doctoral education, is a senior economist and an independent non-executive Director and a member of the audit committee and the nomination committee of the Company. Mr. Gao holds a diploma from The Business School of Yangzhou University in the PRC, a master degree in Business Administration from The School of Business and Economics of Maastricht University in the Netherlands and a doctoral degree in management from The School of Business of Nanjing University. Mr. Gao worked at Jiangsu Branch of Bank of China from 1991 to 1992 and was mainly responsible for the management of foreign exchange, finance and Japanese Yen sub-ledgers. He served as General Ledger Accountant of Jiangsu Branch of Bank of China from 1992 to 1995 and was responsible for the management of foreign exchange and finance. In addition, Mr. Gao had been appointed as the deputy manager of the Gulou branch of Bank of Nanjing, the manager of Danfeng Street branch of Bank of Nanjing and the general manager of the Business department of HengFeng Bank. Mr. Gao is currently the chairman of Nanjing Ju Bian Asset Management Limited Company. Mr. Gao was appointed as an independent non-executive Director of the Company in May 2017.

SUPERVISORS

Mr. Qiu Xiang Yang (仇向洋), aged 63, received doctoral education, is a supervisor of the Company. Mr. Qiu was an EMBA graduate. He is now a professor of the economics and management college of Southeast University. He is also the president of the Institute for Urban Development in Jiangsu and vice president of the Nanjing Entrepreneur Club. From February 1991 to June 2004, he was appointed as deputy director and director of the economics and management college of Southeast University. In 1992, he was exceptionally promoted to Professor, and received the State's Sponsorship for Special Contribution. He is a veteran in the teaching and research of economics and management affairs. He has in-depth knowledge in corporate strategic management and industrial development. He was first appointed as a supervisor of the Company in August 2007. He is currently an independent director of Zhong Dian Environmental Protection Limited* (a company listed on the Shenzhen Stock Exchange, stock code: 300172), Neoglory Prosperity Inc.* (a company listed on the Shenzhen Stock Exchange, stock code: 002147), Tianjin Tai Da Limited* (a company listed on the Shenzhen Stock Exchange, stock Code: 000652) and Nanjing Kangni Mechanical & Electrical Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code 603111).

Mr. Dai Jian Jun (戴建軍), aged 49, a practising lawyer, is a supervisor of the Company. He was educated in Jiangsu Police Institute from September 1988 to July 1991. He worked for Southeast University in 1991. Mr. Dai was qualified as a lawyer in PRC in 1996. Mr. Dai has been a practicing lawyer of Jiangsu Zhi Bang Law Firm since 1996. He was appointed as a supervisor of the Company in August 2003. Mr. Dai is currently an independent director of Nanjing Canatal Data-Centre Environmental Tech. Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 603912) and an executive director of Nanjing Heyuxin Real Estate Co., Ltd.

Biographical Details of Directors, Supervisors and Senior Management

Mr. Zou Tao (鄒濤), aged 49, received doctoral education and is a senior engineer. Mr. Zou graduated from the Xidian University in 1996 with a Master degree in Computer Device and Equipment Professional and graduated from the Nanjing University in 1999 with a Doctor degree in Computer Application Professional. He worked as the head of the development department of Fujitsu Nanda Software Technology, Co., Ltd from July 1999 to August 2003. In 2003, he departed to Japan and worked as project officer in the SOFTWARE Corporation in Japan. He joined Research Institution of the Company in 2011, and acted as Associate Dean of the Research Institution and deputy director of the National Radio Frequency Identification Device (RFID) System Engineering and Technology Research Center. He is currently a member of the state IOT basic standard working group and a member of Jiangsu software engineering standardization technical committee. Mr. Zou was appointed as a supervisor of the Company in May 2016.

SENIOR MANAGEMENT

Ms. Miao Yun (繆雲), aged 49, received postgraduate education, is a senior accountant, a non-practicing member of China Certified Public Accountant Association, the vice president and chief financial officer of the Company. She graduated from Nanjing University with MBA postgraduate in July 2007. She became a nonpracticing member of China Certified Public Accountant Association in 2002. Ms. Miao worked in the financial department of Jinling Petrochemical Alkylbenzene Plant from July 1992 to September 1993, served as financial manager of Jintung Petrochemical Corporation Ltd. from October 1993 to February 2005 and chief financial officer of Jiangsu Sidiw Corporation Group from March 2005 to July 2013. Ms. Miao has served as the chief financial officer of the Company since May 2014 and vice president of the Company since March 2017.

Ms. Yu Hui (于暉), aged 42, holds a bachelor degree and is studying the EMBA of Shanghai Advanced Finance Institute. She is the vice president of the Company. Ms. Yu served in the Chinese People's Liberation Army from 1994 to 2003. From 2003 to 2012, she worked for the Enterprise Division of Nanjing Industry and Commerce Bureau. She joined the company in 2012 as General Manager of the Strategic Promotion Center. Ms. Yu has served as Vice President of the Company since March 2017.

Mr. Xie Jinliang (解金亮), aged 42, received postgraduate master education, acted as secretary to the board of directors of the Company. Mr. Xie graduated from the Sino-Dutch International Business Center of Nanjing University in 2018 and was an EMBA graduate. From March 2002 to April 2007, he worked for Qingdao Technology Property Right Exchange, and has served successively as project manager, department manager and assistant president. From May 2007 to January 2013, he worked for Jiangsu Kanion Pharmaceutical Co., Ltd, and has served successively as investment consultant, manager of the securities department and representative of securities affairs. He joined the Company in February 2013 and successively served as investment manager, general manager of the securities department and secretary to the board of directors. Mr. Xie has served as the secretary to the board of directors of the Company since May 2014.

Report of the Directors

The Directors present the annual report and audited financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the provision of visual identification and RFID technologies based full solutions to intelligent transportation, customs logistics and other application areas.

BUSINESS REVIEW

A review of the business of the Group for the year ended 31 December 2018 and a discussion on the Group's future business development are provided respectively in the "Chairman's Statement" on pages 3 to 10 and "Management Discussion and Analysis" on pages 11 to 18. An analysis of the Group's performance during the year ended 31 December 2018 using financial key performance indicators is provided in the "Five-Year Financial Summary" on page 232. In addition, the financial risk management of the Group can be referred in note VIII to the financial statements on pages 202 to 206.

Key risks and uncertainties affecting the Company

In recent years, the continuous and steady growth in the macro economy and fixed asset investment in China has provided a favourable environment for the development of the IOT industry. As the downstream customers of the Company mainly concentrate in industries such as road and transportation, custom logistics and city construction, the Company's operating results are more closely related to the State's policy orientation for investment in such sectors. During the period under review, government's support for the informatization and intelligent development of the Company's downstream industries was strong, and the Group's results grew steadily. In the future, if there is a sustaining slowdown in the growth of the macro economy and fixed asset investment in China or the government's policy orientation changes, investment in the informatization and intelligent development of the downstream industries may decrease which will have an adverse effect on the Company's results. Therefore, the Group faces the risks of a slowdown in the growth of the macro economy and fixed asset investment and change in industry policy of China. In addition, the Company is also subject to the risk of significant change in customers, risk in technology R&D, management risk caused by rapid expansion, market competition risk, etc.

In view of the above risks, while fully capitalising on the current favourable policy environment, the Group will closely follow the policy orientation and actively develop new business in line with the policy directions; continue to emphasize on and actively drive market development on the basis of establishing long-term friendly cooperation relationship with key customers; continue to strengthen investment in technology R&D, reinforce protection and daily management of its core technologies, strictly implement the confidentiality system for its technology, and enhance the incentive system for R&D; further improve and strictly implement various internal control systems, and attach importance to the introduction and nurturing of outstanding management talents; and consolidate and fully leverage on its advantages to increase the revenue and market share of its core business. Through such measures, the Company aims to mitigate the impact of the above risks.

Report of the Directors

COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognizes the importance of compliance with legal and regulatory requirements and the risks of violating relevant regulations. The Group has allocated system and human resources to ensure continuous compliance with laws, rules and regulations, and maintains a good working relationship with regulatory authorities through effective communication. In addition, relevant employees and operating units will also pay attention to any changes in applicable laws, rules and regulations from time to time. In order to protect the intellectual property rights of the Group, the Group has registered its domain name and has registered or applied for trademarks, patents, software copyrights in various categories in China and took all appropriate actions to safeguard its intellectual property rights. During the period under review, the board of directors is not aware of any incident of non-compliance of relevant laws and regulations that had a material impact on the company.

MAJOR RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group recognises that employee is one of the its most valued assets. The Group aims at maintaining a caring environment for its employees and values their personal development. The Group provides a harmonious and safe workplace, promotes diversity in its employees, and provides competitive remuneration and benefits and career development opportunities based on their merits and performance. The Group also puts ongoing efforts to provide adequate trainings and development resources to the employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, to improve their performance and self-fulfilment in their positions.

The Group maintains good relationship with its customers and suppliers. The Group enhances the relationship by continuous interaction with customers to gain insight on the changing market demand so as to provide customers with quality services and product experience. The Group also maintains constant communication with its suppliers to actively and effectively strengthen the working relationship, which helps ensure their timely delivery according to specification, and in turn, ensure the stability of the Group's business.

RESULTS AND APPROPRIATIONS

The results and financial position of the Group for the year ended 31 December 2018 are set out on pages 50 to 231 of this annual report.

The Board proposed to distribute a final dividend of RMB0.1 per share (2017: RMB0.25 per share) for the year ended 31 December 2018.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in the Note V(XIV) to the financial statements.

INVESTMENT PROPERTY

The company owns an office park at No. 10 Maqun Avenue, Qixia District, Nanjing City, the People's Republic of China. The area of the land is approximately 118 mu. on which it has office buildings with floor area of approximately 39,000 square meters, of which about 30,500 square meters belongs to investment property for rental purpose. The remaining part is self-used by the Company.

Report of the Directors

DIRECTORS AND SUPERVISORS

The Directors and Supervisors during the year and up to the date of this annual report were:

Executive Directors

Mr. Sha Min (*Chairman*)

Mr. Chang Yong (*Vice Chairman*)

Mr. Zhu Xiang (*Chief Executive Officer*)

Non-executive Director

Mr. Ma Jun

Independent Non-executive Directors

Mr. Shum Shing Kei

Mr. Hu Hanhui

Mr. Gao Lihui

Supervisors

Mr. Qiu Xiang Yang

Mr. Dai Jian Jun

Mr. Zou Tao

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors (including executive Directors, non-executive Directors and independent non-executive Directors) and Supervisors has entered into a service contract with the Company. The service contracts were expired on 31 December 2018 and the further renewal of a term of 3 years shall be subject to the shareholders' approval at the forthcoming annual general meeting of the Company.

Save as disclosed above, no Director or Supervisor has a service contract with the Company which is not terminable by the Company within one year without payment, other than statutory compensation.

INTERESTS OR SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS OF THE DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE OFFICERS

Save as disclosed below, as at 31 December 2018, none of the Directors, Supervisors and chief executive officers of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") (Chapter 571 of the Laws of Hong Kong)) which should be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or which they are deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept pursuant to Section 352 of the SFO, or otherwise required to be notified to the Company pursuant to the required standard of dealings as set out in Appendix 10 of the Listing Rules.

Report of the Directors

Long Positions in Shares

Name of Director	Number of Shares	Nature of Interest	Approximate Percentage of the Registered Capital of the Company (%)
Sha Min (Note 1)	3,375,000	Beneficial owner	0.43%
	397,821,000	Interest of controlled corporation	50.22%
Chang Yong (Note 2)	397,821,000	Interest of controlled corporation	50.22%

Notes:

- (1) Mr. Sha Min ("**Mr. Sha**") directly holds 3,375,000 Domestic Shares and is indirectly interested in 60.40% of equity interest of Jiangsu Sample Holding Limited* (江蘇三寶控股有限公司) ("**Jiangsu Sample**") which in turn owns the entire equity interest in Nanjing Sample Technology Group Company Limited ("**Sample Group**") which in turn owns directly 397,821,000 Domestic Shares. Under the SFO, Mr. Sha is deemed to be interested in all 401,196,000 Domestic Shares. Du Yu (杜予) is the spouse of Mr. Sha. Under the SFO, Du Yu is also deemed to be interested in 401,196,000 Domestic Shares in which Mr. Sha is interested.

Sample Group directly holds 397,821,000 Domestic Shares, representing approximately 50.22% of the issued share capital of the Company and Sample Group is owned as to 100% by Jiangsu Sample which in turn is held as to 60.40% by Tibet Zhuo Xin Venture Capital Management Co., Ltd.* (西藏卓鑫創業投資管理有限責任公司) ("**Tibet Zhuo Xin**"). Tibet Zhuo Xin is owned as to 90% by Shanghai Jiaxin Enterprise Management Center (limited partnership)* (上海佳鑫企業管理中心有限合夥) ("**Shanghai Jiaxin**") which in turn is beneficially owned as to 99% and 1% by Mr. Sha and his spouse, Du Yu (杜予). Under the SFO, Mr. Sha is deemed to be interested in the entire equity interest in each of Sample Group, Jiangsu Sample, Tibet Zhuo Xin and Shanghai Jiaxin.

- (2) Mr. Chang Yong ("**Mr. Chang**"), is indirectly interested in 38.96% of equity interest of Jiangsu Sample which in turn owns the entire equity interest in Sample Group which in turn owns directly 397,821,000 Domestic Shares. Under the SFO, Mr. Chang is deemed to be interested in all 397,821,000 Domestic Shares.

Sample Group, directly holds 397,821,000 Domestic Shares, representing approximately 50.22% of the issued share capital of the Company and Sample Group is owned as to 100% by Jiangsu Sample which in turn is held as to 38.96% by Tibet Zhuo Cai Venture Capital Management Co., Ltd.* (西藏卓財創業投資管理有限責任公司) ("**Tibet Zhuo Cai**"). Tibet Zhuo Cai is owned as to 90% by Shanghai Lianqi Enterprise Management Center (limited partnership)* (上海聯啟企業管理中心有限合夥) ("**Shanghai Lianqi**") which in turn is beneficially owned as to 99% by Mr. Chang. Under the SFO, Mr. Chang is deemed to be interested in the entire equity interest in each of Sample Group and Jiangsu Sample.

Report of the Directors

SHARES DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far as to the knowledge of the Directors, as at 31 December 2018, the following shareholders (other than the Directors, Supervisors or chief executive officers of the Company) had interests and short positions in the shares or underlying shares of the Company which should be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 336 of the SFO.

Long position in Shares:

Name of Shareholders	Number of Shares	Nature of Interest	Approximate Percentage of the Registered Capital of the Company (%)
Nanjing Sample Technology Group Company Limited ("Sample Group") (Note 1)	397,821,000 Domestic Shares	Beneficial owner	50.22%
Jiangsu Sample Holding Limited* ("Jiangsu Sample") (Note 1)	397,821,000 Domestic Shares	Interest of controlled corporation	50.22%
Tibet Zhuo Xin Venture Capital Management Co., Ltd.* (Note 1)	397,821,000 Domestic Shares	Interest of controlled corporation	50.22%
Tibet Zhuo Cai Venture Capital Management Co., Ltd.* (Note 1)	397,821,000 Domestic Shares	Interest of controlled corporation	50.22%
Shanghai Jiaxin Enterprise Management Center (limited partnership)* (Note 1)	397,821,000 Domestic Shares	Interest of controlled corporation	50.22%
Shanghai Lianqi Enterprise Management Center (limited partnership)* (Note 1)	397,821,000 Domestic Shares	Interest of controlled corporation	50.22%
Active Gold Holding Limited (Note 2)	123,862,500 Domestic Shares	Beneficial owner	15.64%
Jian Ying Sample High Growth Investment Fund (Note 2)	123,862,500 Domestic Shares	Interest of controlled corporation	15.64%
Pengda Value Fund SPC (acting for and on behalf of DTC SP) (Note 3)	19,527,000 H Shares	Beneficial owner	6.16%
Cinda Asset Management (Cayman) Limited (Note 3)	19,527,000 H Shares	Interest of controlled corporation	6.16%

Report of the Directors

Name of Shareholders	Number of Shares	Nature of Interest	Approximate Percentage of the Registered Capital of the Company (%)
Cinda International Holdings Limited (Note 3)	19,527,000 H Shares	Interest of controlled corporation	6.16%
China Cinda Asset Management Co., Ltd (Note 3)	19,527,000 H Shares	Interest of controlled corporation	6.16%
中航信託股份有限公司 (Note 4)	16,564,000 H Shares	Interest of controlled corporation	5.23%

Notes:

- (1) Sample Group directly holds 397,821,000 Domestic Shares. As such, Sample Group is the substantial and the single largest shareholder of the Company. Sample Group is 100% held by Jiangsu Sample which in turn is held by Tibet Zhuo Xin and Tibet Zhuo Cai as to 60.40% and 38.96% equity interests respectively. Tibet Zhuo Xin is in turn held by Shanghai Jiaxin and Nanjing Juge Enterprise Management Center (limited partnership)* (南京聚格企業管理中心(有限合夥)) (“**Nanjing Juge**”) as to 90% and 10% equity interests respectively. Mr. Sha, the Chairman of the Company and his spouse, Du Yu (杜予), respectively held 99% and 1% in each of Shanghai Jiaxin and Nanjing Juge. On the other hand, Tibet Zhuo Cai is in turn held by Shanghai Lianqi and Nanjing Runge Enterprise Management Center (limited partnership)* (南京潤格企業管理中心(有限合夥)) (“**Nanjing Runge**”) as to 90% and 10% equity interests respectively. Mr. Chang, the Vice Chairman of the Company, held 99% in each of Shanghai Lianqi and Nanjing Runge.
- (2) Active Gold Holding Limited is indirectly wholly owned by Jian Ying Sample High Growth Investment Fund.
- (3) Pengda Value Fund SPC(acting for and on behalf of DTC SP), directly owns 19,527,000 H Shares, is 100% owned by Cinda Asset Management (Cayman) Limited which in turn is 100% owned by Cinda (BVI) Limited which in turn is 100% owned by Cinda International Holdings Limited. Cinda International Holdings Limited is owned as to 63% by Sinoday Limited which in turn is 100% owned by China Cinda (HK) Holdings Company Limited which in turn is 100% owned by China Cinda Asset Management Co., Ltd. After the completion of the bonus issue and capitalization issue of the Company in July 2018, Pengda Value Fund SPC (on behalf of DTC SP) did not declare the number of shares held. Therefore, the number of shares of 19,527,000 shares (representing approximately 6.16% of the Company’s registered capital) is the latest number of shares declared by Pengda Value Fund SPC (on behalf of DTC SP) prior to the change in registered capital of the Company.
- (4) After the completion of the bonus issue and capitalization issue of the Company in July 2018, 中航信託股份有限公司 did not declare their number of shares. Therefore, the number of shares of 16,564,000 shares (representing approximately 5.23% of the Company’s registered capital) is the latest number of shares declared by 中航信託股份有限公司.

DIRECTORS’ AND SUPERVISORS’ INTERESTS IN UNDERLYING SHARES BY DERIVATIVES

Save as disclosed above, as at 31 December 2018, none of the Directors or Supervisors is authorized to subscribe for any H Shares of the Company. As at 31 December 2018, none of the Directors or Supervisors or any of their spouses or children under eighteen years of age has any right to subscribe any H Shares of the Company or has exercised any such kind of right during the year.

SHARE OPTION SCHEME

A share option scheme (“Share Option Scheme”) was conditionally adopted by a resolution of the shareholders of the Company on 24 April 2004. On 30 December 2011, the shareholders of the Company had resolved by a special resolution to terminate the Share Option Scheme. No option has been granted under the Share Option Scheme since its adoption.

Report of the Directors

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

On 31 December 2018, the Company (as the lessor) and Nanjing Sample Technology Group Company Limited* (南京三寶科技集團有限公司) (“**Sample Group**”) (as the lessee) entered into the Property Leasing Framework Agreement for a term of three years commencing from 1 January 2019 and ending on 31 December 2021. Pursuant to the Property Leasing Framework Agreement, the Company agreed to lease their lawfully owned properties to Sample Group and its associates (as defined under the Listing Rules), and Sample Group agreed to rent and procure the members of Sample Group and its associates to rent the lawfully owned properties of the Company.

Each of Mr. Sha Min, the chairman of the Board, an executive Director and a de facto controller of the Company, and Mr. Chang Yong, the vice chairman of the Board and an executive Director, are respectively interested in 60.40% and 38.96% of equity interest in Jiangsu Sample Holding Limited* (江蘇三寶控股有限公司) which in turn owns the entire equity interest in Sample Group, a controlling shareholder of the Company. Therefore, each of Mr. Sha and Mr. Chang is considered to have a material interest in the above-mentioned transactions.

Save as disclosed above, no contract of significance to which the Company or any of its subsidiaries was a party, and in which a Director or a Supervisor had a direct and indirect material interest, subsisted at the end of the year or at any time during the year.

PERMITTED INDEMNITY PROVISION

The Company has taken out and maintained directors' liability insurance which provides appropriate cover for the directors of the Group. At no time during the year ended 31 December 2018 and up to the date of this report, was or is there any permitted indemnity provision being in force for the benefit of any of the directors of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

Five Largest Customers

Turnover to the Group's five largest customers accounted for 42.95% (2017: 48.64%) of the total sales for the year and sales to the largest customer included therein amounted to 11.10% (2017: 19.83%). To the best of the knowledge of the Directors, none of the Directors, their associates or any management shareholders who own more than 5% of the Company's issued share capital had material interests in the Group's five largest customers.

Five Largest Suppliers

Purchase from the Group's five largest suppliers accounted for 27.82% (2017: 27.83%) of the total purchase for the year and purchase to the largest supplier included therein amounted to 10.04% (2017: 8.44%). To the best of the knowledge of the Directors, none of the Directors, their associates or any management shareholder who own more than 5% of the Company's issued share capital had material interests in the Group's five largest suppliers.

Report of the Directors

EMOLUMENTS OF DIRECTORS, SUPERVISORS AND EMPLOYEES AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors, supervisors and employees and the five highest individuals of the Group are set out in Note V(L) to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 232 of this annual report.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in the Note V(XXX) to the financial statements. As at 31 December 2018, the Company had issued an aggregate of 229,500,000 H shares and an aggregate of 562,558,500 domestic shares.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the PRC, being the jurisdiction in which the Company was established, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

RESERVES

Details of the movements of reserves of the Group during the year are set out on page 66 in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2018, the Group's reserves available for distribution amounted to RMB990,758,260.44 (2017: RMB1,076,559,118.85).

INFORMATION OF TAX DEDUCTION FOR HOLDERS OF LISTED SECURITIES

Shareholders are taxed and/or enjoy tax relief for the dividend income received from the Company in accordance with the relevant tax rules and regulations of the People's Republic of China ("PRC"). A corporate profit tax at the rate of 10% is applicable to dividends payable to Shareholders. In accordance with the relevant tax rules and regulations of the PRC, during the reporting period, the Company has an obligation to withhold for payment of the 10% corporate profit tax from the payment of the final dividend of the year to non-resident enterprises (including HKSCC (Nominees) Limited, other corporate nominees or trustees, and other entities or organisations that are all considered as non-resident enterprise shareholders) whose names are registered on the H shares register of members. No corporate tax at the rate of 10% will be withheld in respect of final dividend of the year to natural persons whose names are registered on the H shares register of members of the Company.

Report of the Directors

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this report, the Company has maintained the public float prescribed under the Listing Rules throughout the year ended 31 December 2018.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

EQUITY-LINKED AGREEMENTS

As at 31 December 2018, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE H SHARES

Save as disclosed above, for the year ended 31 December 2018, none of the Directors or Supervisors was granted subscription rights to subscribe for the H Shares of the Company. As at 31 December 2018, none of the Directors or Supervisors had the rights to subscribe for the H Shares of the Company.

COMPETING BUSINESS AND CONFLICTS OF INTERESTS

None of the Directors, management shareholders or substantial shareholders or any of their respective associates (as defined in the Listing Rules) is engaged in any business which competes or is likely to compete with the business of the Group, and none of them has other conflicts of interests with the Group.

AUDIT COMMITTEE

The Company established an audit committee on 27 August 2003 with terms of reference. The primary duties of the audit committee are to supervise the financial reporting process, risk management and internal control of the Company and to provide comments to the Board in relation to the preparing of annual report and accounts and interim report of the Company.

The audit committee comprises three independent non-executive Directors, namely Mr. Shum Shing Kei (the chairman of the audit committee), Mr. Hu Hanhui and Mr. Gao Lihui. The audit committee of the Company has reviewed the audited results of the Group for the period under review and has provided advice and comments thereon.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors, namely Mr. Hu Hanhui, Mr. Gao Lihui and Mr. Shum Shing Kei a confirmation of their independence pursuant to Rule 3.13 of the Listing Rules and considers the independent non-executive Directors to be independent.

Report of the Directors

UPDATE ON DIRECTORS' AND SUPERVISORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the change in information of the Directors and supervisors for the year ended 31 December 2018 are set out below:

Mr. Qiu Xiangyang has ceased to be an independent director of Nanjing Pharmaceutical Company Limited (a company listed on the Shanghai Stock Exchange, stock code: 600713) since 23 April 2018.

Save as disclosed above and elsewhere in this report, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules for the year ended 31 December 2018.

EMOLUMENT POLICY

The emolument policy of the employees and seniors management of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence. The emoluments of the Directors are recommended by the Remuneration Committee, having regard to market competitiveness, individual performance and achievement.

RETIREMENT FUND OBLIGATION

The Group makes monthly contribution to certain defined contribution plan, pension schemes operated by Chinese provincial and municipal governments. The relevant provincial and municipal governments promised to fulfil the benefit obligations pursuant to these retirement schemes for all existing and future retired employees. Apart from these contributions, the Group has no other retirement benefit obligations. Contributions to these pension scheme is paid when incurs.

CONNECTED TRANSACTIONS

On 31 December 2018, the Company (as the lessor) and Nanjing Sample Technology Group Company Limited* (南京三寶科技集團有限公司) ("**Sample Group**") (as the lessee) entered into the Property Leasing Framework Agreement for a term of three years commencing from 1 January 2019 and ending on 31 December 2021. Pursuant to the Property Leasing Framework Agreement, the Company agreed to lease their lawfully owned properties to Sample Group and its associates (as defined under the Listing Rules), and Sample Group agreed to rent and procure the members of Sample Group and its associates to rent the lawfully owned properties of the Company.

Each of Mr. Sha Min, the chairman of the Board, an executive Director and a de facto controller of the Company, and Mr. Chang Yong, the vice chairman of the Board and an executive Director, are respectively interested in 60.40% and 38.96% of equity interest in Jiangsu Sample Holding Limited* (江蘇三寶控股有限公司) which in turn owns the entire equity interest in Sample Group, a controlling shareholder of the Company. Therefore, Sample Group, Mr. Sha and Mr. Chang are deemed to be connected persons in the above-mentioned transactions.

Report of the Directors

RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into by the Group during the year ended 31 December 2018 are set out in note X to the financial statements of this annual report. None of these related party transactions constitutes a discloseable connected transaction as defined under the Listing Rules, except for the transactions described in the section headed “Connected Transactions” in this Report of the Directors, in respect of which the disclosure requirements under Chapter 14A of the Listing Rules have been complied with.

CORPORATE GOVERNANCE PRACTICES

During the year, the Company continued to strengthen its internal governance measures in order to comply with the provisions contained in the Corporate Governance Code (the “Code”) as set out in Appendix 14 of the Listing Rules. Management occasionally held meetings and discussions to evaluate the effectiveness and the compliance of the internal governance measures. The internal governance measures have been adopted on standards no less exacting than those required by the Code.

The Company has complied with all the applicable code provisions of the Code to establish formal and transparent procedures to protect and maximize the interests of shareholders during the year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

In accordance with Rule 13.91 of the Listing Rules, the Company will publish an Environmental, Social and Governance (“ESG”) Report within three months after publication of this annual report in compliance with the provisions set out in the ESG Reporting Guide in Appendix 27 to the Listing Rules.

AUDITOR

The consolidated financial report of the Group for the year ended 31 December 2018 has been audited by BDO China Shu Lun Pan Certified Public Accountants LLP. A resolution will be submitted to the forthcoming annual general meeting to re-appoint the auditors and to authorise the Directors to fix their remuneration.

On behalf of the Board

Sha Min

Chairman

Nanjing, the PRC
29 March 2019

Corporate Governance Report

CORPORATE GOVERNANCE CODE

The Company recognises the value and importance of achieving high corporate governance standards to enhance corporate performance, transparency and accountability. During the year, the Company continued to strengthen its internal governance measures in order to comply with the provisions as set out in the Corporate Governance Code (the “Code”) as set out in Appendix 14 of the Listing Rules. The management occasionally held meetings and discussions to evaluate the effectiveness and the compliance of the internal governance measures. The internal governance measures have been adopted on standards no less exacting than those required by the Code.

The Company has complied with all the applicable code provisions of the Code to establish formal and transparent procedures to protect and maximize the interests of shareholders during the year.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors’ securities transactions on terms no less exacting than the required standard of dealings as set out in Appendix 10 of the Listing Rules. Having made specific enquiry with all Directors, the Directors have complied with such code of conduct and the required standard of dealings regarding securities transactions throughout the year ended 31 December 2018.

BOARD OF DIRECTORS AND BOARD MEETINGS

The Directors of the Company during the year were as follows:

Executive Directors

Mr. Sha Min (*Chairman*)
Mr. Chang Yong (*Vice Chairman*)
Mr. Zhu Xiang (*Chief Executive Officer*)

Non-executive Director

Mr. Ma Jun

Independent Non-executive Directors

Mr. Shum Shing Kei
Mr. Hu Hanhui
Mr. Gao Lihui

Each of the Directors has entered into a service contract with the Company. The service contracts were expired on 31 December 2018 and the further renewal for another terms of three years shall be subject to the approval of the shareholders at the forthcoming annual general meeting of the Company.

Corporate Governance Report

The Board takes responsibility to oversee all major matters of the Company, including the formulation and approval of all policy matters, overall strategies, internal control, risk management and monitoring the performance of the senior management. The Board's primary responsibilities are to direct and supervise the Company's business and affairs. The biographical details of the Directors and the relationship among the members of the Board are set out on pages 19 to 22 of this annual report. The Board of Directors held at least one full Board meeting half-yearly. The composition of the Board is well balanced with each Director having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. All executive Directors, non-executive Director and independent non-executive Directors bring a variety of experience and expertise to the Company.

The roles of the Chairman and the Chief Executive Officer are segregated. Such segregation helps to reinforce their independence and accountability. The Chairman is responsible for providing leadership to, and overseeing the functioning of, the Board to ensure that good corporate governance practices and procedures are established and that it acts in the best interests of the Group and the Company's shareholders as a whole and that the Board meetings are planned and conducted effectively. On the other hand, the Chief Executive Officer is responsible for managing the day-to-day business of the Group, attending to the formulation and successful implementation of the Group's policies and assuming fully accountability to the Board for all the Group's operations.

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers all the independent non-executive Directors to be independent. Independent Non-Executive Directors play a significant role in the Board by virtue of their independent judgment and their views carry significant weight in the Board's decision.

Apart from its statutory responsibilities, the Board of Directors approves the Group's strategic plan, annual budget, key operational initiatives, major investments and funding decisions. It also reviews the Group's financial performance, identifies principal risks of the Group's business and ensures implementation of appropriate systems to manage these risks.

The Board schedules at least two meetings a year at approximately half-yearly intervals and will be met as necessary.

During the year ended 31 December 2018, the Board held seven meetings, two of which were regular meetings.

The Directors can attend meetings in persons or through other means of electronic communication in accordance with the Company's articles of association. Notice of at least 14 days is given for a regular Board meeting to give all Directors an opportunity to attend. All Directors are provided with relevant materials relating to the matters brought before the meetings at least three days in advance.

Corporate Governance Report

SHAREHOLDERS AND SHAREHOLDERS' GENERAL MEETINGS

During the year, the Company convened one annual general meeting. The Company convened and held the shareholders' general meetings strictly in compliance with the regulations and requirements of the articles of association of the Company and the rules governing the procedures of the shareholders' general meeting of the Company, which ensured all of the Company's shareholders, especially the minority shareholders, could enjoy equal rights and fully exercise their voting rights.

THE ATTENDANCE OF DIRECTORS AT THE BOARD MEETINGS AND SHAREHOLDERS' GENERAL MEETINGS

The Board has convened seven plenary Board meetings and one shareholders' general meetings for the year ended 31 December 2018. The attendance of the Directors at the meetings was as follows:

Name of Directors	Board meeting	General meeting
Executive Directors		
Mr. Sha Min (<i>Chairman</i>)	7/7	1/1
Mr. Chang Yong (<i>Vice Chairman</i>)	7/7	1/1
Mr. Zhu Xiang (<i>Chief Executive Officer</i>)	7/7	1/1
Non-executive Director		
Mr. Ma Jun	7/7	1/1
Independent Non-executive Directors		
Mr. Shum Shing Kei	7/7	1/1
Mr. Hu Hanhui	7/7	1/1
Mr. Gao Lihui	7/7	1/1

Apart from the above regular board meetings held during the year, the Board of Directors will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive detailed agenda for decision prior to each board meeting.

The Directors acknowledge the need to continue to develop and refresh their knowledge and skills for making contributions to the Company. The participation by each Director in the continuous professional development programme with appropriate emphasis on the roles, functions and duties of a director of a listed company in 2018 is recorded in the table below.

Corporate Governance Report

Name of Directors	Reading regulatory updates or newspapers, journals and updates relating to directors' duties	Attending external seminars/ programmes
Executive Directors		
Mr. Sha Min	√	√
Mr. Chang Yong	√	√
Mr. Zhu Xiang	√	√
Non-executive Director		
Mr. Ma Jun	√	√
Independent Non-executive Directors		
Mr. Shum Shing Kei	√	√
Mr. Hu Hanhui	√	√
Mr. Gao Lihui	√	√

REMUNERATION COMMITTEE

The Company's remuneration committee has been approved in the board meeting on 10 November 2005. The terms of references setting out the remuneration committee's authority, duties and responsibilities are available on the websites of the Company and the Stock Exchange.

The remuneration committee currently consists of two independent non-executive Directors, namely Mr. Hu Hanhui (chairman of remuneration committee), Mr. Shum Shing Kei and one executive Director, namely Mr. Zhu Xiang.

The role and function of the remuneration committee included determining the policy for the remuneration of directors, making recommendation to the board of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, making recommendations to the board of the remuneration of non-executive Directors, assessing performance of executive directors and approving the terms of executive directors' service contracts. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Company and desirability of performance-based remuneration.

One meeting was held during the year by the remuneration committee to review the directors, supervisors and senior management's remuneration proposals.

Corporate Governance Report

Details of the attendance of the remuneration committee meetings are as follows:

	Number of attendance
Mr. Hu Hanhui	1/1
Mr. Shum Shing Kei	1/1
Mr. Zhu Xiang	1/1

No Director or any of his/her associates is involved in deciding his/her own remuneration at the meeting of the remuneration committee.

NOMINATION COMMITTEE

The Company's nomination committee was approved and established in the board meeting held on 25 August 2007. The terms of references setting out the nomination committee's authority, duties and responsibilities are available on the websites of the Company and the Stock Exchange.

The nomination committee currently consists of two independent non-executive Directors, namely Mr. Hu Hanhui (chairman of nomination committee), Mr. Gao Lihui and one executive Director, namely Mr. Chang Yong.

Building a diverse culture is important to the success of the Company. Educational background and age diversity in addition to meritocracy are areas of focus for the Company's employee base. The same diversity principle is also applied to the composition of the Board to enhance the effectiveness of the Board and its corporate governance standard (the "**Diversity Policy**").

The nomination committee has been delegated the authority to review and assess the diversity of the Board and its skills and experience by way of consideration of a number of factors, including but not limited to, ethnicity, gender, age, cultural and educational background, and professional experience. The committee will give due consideration to the Diversity Policy when identifying and selecting suitably qualified candidates. The ultimate decision will be based on merit and contribution the chosen candidate will bring to the Board.

The nomination committee is responsible for developing measurable objectives to implement the Diversity Principle and for monitoring progress towards the achievement of these objectives.

The primary duties of the nomination committee are to review the structure, size and composition of the Board on a regular basis, to determine the policy, procedures and criteria of nomination of directors and where necessary, to make recommendations to the Board on matters relating to the appointment or re-appointment of Directors and succession plan for Directors.

One meeting was held during the year by the nomination committee to review the nomination procedures for the appointment of directors and the rationality and compliance of the composition of the board of directors.

Corporate Governance Report

Details of the attendance of the nomination committee meeting are as follows:

	Number of attendance
Mr. Hu Hanhui	1/1
Mr. Gao Lihui	1/1
Mr. Chang Yong	1/1

AUDIT COMMITTEE

The Company established an audit committee on 27 August 2003. The terms of references setting out the audit committee's authority, duties and responsibilities are available on the websites of the Company and the Stock Exchange.

The audit committee currently consists of three independent non-executive Directors, namely Mr. Shum Shing Kei (the chairman of the audit committee), Mr. Hu Hanhui and Mr. Gao Lihui.

The primary duties of the audit committee are to provide an independent review and supervision of financial reporting, and examines the effectiveness of the risk management and internal controls of the Group and ensuring the external auditor are independent and the effectiveness of the audit process. The audit committee examines all matters relating to the accounting principles and policies adopted by the Group, auditing functions, internal controls and financial reporting.

The Company has complied with Rule 3.21 of the Listing Rules, which requires that at least one of the members of the Audit Committee (which must comprise a minimum of three members and must be chaired by an independent non-executive Director) is an independent non-executive Director who possess appropriate professional qualifications or accounting or related financial management expertise. Mr. Shum Shing Kei is an independent non-executive Director who possesses appropriate professional qualifications or accounting or related financial management expertise.

The audit committee held two meetings during the year. Details of the attendance of the audit committee meetings are as follows:

	Number of attendance
Mr. Shum Shing Kei	2/2
Mr. Hu Hanhui	2/2
Mr. Gao Lihui	2/2

During the year, the Group's annual audited results for the year ended 31 December 2017 and the unaudited interim results for the six months ended 30 June 2018 have been reviewed by the audit committee. Besides, the audit committee also reviewed the Group's annual audited results for the year ended 31 December 2018 with a recommendation to the Board for approval. The audit committee was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

Corporate Governance Report

No member of the audit committee is a former partner of the existing auditing firm of the Company during the two years after he/she ceases to be a partner of the auditing firm.

AUDITOR'S REMUNERATION

The audit works of the Group for the year ended 31 December 2018 were performed by BDO China Shu Lun Pan Certified Public Accountants LLP. The total fee paid/payable in respect of the statutory audit and non-audit services provided by external auditors during the year ended 31 December 2018 are set out below:

	2018 RMB'000	2017 RMB'000
Services rendered		
Audit services		
– BDO China Shu Lun Pan Certified Public Accountants LLP	1,000	750
Non-audit services	–	–
	<u>1,000</u>	<u>750</u>

CORPORATE GOVERNANCE FUNCTIONS

The Board as a whole is responsible for performing the corporate governance duties including:

- (a) to develop and review the Company's policies and practices on corporate governance;
- (b) to review and monitor the training and continuous professional development of Directors and senior management;
- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; and
- (d) to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

FINANCIAL REPORTING

The Directors acknowledged their responsibility for the preparation of financial statements which give a true and fair view. In preparing financial statements, which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is independent auditor's responsibility to form an independent opinion, based on their audit, on those financial statements and to report their opinion to the Company's shareholders. The responsibility of the independent auditors are set out in the independent auditor's report on pages 45 to 49 of this annual report.

COMPANY SECRETARY

The Company Secretary of the Company is Ms. Wong Lai Yuk, a member of The Hong Kong Institute of Chartered Secretaries. Ms. Wong has complied with Rule 3.29 of the Listing Rules of taking no less than 15 hours of relevant professional training.

Corporate Governance Report

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for assessing and determining the nature and extent of the risks they are willing to take in achieving the Group's strategic objectives and ensuring that the Group is responsible for maintaining a sound and effective risk management and internal control system and reviewing its effectiveness. The Board oversees the management in the design, implementation and monitoring of the risk management and internal control system and is responsible for the risk management and internal control system, including financial monitoring, operation monitoring, compliance monitoring and risk management monitoring to protect the interests of shareholders.

Risk management and internal control system aim to manage the risk in the process of achieving the Group's strategic objectives rather than to completely eliminate it, and provide reasonable protection rather than absolute guarantee.

The Group has an internal audit functional department and directly reports to the audit committee on the risk management and internal control of the Company under the support and cooperation of other departments. The internal audit manager reports to the chief executive officer and chief financial officer on the day-to-day administrative work. The audit committee reports to the board of any significant matters. The internal audit functional department regularly conducts internal control assessments to determine the risks that may affect the Group's business, including major operations, financial processes and data security.

The Board of Directors conducted a risk assessment based on a number of different factors and conducted continuous review to determine the status of monitoring and effectiveness of risk management of the Group. As at the end of the reporting period, the Company had no significant monitoring errors causing any unforeseen consequences or emergencies. Also, no matter was found that would cast significant impact on the company's financial status.

The following are the main procedures for the Board to continuously monitor the effectiveness of the Company's risk management and internal control systems:

- Establish an internal control and risk management implementation team and improve the organizational structure so that the powers and responsibilities of monitoring level are clearly defined;
- Organize working meetings for internal control and risk management standard, promote the norms of internal control amongst staff and enhance staff awareness of the importance and necessity of internal control system;
- Analyze internal control deficiencies, risk identification and evaluation, and test the effectiveness of internal control according to the enterprise risk management model by collecting and sorting the daily workflow and internal control system of various departments, business and financial modules of the company;
- Develop risks lists at the corporate level, process level, information system level, identify problems in internal control and risk management in a timely manner, and strive to minimize its impact through continuous improvement of corporate governance and proactive management;

Corporate Governance Report

- Establish a comprehensive accounting system to provide management with financial and operational performance indicators, as well as financial information for reporting and disclosure, to maintain complete accounting records and to ensure reliable use of financial data on business and announcements to avoid serious errors, losses or fraud;
- Internal audit functions will make analysis and independent assessment of the adequacy and effectiveness of the company's risk management and internal control systems. The responsible person of internal audit reports to the audit committee any questions found during its day-to-day work, including major internal control deficiencies (if any);
- The audit committee reviews the annual audited report submitted by the external auditor to the management of the Group (including an explanatory letter about the audit to the management);
- Establish a set of guidelines and procedures for handling and posting inside information to enable timely processing and publication of inside information.

Establish a reporting policy to encourage employees on confidential basis to report to management of any possible misconduct on any matter regarding the Group. The Group will keep confidential all information received and protect the identity and interests of whistleblowers. During the year, the Board authorised the audit committee to review the work of the internal audit functional departments and the external auditors, review the regular reports on risk management and regulatory compliance that prepared by the management, and review the adequacy and effectiveness of the Group's risk management and internal control systems. During the review, the audit committee also assessed and considered the resources, qualifications and experience of staff of the Group's accounting, internal audit and financial reporting functions and its training plans and budget. The Board considers that the Group's risk management and internal control systems for the year ended 31 December 2018 were effective and adequate and were in compliance with corporate governance requirements.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

To promote effective communication, the Company maintains a website at www.sampletech.com.cn, where extensive information and updates on the Group's business developments and operations, financial information and other information are available for public access.

Shareholders are provided with contact details of the Company, such as fax number, email address and postal address, in order to enable them to make any query that they may have with respect to the Company. They can also send their enquiries to the Board through these means. The contact details of the Company are provided in the annual report and the Company's website.

The Board welcomes views of shareholders and encourages them to attend general meetings to raise any concerns they might have with the Board or the management directly. Board members and appropriate senior staff of the Group are available at the meetings to answer any questions raised by shareholders.

Corporate Governance Report

Code provision A.6.7 stipulates that independent non-executive directors should also attend general meetings and develop a balanced understanding of the views of shareholders.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual Directors, for shareholders' consideration and voting. Besides, pursuant to the Articles of Association, shareholder(s) holding 3% (inclusive) or more of the total voting shares of the Company shall have the right to propose new motions to be included in the agenda of the Company's annual general meeting. The Company shall place such proposed motions on the agenda for such annual general meeting if they are matters falling within the functions and powers of the general meetings. In addition, two or more shareholders holding not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings may request the Company to convene an extraordinary general meeting or class meeting by sending a written requisition to the Board. The objects of the meeting must be stated in the written requisition.

Shareholders may send written enquiries to the Company for putting forward any enquiries or proposals to the Board of the Company. Contact details are as follows:

Address: No. 10 Maqun Avenue, Qixia District, Nanjing, City
The People's Republic of China
Fax: (8625) 8435 6677
Email: irm@samples.cn

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

All resolutions put forward at shareholders' meetings will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sampletech.com.cn) immediately after the relevant general meetings.

CHANGE IN CONSTITUTIONAL DOCUMENT

During the period under review, in view of the changes in regulatory requirements and economic environment and in light of the actual situations of the Company and to reflect the change in the registered capital of the Company as a result of the proposed distribution of bonus shares and capitalization shares, the shareholders of the Company approved the amendment of the Company's Articles of Association, details of which was disclosed in the Company's circular dated 1 June 2018. Save as disclosed, there has been no significant change in the Company's Articles of Association during the year ended 31 December 2018.

Report of the Supervisory Committee

To the shareholders,

For the year ended 31 December 2018 the supervisory committee of Nanjing Sample Technology Company Limited, in compliance with the provisions of the Company Law of the People's Republic of China, the relevant laws and regulations of Hong Kong and the articles of association of the Company, took an active role to work reasonably and cautiously with the principle of good faith and due diligence to protect the interest of the Company's shareholders.

During the year under review, the supervisory committee performed supervisory duties faithfully in an active, pragmatic and prudent manner, and provided reasonable recommendations and opinions to the Board in respect of the operation and development plans of the Company. It also strictly and effectively supervised the Company's management in formulating significant policies and making decisions to ensure that they were in compliance with the laws and regulations of the PRC and the articles of association of the Company, and in the interests of the shareholders.

The supervisory committee has carefully reviewed the Company's annual report, audited by BDO China Shu Lun Pan Certified Public Accountants LLP, to be proposed by the Board and agreed that it truly and fully reflects the operating results and asset position of the Company. The supervisory committee has also reviewed the report of the directors. The supervisory committee are of the opinion that the members of the Board, Chief Executive Officer and other senior management of the Company were able to strictly observe their fiduciary duty, to act diligently and to exercise their authority faithfully in the best interests of the Company. Up till now, none of the Directors, Chief Executive Officer, and senior management had been found abusing their authority, damaging the interests of the Company and infringing upon the interests of its shareholders and employees, or in violation of any laws and regulations and the articles of association of the Company. The supervisory committee is in recognition of the achievement and cost-effectiveness of the Company and has great confidence in the future development prospect of the Company.

On behalf of the Supervisory Committee

Qiu Xiang Yang

Chairman

Nanjing, the PRC
29 March 2019

Auditor's Report

Xin Kuai Shi Bao Zi (2019) No. ZAX

TO THE SHAREHOLDERS OF NANJING SAMPLE TECHNOLOGY COMPANY LIMITED:

1. AUDIT OPINION

We have audited the accompanying financial statements of Nanjing Sample Technology Company Limited (hereinafter “the Sample Technology Company”), which comprise the consolidated and the parent company balance sheets as at 31 December 2018, and the consolidated and the parent company income statements, the consolidated and the parent company cash flow statements and the consolidated and the parent company statements of changes in equity for the financial year of 2018 and the relevant notes to the financial statements.

In our opinion, the accompanying financial statements are prepared, in all material respects, in accordance with the requirements of Accounting Standards for Business Enterprises and present fairly the consolidated and the parent company's financial position of Sample Technology Company as at 31 December 2018 and the consolidated and the parent company's financial performance and cash flows for 2018.

2. BASIS FOR FORMING THE AUDIT OPINION

We conducted our audit in accordance with China Standards on Auditing (“CSAs”). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Sample Technology Company in accordance with the Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants (“CICPA Code”), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

3. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We confirm that the following are key audit matters that need to be communicated in the audit report.

Auditor's Report

Key audit matters

How our audit addressed the matter

(1) Recognition of income

The income of system integration projects of Sample Technology Company for 2018 amounted to 952,694,800 yuan, representing 51.93% of the total income. According to Note III (XXIII) of the financial statements attached thereunder, the income of the Company's system integration project was recognized according to the percentage of completion method. The progress is mainly based on the ratio of the actual cost incurred to the budgeted cost (input method) as the basis for confirming the completion progress. We are concerned that the confirmation of completion progress by the cost method may be different from the actual completion progress (output method) which may cause the risk that the amount of income not recognized in the appropriate period.

To understand, evaluate and test the relevant control of recognition of income of the Sample Technology Company;
To understand and evaluate the revenue recognition policy of Sample Technology Company;
Obtain the completion progress report issued by the third party such as the owner or the inspector;
Check equipment receipts and labor bills and other relevant information;
Implementation of the confirmation procedure;
Make site visits to view the project and interview so as to understand the project progress.

(2) Recoverability of accounts receivable and contract assets

As of 31 December 2018, as mentioned in Note V(II) and Note V(VI) of the financial statements of Sample Technology Company, the balance of accounts receivable of Sample Technology Company was 956,108,400 yuan, and the provision for bad debts was 118,969,000 yuan. The balance of contract assets was 1,123,899,200 yuan and the provision for impairment was 49,031,600 yuan. The book value at the end of the period was relatively high. If the accounts receivable and the contract assets cannot be recovered on time or cannot be recovered, the bad debts will have a significant impact on the financial statements. Therefore, we determine that the recoverability of accounts receivable and contract assets is a key audit matter.

Understand, evaluate and test the internal control of Sample Technology Company relating to the bad debts provision for accounts receivable and impairment provision for contract assets;
Obtain the bad debt policy of Sample Technology Company and compare it with the public information of the comparable companies in the same industry;
Review the aging of accounts receivable and contract assets, and the proportion of bad debts provision and impairment provision;
Obtain customer basic information and analyze customer nature and its credit status;
Implemented the confirmation procedure for the closing balance and checked the payment status after the period, etc, evaluate the reasonableness of the provision for bad debts and provision for impairment of contract assets.

4. OTHER INFORMATION

The management of Sample Technology Company (referred as “the Management”) is responsible for the other information. The other information comprises the information included in the annual report 2018 of Sample Technology Company, other than the financial statements and our auditor's report thereon.

Our audit opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

Combined with our audit of the financial statements, our responsibility is to read the other information. In this process, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Based on the work we have performed, if we conclude that there is a material misstatement for the other information, we should report the facts. In this regard, there's no matter that need to be reported.

5. RESPONSIBILITIES OF MANAGEMENT AND GOVERNANCE LAYER FOR THE FINANCIAL STATEMENTS

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Accounting Standards for Business Enterprises, and for the design, implementation and maintenance of internal control as is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing these financial statements, the Management is responsible for assessing Sample Technology Company's ability to continue as a going concern, disclosing matters related to going concern (if applicable) and using the going concern assumption unless management either intend to liquidate the company, cease operations, or have no realistic alternative but to do so.

The governance layer are responsible for overseeing Sample Technology Company's financial reporting process.

Auditor's Report

6. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether these financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with China Standards on Auditing must detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- (1) identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit 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.
- (2) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but it's not for the purpose to comment on the effectiveness of internal control.
- (3) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- (4) conclude on the appropriateness of the Management's use of the going concern assumption and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Sample Technology Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required in our auditor's report to draw the attention of the reporting user to the related disclosures in these financial statements or, if such disclosures are inadequate, we should issue qualified 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 Sample Technology Company to cease to continue as a going concern.
- (5) evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Sample Technology Company to express an audit 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.

Auditor's Report

We communicate with the governance layer 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 governance layer 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 governance layer, we determine those matters that were of most significance in the audit of the 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.

BDO China Shu Lun Pan Certified
Public Accountants LLP

Chinese Certified Public Accountant: **Zhao Huanqi**
(Project partner)

Chinese Certified Public Accountant: **Feng Jian Li**

Shanghai, the People's Republic of China

29 March 2019

Consolidated Balance Sheet

At 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

ASSETS	Note V	31 December 2018	1 January 2018	31 December 2017
Current assets:				
Cash at bank and on hand	(I)	532,958,036.92	763,119,652.92	763,119,652.92
Settlement reserves		-	-	-
Loans to banks and other financial institutions		-	-	-
Held-for-trading financial assets		-	-	-
Financial assets measured at fair value with its change included in profit and loss of current year		-	-	-
Derivative financial assets		-	-	-
Notes receivable and accounts receivable	(II)	1,096,589,642.96	538,705,812.14	698,058,878.81
Prepayments	(III)	424,735,769.16	66,721,485.56	66,721,485.56
Premiums receivable		-	-	-
Reinsurance accounts receivable		-	-	-
Receivables from subcontracting reserves		-	-	-
Other receivables	(IV)	326,498,970.78	467,387,779.28	484,891,213.33
Financial assets held under resale agreements		-	-	-
Inventories	(V)	116,839,463.12	109,975,990.57	950,376,110.40
Contract assets	(VI)	1,074,867,660.48	958,199,524.30	-
Held-for-sale assets		-	-	-
Non-current assets due within one year	(VII)	52,571,628.84	-	-
Other current assets	(VIII)	31,831,942.89	40,268,878.13	40,268,878.13
Total current assets		3,656,893,115.15	2,944,379,122.90	3,003,436,219.15
Non-current assets:				
Loans and advances		-	-	-
Debt investment		-	-	-
Available-for-sale financial assets	(IX)	-	-	111,782,201.95
Other debt investment		-	-	-
Held-to-maturity investment		-	-	-
Long-term receivables		-	-	-
Long-term equity investments	(X)	43,343,934.94	43,822,612.31	43,822,612.31
Other equity instruments investment	(XI)	227,319,415.64	7,387,645.05	-
Other non-current financial assets	(XII)	134,623,072.37	112,330,423.38	-
Investment property	(XIII)	227,503,300.00	219,390,300.00	219,390,300.00
Fixed assets	(XIV)	376,964,307.99	229,877,091.68	229,877,091.68
Construction in progress	(XV)	6,534,672.42	874,604.36	874,604.36
Productive biological assets		-	-	-
Oil and gas assets		-	-	-
Intangible assets	(XVI)	10,842,557.61	32,884,438.58	32,884,438.58
Development expenditures		-	-	-
Goodwill		-	-	-
Long-term deferred expenses	(XVII)	4,195,163.46	8,152,163.37	8,152,163.37
Deferred income tax assets	(XVIII)	48,646,186.13	41,023,388.04	34,054,177.63
Other non-current assets	(XIX)	74,825,893.61	14,434,546.39	1,707,300.00
Total non-current assets		1,154,798,504.17	710,177,213.16	682,544,889.88
TOTAL ASSETS		4,811,691,619.32	3,654,556,336.06	3,685,981,109.03

Consolidated Balance Sheet

At 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

LIABILITIES & OWNERS' EQUITY	Note V	31 December 2018	1 January 2018	31 December 2017
Current liabilities:				
Short-term borrowings	(XX)	639,300,000.00	345,300,000.00	345,300,000.00
Borrowings from central bank		-	-	-
Loans from banks and other financial institutions		-	-	-
Held-for-trading financial liabilities		-	-	-
Financial liabilities measured at fair value with its change included in profit and loss of current year		-	-	-
Derivative financial liabilities		-	-	-
Notes payable and accounts payable	(XXI)	1,097,320,317.19	914,764,165.52	914,764,165.52
Advances from customers	(XXII)	-	-	117,243,847.70
Financial assets sold under repurchase agreements		-	-	-
Deposits from customers and interbank		-	-	-
Receivings from vicariously traded securities		-	-	-
Receivings from vicariously sold securities		-	-	-
Payroll payables	(XXIII)	10,242,978.09	6,416,109.99	6,416,109.99
Taxes payable	(XXIV)	36,820,446.28	46,577,774.22	46,577,774.22
Other payables	(XXV)	66,187,287.15	38,864,895.89	38,864,895.89
Handling charges and commissions payable		-	-	-
Reinsurance accounts payable		-	-	-
Contract liabilities	(VI)	92,499,959.57	99,407,728.94	-
Held-for-sale liabilities		-	-	-
Non-current liabilities due within 1 year	(XXVI)	182,670,000.00	11,250,000.00	11,250,000.00
Other current liabilities	(XXVII)	87,291,565.13	24,126,504.77	6,147,751.60
Total current liabilities		2,212,332,553.41	1,486,707,179.33	1,486,564,544.92
Non-current liabilities:				
Reserve funds for insurance contracts		-	-	-
Long-term borrowings	(XXVIII)	472,250,000.00	67,850,000.00	67,850,000.00
Bonds payables		-	-	-
Including: preferred shares		-	-	-
perpetual bond		-	-	-
Long-term payables		-	-	-
Long-term payroll payables		-	-	-
Estimated liabilities		-	-	-
Deferred income	(XXIX)	34,318,829.09	37,991,374.17	37,991,374.17
Deferred income tax liabilities	(XVIII)	11,798,478.85	10,502,043.81	9,228,730.88
Other non-current liabilities		-	-	-
Total non-current liabilities		518,367,307.94	116,343,417.98	115,070,105.05
Total liabilities		2,730,699,861.35	1,603,050,597.31	1,601,634,649.97

Consolidated Balance Sheet

At 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

LIABILITIES & OWNERS' EQUITY (Continued)	Note V	31 December 2018	1 January 2018	31 December 2017
Owners' equity:				
Share capital	(XXX)	792,058,500.00	316,823,400.00	316,823,400.00
Other equity instruments		—	—	—
Including: preferred shares		—	—	—
perpetual bond		—	—	—
Capital reserves	(XXXI)	96,793,749.50	445,006,045.54	444,930,544.69
Less: treasury stocks		—	—	—
Other comprehensive income	(XXXII)	29,501,087.49	26,791,680.76	27,277,917.91
Special reserves		—	—	—
Surplus reserves	(XXXIII)	96,626,439.01	85,217,319.96	84,701,819.19
Provision for general risk		—	—	—
Undistributed profits	(XXXIV)	990,758,260.44	1,043,792,815.00	1,076,559,118.85
Total owners' equity attributable to the parent company		2,005,738,036.44	1,917,631,261.26	1,950,292,800.64
Minority interest		75,253,721.53	133,874,477.49	134,053,658.42
Total owners' equity		2,080,991,757.97	2,051,505,738.75	2,084,346,459.06
TOTAL LIABILITIES AND OWNERS' EQUITY		4,811,691,619.32	3,654,556,336.06	3,685,981,109.03

The accompanying notes form an integral part of these financial statements.

Page 50 to page 231 of the financial statements were signed by the following person in charge:

Sha Min
Director

Zhu Xiang
Director

Sha Min
Legal representative

Li Cheng Yang
Person in charge of
accounting function

Li Cheng Yang
Person in charge of
accounting department

Balance Sheet of the Parent Company

At 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

ASSETS	Note XVI	31 December 2018	1 January 2018	31 December 2017
Current assets:				
Cash at bank and on hand		216,574,419.29	243,000,140.69	243,000,140.69
Held-for-trading financial assets		—	—	—
Financial assets measured at fair value with its change included in profit and loss of current year		—	—	—
Derivative financial assets		—	—	—
Notes receivable and accounts receivable	(I)	680,379,961.10	185,992,273.50	193,934,498.90
Prepayments		438,881,761.42	38,270,298.13	38,270,298.13
Other receivables	(II)	156,654,737.12	191,508,154.37	191,658,737.83
Inventories		79,513,649.04	51,506,196.39	57,931,608.26
Contract assets		11,509,767.25	12,248,484.76	—
Held-for-sale assets		—	—	—
Non-current assets due within one year		—	—	—
Other current assets		—	1,215,401.78	1,215,401.78
Total current assets		1,583,514,295.22	723,740,949.62	726,010,685.59
Non-current assets:				
Debt investment		—	—	—
Available-for-sale financial assets		—	—	94,505,231.07
Other debt investment		—	—	—
Held-to-maturity investment		—	—	—
Long-term receivables		—	—	—
Long-term equity investments	(III)	440,049,583.57	491,882,398.36	491,882,398.36
Other equity instruments investment		223,050,081.64	3,117,445.05	—
Other non-current financial assets		109,912,730.26	98,571,597.71	—
Investment property		227,503,300.00	219,390,300.00	219,390,300.00
Fixed assets		167,466,827.06	131,665,347.27	131,665,347.27
Construction in progress		—	874,604.36	874,604.36
Productive biological assets		—	—	—
Oil and gas assets		—	—	—
Intangible assets		11,921,200.44	8,955,656.65	8,955,656.65
Development expenditures		—	—	—
Goodwill		—	—	—
Long-term deferred expenses		—	—	—
Deferred income tax assets		13,622,019.81	9,079,278.53	8,834,969.38
Other non-current assets		63,223,353.93	—	—
Total non-current assets		1,256,749,096.71	963,536,627.93	956,108,507.09
TOTAL ASSETS		2,840,263,391.93	1,687,277,577.55	1,682,119,192.68

Balance Sheet of the Parent Company

At 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

LIABILITIES & OWNERS' EQUITY	Note XVI	31 December 2018	1 January 2018	31 December 2017
Current liabilities:				
Short-term borrowings		522,300,000.00	195,300,000.00	195,300,000.00
Held-for-trading financial liabilities		—	—	—
Financial liabilities measured at fair value with its change included in profit and loss of current year		—	—	—
Derivative financial liabilities		—	—	—
Notes payable and accounts payable		136,251,003.75	106,880,244.54	106,880,244.54
Advances from customers		—	—	17,259,057.62
Payroll payables		5,678,464.54	2,822,557.48	2,822,557.48
Taxes payable		10,447,850.13	15,721,597.55	15,721,597.55
Other payables		84,698,000.16	15,022,980.10	15,022,980.10
Contract liabilities		55,484,882.48	14,325,904.54	—
Held-for-sale liabilities		—	—	—
Non-current liabilities due within 1 year		182,670,000.00	11,250,000.00	11,250,000.00
Other current liabilities		80,440,828.20	2,292,144.75	—
Total current liabilities		1,077,971,029.26	363,615,428.96	364,256,437.29
Non-current liabilities:				
Long-term borrowings		472,250,000.00	67,850,000.00	67,850,000.00
Bonds payables		—	—	—
Including: preferred shares		—	—	—
perpetual bond		—	—	—
Long-term payables		—	—	—
Long-term payroll payables		—	—	—
Estimated liabilities		—	—	—
Deferred income		30,623,382.92	32,306,765.82	32,306,765.82
Deferred income tax liabilities		11,055,200.27	9,969,684.90	8,892,113.14
Other non-current liabilities		—	—	—
Total non-current liabilities		513,928,583.19	110,126,450.72	109,048,878.96
Total liabilities		1,591,899,612.45	473,741,879.68	473,305,316.25

Balance Sheet of the Parent Company

At 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

LIABILITIES & OWNERS' EQUITY (Continued)	Note XVI	31 December 2018	1 January 2018	31 December 2017
Owners' equity:				
Share capital		792,058,500.00	316,823,400.00	316,823,400.00
Other equity instruments		-	-	-
Including: preferred shares		-	-	-
perpetual bond		-	-	-
Capital reserves		100,649,699.68	417,473,099.68	417,473,099.68
Less: treasury stocks		-	-	-
Other comprehensive income		34,852,005.91	34,909,264.81	35,342,451.12
Special reserves		-	-	-
Surplus reserves		96,626,439.01	85,217,319.96	84,701,819.19
Undistributed profits		224,177,134.88	359,112,613.42	354,473,106.44
Total owners' equity		1,248,363,779.48	1,213,535,697.87	1,208,813,876.43
TOTAL LIABILITIES AND OWNERS' EQUITY		2,840,263,391.93	1,687,277,577.55	1,682,119,192.68

The accompanying notes form an integral part of these financial statements.

Page 50 to page 231 of the financial statements were signed by the following person in charge:

Sha Min
Director

Zhu Xiang
Director

Sha Min
Legal representative

Li Cheng Yang
Person in charge of
accounting function

Li Cheng Yang
Person in charge of
accounting department

Consolidated Income Statement

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note V	2018	2017
I. Total operating income		1,834,487,601.95	1,716,862,749.61
Including: Operating income	(XXXV)	1,834,487,601.95	1,716,862,749.61
Interest income		—	—
Earned premiums		—	—
Income from handling charge and commission		—	—
II. Total operating cost		1,623,310,294.33	1,488,866,353.78
Including: Operating cost	(XXXV)	1,318,439,374.75	1,254,829,906.97
Interest expenses		—	—
Handling charges and commissions		—	—
Surrender value		—	—
Net payments for insurance claims		—	—
Net provision for insurance liability		—	—
Expenditures for insurance policy dividend		—	—
Reinsurance costs		—	—
Taxes and surcharges	(XXXVI)	7,634,498.43	7,811,320.82
Selling and distribution expenses	(XXXVII)	41,886,685.67	43,989,687.42
Administrative expenses	(XXXVIII)	63,670,452.74	57,197,021.19
Research & development expenses	(XXXIX)	83,519,378.44	71,252,287.76
Financial expenses	(XL)	57,991,496.21	23,627,434.96
Including: Interest expenses		56,776,087.83	30,003,744.20
Interest income		8,097,068.42	6,114,866.26
Asset impairment losses	(XLI)	3,805,844.66	30,158,694.66
Credit impairment losses	(XLII)	46,362,563.43	—
Add: Other income	(XLIII)	8,467,340.30	7,199,551.69
Investment income (with “-” for losses)	(XLIV)	961,306.91	17,772,419.06
Including: Investment income from associates and joint ventures	(XLIV)	-4,420,731.52	-1,413,423.92
Currency exchange gains (with “-” for losses)		—	—
Income from net exposure to hedging (with “-” for losses)		—	—
Gain on fair value change (with “-” for losses)	(XLV)	8,767,392.27	4,139,700.00
Income on disposal of assets (with “-” for losses)	(XLVI)	62,859.80	16,793.21
III. Operating profit (with “-” for losses)		229,436,206.90	257,124,859.79
Add: Non-operating income	(XLVII)	3,237,224.95	5,443,938.85
Less: Non-operating expenses	(XLVIII)	3,034,972.86	227,603.74
IV. Total profit (with “-” for total losses)		229,638,458.99	262,341,194.90
Less: Income tax expenses	(LI)	36,942,240.30	45,248,963.45

Consolidated Income Statement

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note V	2018	2017
V. Net profit (with “-” for net losses)		192,696,218.69	217,092,231.45
(I) Classified by business continuity			
1. Net profit from the continuing operations (with “-” for net losses)		192,696,218.69	210,371,660.05
2. Net profit from the discontinued operations (with “-” for net losses)		—	6,720,571.40
(II) Classified by ownership			
1. Net profit attributable to the shareholders of parent company (with “-” for net losses)		195,992,114.49	222,099,125.50
2. Minority shareholder gains and losses (with “-” for net losses)		-3,295,895.80	-5,006,894.05
VI. Net other comprehensive income, net of tax		2,709,406.73	-5,828,239.39
Net other comprehensive income attributable to the owners of parent company, net of tax		2,709,406.73	-5,828,239.39
(I) Other comprehensive income that will not be reclassified to profit or loss		-56,853.24	—
1. Changes of re-measurement of defined benefit plans		—	—
2. Other comprehensive income under equity method that cannot be reclassified into profit and loss		-56,853.24	—
3. Changes in fair value of other equity instruments investment		—	—
4. Changes in fair value of the company's own credit risk		—	—
(II) Other comprehensive income that will be reclassified to profit and loss		2,766,259.97	-5,828,239.39
1. Other comprehensive income under equity method that can be reclassified into profit and loss		—	—
2. Changes in fair value of other debt investments		—	—
3. Profit and loss from changes in fair value of available-for-sale financial assets		—	—
4. The amount of financial assets reclassified into other comprehensive income		—	—
5. Profit or loss from held-to-maturity investment reclassified as available-for-sale financial assets		—	—
6. Credit impairment provisions for other debt investment		—	—
7. Reserves for cash flows hedges (Effective portion of profit or loss from cash flows hedges)		—	—
8. Converted difference in foreign currency statements		2,766,259.97	-5,828,239.39
9. Other		—	—
Net other comprehensive income attributable to minority shareholders, net of tax		—	—

Consolidated Income Statement

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note V	2018	2017
VII. Total comprehensive income		195,405,625.42	211,263,992.06
Total comprehensive income attributable to the owner of parent company		198,701,521.22	216,270,886.11
Total comprehensive income attributable to minority shareholders		-3,295,895.80	-5,006,894.05
VIII. Earnings per share:			
(1) Basic earnings per share (yuan/share)		0.25	0.28
(2) Diluted earnings per share (yuan/share)		0.25	0.28

Business combination under the same control occurred in the current period, the net profit realized by the acquiree before the combination was ____0____yuan, the net profit realized by the acquiree in the previous period was ____0____ yuan.

The accompanying notes form an integral part of these financial statements.

Income Statement of the Parent Company

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note XVI	2018	2017
I. Operating income	(IV)	782,602,553.17	399,373,346.95
Less: Operating cost	(IV)	599,159,449.90	274,153,489.90
Taxes and surcharges		4,182,738.65	4,631,757.74
Selling and distribution expenses		18,133,052.82	16,856,343.68
Administrative expenses		40,160,099.63	29,333,837.03
Research & development expenses		29,322,327.72	21,943,711.46
Financial expenses		46,822,349.90	11,819,090.94
Including: Interest expenses		45,542,284.78	13,907,453.57
Interest income		5,263,523.21	2,139,148.46
Asset impairment losses		232,875.28	9,975,033.56
Credit impairment losses		30,052,066.53	—
Add: Other income		3,862,390.70	5,068,618.30
Investment income (with “-” for losses)	(V)	93,235,386.21	35,998,724.61
Including: Investment income from associates and joint ventures		-3,757,402.34	-896,066.14
Income from net exposure to hedging (with “-” for losses)		—	—
Gain on fair value change (with “-” for losses)		7,304,132.55	4,139,700.00
Income on disposal of assets (with “-” for losses)		—	11,830.12
II. Operating profit (with “-” for losses)		118,939,502.20	75,878,955.67
Add: Non-operating income		2,936,701.47	726,010.06
Less: Non-operating expenses		3,005,386.15	50,000.00
III. Total profit (with “-” for total losses)		118,870,817.52	76,554,965.73
Less: Income tax expenses		4,779,627.01	9,081,279.44
IV. Net profit (with “-” for net losses)		114,091,190.51	67,473,686.29
(I) Net profit from the continuing operations (with “-” for net losses)		114,091,190.51	67,473,686.29
(II) Net profit from the discontinued operations (with “-” for net losses)		—	—

Income Statement of the Parent Company

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note XVI	2018	2017
V. Net other comprehensive income, net of tax		-57,258.90	—
(I) Other comprehensive income that will not be reclassified to profit or loss		-57,258.90	—
1. Changes of re-measurement of defined benefit plans		—	—
2. Other comprehensive income under equity method that cannot be reclassified into profit and loss		-57,258.90	—
3. Changes in fair value of other equity instruments investment		—	—
4. Changes in fair value of the company's own credit risk		—	—
(II) Other comprehensive income that will be reclassified to profit and loss		—	—
1. Other comprehensive income under equity method that can be reclassified into profit and loss		—	—
2. Changes in fair value of other debt investments		—	—
3. Profit and loss from changes in fair value of available-for-sale financial assets		—	—
4. The amount of financial assets reclassified into other comprehensive income		—	—
5. Profit or loss from held-to-maturity investment reclassified as available-for-sale financial assets		—	—
6. Credit impairment provisions for other debt investment		—	—
7. Reserves for cash flows hedges (Effective portion of profit or loss from cash flows hedges)		—	—
8. Converted difference in foreign currency statements		—	—
9. Other		—	—
VI. Total comprehensive income		114,033,931.61	67,473,686.29
VII. Earnings per share:			
(I) Basic earnings per share (yuan/share)		—	—
(II) Diluted earnings per share (yuan/share)		—	—

The accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note V	2018	2017
I. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		1,439,477,031.80	1,588,793,372.08
Net increase in customers' deposits and interbank placements		—	—
Net increase in loans from the central bank		—	—
Net increase in funds borrowed from other financial institutions		—	—
Cash received from premium of original insurance contract		—	—
Net cash received from reinsurance		—	—
Net increase in deposits of the insured and investment		—	—
Cash received from interests, handling charges and commissions		—	—
Net increase in funds borrowed		—	—
Net increase in repurchase business funds		—	—
Net cash flows from brokerage trading		—	—
Refund of taxes and surcharges		2,231,966.39	25,116,798.93
Cash received relating to other operating activities (LIII).1		176,643,397.60	106,122,433.01
Sub-total of cash inflows from operating activities		1,618,352,395.79	1,720,032,604.02
Cash paid for goods and services		1,852,172,678.99	1,441,846,681.80
Net increase in loans and advances to customers		—	—
Net increase in deposits with the central bank and other banks		—	—
Cash paid for compensation under original insurance contract		—	—
Net increase from financial assets held for trading purpose		—	—
Cash for lendings to banks and other financial institutions		—	—
Cash paid for interests, handling charges and commissions		—	—
Cash paid for policy dividends		—	—
Cash paid to and on behalf of employees		67,622,484.96	63,409,716.12
Payments of tax charges		85,000,915.76	73,661,255.40
Cash paid relating to other operating activities (LIII).2		97,894,148.78	610,711,600.88
Sub-total of cash outflows from operating activities		2,102,690,228.49	2,189,629,254.20
Net cash flows from operating activities		-484,337,832.70	-469,596,650.18

Consolidated Cash Flow Statement

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note V	2018	2017
II. Cash flows from investing activities			
Cash received from disposal of investments		1,026,001.00	58,450,115.02
Cash received from returns on investments		68,200.00	5,027,998.75
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		66,534.89	—
Net cash received from disposal of subsidiaries and other operating entities		—	—
Cash received relating to other investing activities	(LIII).3	725,781.50	182,165,000.00
Sub-total of cash inflows from investing activities		1,886,517.39	245,643,113.77
Cash paid to acquire fixed assets, intangible assets and other long-term assets		107,885,651.53	4,676,660.97
Cash paid to acquire investments		354,261,068.31	223,637,325.95
Net increase of pledged loans		—	—
Net cash paid to acquire subsidiaries and other operating entities		—	479,200.62
Cash paid relating to other investing activities	(LIII).4	870,895.03	44,465,187.89
Sub-total of cash outflows from investing activities		463,017,614.87	273,258,375.43
Net cash flows from investing activities		-461,131,097.48	-27,615,261.66
III. Cash flows from financing activities			
Cash received from capital contributions		—	15,750,000.00
Including: Cash received from investment by minority shareholders of subsidiaries		—	15,750,000.00
Cash received from borrowings		1,557,411,860.88	1,021,147,940.90
Proceeds from bonds issued		—	—
Cash received relating to other financing activities	(LIII).5	—	34,885,482.69
Sub-total of cash inflows from financing activities		1,557,411,860.88	1,071,783,423.59
Cash repayments of borrowings		694,401,860.88	957,807,627.57
Cash payments for interest expenses and distribution of dividends or profits		139,149,454.52	69,548,934.69
Including: Payments for distribution of dividends or profits to minority shareholders of subsidiaries		—	—
Cash paid relating to other financing activities	(LIII).6	9,316,592.60	—

Consolidated Cash Flow Statement

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note V	2018	2017
Sub-total of cash outflows from financing activities		842,867,908.00	1,027,356,562.26
Net cash flows from financing activities		714,543,952.88	44,426,861.33
IV. Effect of foreign exchange rate changes on cash and cash equivalents		1,384,924.75	-2,708,661.28
V. Net increase in cash and cash equivalents		-229,540,052.55	-455,493,711.79
Add: Cash and cash equivalents at beginning of period		726,084,254.20	1,181,577,965.99
VI. Cash and cash equivalent at end of period		496,544,201.65	726,084,254.20

The accompanying notes form an integral part of these financial statements.

Cash Flow Statement of the Parent Company

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note XVI	2018	2017
I. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		521,140,913.57	405,957,199.55
Refund of taxes and surcharges		461,612.33	2,953,519.21
Cash received relating to other operating activities		12,127,269.98	14,365,012.07
Sub-total of cash inflows from operating activities		533,729,795.88	423,275,730.83
Cash paid for goods and services		1,137,009,410.01	402,397,162.70
Cash paid to and on behalf of employees		32,785,058.99	25,053,335.68
Payments of taxes and surcharges		27,869,826.34	21,667,020.55
Cash paid relating to other operating activities		70,092,625.60	27,289,644.82
Sub-total of cash outflows from operating activities		1,267,756,920.94	476,407,163.75
Net cash flows from operating activities		-734,027,125.06	-53,131,432.92
II. Cash flows from investing activities			
Cash received from disposal of investments		60,000,001.00	58,155,312.00
Cash received from returns on investments		100,068,200.00	24,023,406.74
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		-	-
Net cash received from disposal of subsidiaries and other operating entities		-	59,497,296.60
Cash received relating to other investing activities		-	171,040,000.00
Sub-total of cash inflows from investing activities		160,068,201.00	312,716,015.34
Cash paid to acquire fixed assets, intangible assets and other long-term assets		54,592,834.65	1,753,365.06
Cash paid to acquire investments		307,150,000.00	338,011,055.07
Net cash paid to acquire subsidiaries and other operating entities		-	7,830,000.00
Cash paid relating to other investing activities		-	-
Sub-total of cash outflows from investing activities		361,742,834.65	347,594,420.13
Net cash flows from investing activities		-201,674,633.65	-34,878,404.79

Cash Flow Statement of the Parent Company

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note XVI	2018	2017
III. Cash flows from financing activities		—	—
Cash received from capital contributions			
Cash received from borrowings		1,355,490,000.00	195,300,000.00
Proceeds from bonds issued		—	—
Cash received relating to other investing activities		137,708,157.85	-62,806,672.06
Sub-total of cash inflows from financing activities		1,493,198,157.85	132,493,327.94
Cash repayments of borrowings		459,480,000.00	199,110,000.00
Cash payments for interest expenses and distribution of dividends or profits		126,082,328.70	54,752,943.27
Cash paid relating to other financing activities		8,716,015.00	—
Sub-total of cash outflows from financing activities		594,278,343.70	253,862,943.27
Net cash flows from financing activities		898,919,814.15	-121,369,615.33
IV. Effect of foreign exchange rate changes on cash and cash equivalents		—	—
V. Net increase in cash and cash equivalents		-36,781,944.56	-209,379,453.04
Add: Cash and cash equivalents at beginning of period		240,800,291.29	450,179,744.33
VI. Cash and cash equivalent at end of period		204,018,346.73	240,800,291.29

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Current period														
	Owners' equity attributable to the parent company														
	Other equity instruments				Less:										
	Share capital	Preferred shares	Perpetual bond	Other	Capital reserve	Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Provision for general risk	Undistributed profits	Other	Sub-total	Minority interest	Total owners' equity
I. Closing balance of prior year	316,823,400.00	-	-	-	444,930,544.69	-	27,277,917.91	-	84,701,819.19	-	1,076,559,118.85	-	1,950,292,800.64	134,053,658.42	2,084,346,459.06
Add: Change of accounting policy	-	-	-	-	75,500.85	-	-486,237.15	-	515,500.77	-	-32,766,303.85	-	-32,661,539.38	-179,180.93	-32,840,720.31
Correction of accounting errors for prior period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Business combination under common control	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Opening balance of current year	316,823,400.00	-	-	-	445,006,045.54	-	26,791,680.76	-	85,217,319.96	-	1,043,792,815.00	-	1,917,631,261.26	133,874,477.49	2,051,505,738.75
III. Changes during the period (with "+" for decrease)	475,235,100.00	-	-	-	-348,212,296.04	-	2,709,406.73	-	11,409,119.05	-	-53,034,554.56	-	88,106,775.18	-58,620,755.96	29,486,019.22
(I) Total comprehensive income	-	-	-	-	-	-	2,709,406.73	-	-	-	195,992,114.49	-	198,701,521.22	-3,295,885.80	195,405,635.42
(II) Owners' contribution and capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-55,324,680.16	-55,324,680.16
1. Ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-55,324,680.16	-55,324,680.16
2. Capital invested by other equity instrument holders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Share payment included in the owner's equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(III) Profit appropriation	-	-	-	-	-	-	-	-	11,409,119.05	-	-90,614,969.05	-	-79,205,850.00	-79,205,850.00	-79,205,850.00
1. Appropriation to surplus reserves	-	-	-	-	-	-	-	-	11,409,119.05	-	-11,409,119.05	-	-	-	-
2. Provision for general risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Distribution to owners' (shareholders)	-	-	-	-	-	-	-	-	-	-	-79,205,850.00	-	-79,205,850.00	-	-79,205,850.00
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Current period														
	Owners' equity attributable to the parent company											Total owners' equity			
	Other equity instruments														
	Share capital	Preferred shares	Perpetual bond	Other	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Provision for general risk	Undistributed profits	Other	Sub-total	Minority interest	
(IV) Internal transfer of owners' equity	475,235,100.00	-	-	-	-316,823,400.00	-	-	-	-	-	-153,411,700.00	-	-	-	-
1. Capital reserves transferred to capital (or share capital)	316,823,400.00	-	-	-	-316,823,400.00	-	-	-	-	-	-	-	-	-	-
2. Surplus reserves transferred to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves make up for losses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Changes of defined benefits plan transferring to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Other comprehensive transferring to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6. Other (distribution of bonus shares)	153,411,700.00	-	-	-	-	-	-	-	-	-	-153,411,700.00	-	-	-	-
(V) Special reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation in the current period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Utilized in the current period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(VI) Others	-	-	-	-	-31,388,886.04	-	-	-	-	-	-	-31,388,886.04	-	-	-31,388,886.04
IV. Closing balance of current period	792,058,500.00	-	-	-	96,793,748.50	-	29,501,087.49	-	96,626,439.01	-	990,753,280.44	-	2,005,733,036.44	75,253,721.33	2,080,987,757.97

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Owners' equity attributable to the parent company											Previous period			
	Other equity instruments					Less:						Total owners' equity			
	Share capital	Preferred shares	Perpetual bond	Other	Capital reserve	Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Provision for general risk	Unsubstituted profits		Other	Sub-total	Minority interest
I. Closing balance of prior year	316,823,400.00	-	-	-	417,341,904.48	-	33,105,840.34	-	77,954,460.56	-	908,730,871.98	-	1,753,935,467.36	62,795,614.60	1,816,732,081.96
Add: Change of accounting policy	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Correction of accounting errors for prior period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Business combination under common control	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Opening balance of current year	316,823,400.00	-	-	-	417,341,904.48	-	33,105,840.34	-	77,954,460.56	-	908,730,871.98	-	1,753,935,467.36	62,795,614.60	1,816,732,081.96
III. Changes during the period (with "-" for decrease)	-	-	-	-	27,589,640.21	-	-5,827,922.43	-	6,747,368.63	-	167,282,246.87	-	196,335,333.28	71,250,043.32	267,584,377.10
(I) Total comprehensive income	-	-	-	-	-	-	-5,828,239.39	-	-	-	222,089,125.50	-	216,270,886.11	-5,006,894.05	211,263,982.06
(II) Owners' contribution and capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	76,264,937.87	76,264,937.87
1. Ordinary shares contribution by owners	-	-	-	-	-	-	-	-	-	-	-	-	-	76,264,937.87	76,264,937.87
2. Capital invested by other equity instrument holders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Share payment included in the owner's equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Owners' equity attributable to the parent company										Previous period				
	Other equity instruments					Less:									
	State capital	Preferred shares	Perpetual bond	Other	Capital reserve	Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Provision for general risk	Undistributed profits	Other	Sub-total	Minority interest	Total owners' equity
(III) Profit appropriation	-	-	-	-	-	-	-	-	6,747,388.63	-	54,270,878.63	-	-47,523,510.00	-	-47,523,510.00
1. Appropriation to surplus reserves	-	-	-	-	-	-	-	-	6,747,388.63	-	-6,747,388.63	-	-	-	-
2. Provision for general risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Distribution to owners' (shareholders)	-	-	-	-	-	-	-	-	-	-	-47,523,510.00	-	-47,523,510.00	-	-47,523,510.00
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(IV) Internal transfer of owners' equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Capital reserves transferred to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Surplus reserves transferred to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves made up for losses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Changes of defined benefits plan transferring to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(V) Special reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation in the current period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Utilized in the current period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(VI) Others	-	-	-	-	27,588,957.17	-	316.96	-	-	-	-	-	27,588,957.17	-	27,588,957.17
IV. Closing balance of current period	316,823,400.00	-	-	-	444,880,544.69	-	27,277,917.91	-	84,701,819.19	-	1,076,559,118.85	-	1,950,292,800.64	134,053,659.42	2,084,346,459.06

The accompanying notes form an integral part of these financial statements.

Statement of Changes in Equity of the Parent Company

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Other equity instruments				Current period					Total owners' equity	
	Paid-up capital (Share capital)	Preferred shares	Perpetual bond	Other	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve		Undistributed profits
I. Closing balance of prior year	316,823,400.00	-	-	-	417,473,099.68	-	35,342,451.12	-	84,701,819.19	354,473,106.44	1,208,813,876.43
Add: Change of accounting policy	-	-	-	-	-	-	-433,186.31	-	515,500.77	4,639,506.98	4,721,821.44
Correction of accounting errors for prior period	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
II. Opening balance of current year	316,823,400.00	-	-	-	417,473,099.68	-	34,909,264.81	-	85,217,319.96	359,112,613.42	1,213,535,697.87
III. Changes during the period (with "-" for decrease)	475,235,100.00	-	-	-	-316,823,400.00	-	-57,258.90	-	11,409,119.05	-134,935,478.54	34,828,081.61
(I) Total comprehensive income	-	-	-	-	-	-	-57,258.90	-	-	114,091,190.51	114,033,931.61
(II) Owners' contribution by shareholders	-	-	-	-	-	-	-	-	-	-	-
1. Ordinary shares contribution by owners	-	-	-	-	-	-	-	-	-	-	-
2. Capital invested by other equity instrument holders	-	-	-	-	-	-	-	-	-	-	-
3. Share payment included in the owner's equity	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-
(III) Profit appropriation	-	-	-	-	-	-	-	-	11,409,119.05	-90,614,969.05	-79,205,850.00
1. Appropriation to surplus reserves	-	-	-	-	-	-	-	-	11,409,119.05	-11,409,119.05	-
2. Distribution to owners' (or shareholders)	-	-	-	-	-	-	-	-	-	-79,205,850.00	-79,205,850.00
3. Others	-	-	-	-	-	-	-	-	-	-	-

Statement of Changes in Equity of the Parent Company

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Other equity instruments				Current period					Total owners' equity	
	Paid-up capital (Share capital)	Preferred shares	Perpetual bond	Other	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve		Undistributed profits
(M) Internal transfer of Owners' equity											
1. Capital reserves transferred to capital (or share capital)	475,235,100.00	-	-	-	-316,823,400.00	-	-	-	-	-158,411,700.00	-
2. Surplus reserves transferred to capital (or share capital)	316,823,400.00	-	-	-	-316,823,400.00	-	-	-	-	-	-
3. Surplus reserves make up for losses	-	-	-	-	-	-	-	-	-	-	-
4. Changes of defined benefits plan transferring to retained earnings	-	-	-	-	-	-	-	-	-	-	-
5. Other comprehensive transferring to retained earnings	-	-	-	-	-	-	-	-	-	-	-
6. Other (Distribution of bonus shares)	158,411,700.00	-	-	-	-	-	-	-	-	-158,411,700.00	-
(M) Special reserve	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation in the current period	-	-	-	-	-	-	-	-	-	-	-
2. Utilized in the current period	-	-	-	-	-	-	-	-	-	-	-
(M) Others	-	-	-	-	-	-	-	-	-	-	-
IV. Closing balance of current period	792,058,500.00	-	-	-	100,649,699.68	-	34,852,005.91	-	96,626,439.01	224,177,134.88	1,248,363,779.48

The accompanying notes form an integral part of these financial statements.

Statement of Changes in Equity of the Parent Company

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Other equity instruments					Previous period					Total owners' equity
	Paid-up capital (Share capital)	Preferred shares	Perpetual bond	Other	Capital reserve	Less Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	
I. Closing balance of prior year	316,823,400.00	-	-	-	417,473,099.68	-	35,342,451.12	-	77,954,450.56	341,270,298.78	1,188,883,700.14
Add: Change of accounting policy	-	-	-	-	-	-	-	-	-	-	-
Correction of accounting errors for prior period	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
II. Opening balance of current year	316,823,400.00	-	-	-	417,473,099.68	-	35,342,451.12	-	77,954,450.56	341,270,298.78	1,188,883,700.14
III. Changes during the period (with "-" for decrease)											
(I) Total comprehensive income	-	-	-	-	-	-	-	-	6,747,368.63	13,202,807.66	19,950,176.29
(II) Owners' contribution and capital reduction	-	-	-	-	-	-	-	-	-	67,473,886.29	67,473,886.29
1. Ordinary shares contribution by owners	-	-	-	-	-	-	-	-	-	-	-
2. Capital invested by other equity instrument holders	-	-	-	-	-	-	-	-	-	-	-
3. Share payment included in the owner's equity	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-
(III) Profit appropriation	-	-	-	-	-	-	-	-	6,747,368.63	-54,270,878.63	-47,523,510.00
1. Appropriation to surplus reserves	-	-	-	-	-	-	-	-	6,747,368.63	-6,747,368.63	-
2. Distribution to owners' (or shareholders)	-	-	-	-	-	-	-	-	-	-47,523,510.00	-47,523,510.00
3. Others	-	-	-	-	-	-	-	-	-	-	-

Statement of Changes in Equity of the Parent Company

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Other equity instruments				Previous period						Total owners' equity
	Paid-up capital (Share capital)	Preferred shares	Perpetual bond	Other	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	
(IV) Internal transfer of Owners' equity	-	-	-	-	-	-	-	-	-	-	-
1. Capital reserves transferred to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-
2. Surplus reserves transferred to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves make up for losses	-	-	-	-	-	-	-	-	-	-	-
4. Changes of defined benefits plan transferring to retained earnings	-	-	-	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-	-	-	-
(V) Special reserve	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation in the current period	-	-	-	-	-	-	-	-	-	-	-
2. Utilized in the current period	-	-	-	-	-	-	-	-	-	-	-
(VI) Others	-	-	-	-	-	-	-	-	-	-	-
IV. Closing balance of current period	316,823,400.00	-	-	-	417,473,099.68	-	35,342,451.12	-	84,701,819.19	354,473,106.44	1,208,813,876.43

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

I. BASIC CORPORATE INFORMATION

(I) Company Overview

1. General information

南京三寶科技股份有限公司 (Nanjing Sample Technology Company Limited*) (the “Company”, together with its subsidiaries, the “Group”) was established in the People’s Republic of China (the “PRC”) and was approved to be reorganised into a joint stock limited company on 28 December 2000.

The shares of the Company were listed on the GEM (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 9 June 2004. On 22 November 2010, the Company’s H shares were successfully migrated from the GEM to the mainboard of the Stock Exchange (the “Main Board”).

The Unified social credit code of the Company is 91320100726074332B and the legal representative of the Company is Sha Min.

The registered capital of the Company is 792,058,500 yuan.

The addresses of the registered office and principal place of business of the Company are located at No. 10 Maqun Avenue, Qixia District, Nanjing City.

2. The nature of the industry

The Group is engaged in the information technology application (IT application) service industry.

3. Scope of business

Computer networks, industrial automation engineering design, installation; electronic products, electronic computer development, manufacture, testing, sale of self-production products, system integration; electronic computer technology consulting and information services; technology testing of electronic products and technical services; computer software development; security engineering design, construction, maintenance; research and development of ITS-based basic information collection technology and equipment (excluding commodities under the special control of the State and projects with special approval). (Projects that require approval under law, business can be carried out after the approval by the relevant departments)

4. Principal business

The Group is principally engaged in the provision of visual identification and RFID technologies-based full solutions to intelligent transportation, customs logistics application areas.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

I. BASIC CORPORATE INFORMATION (Continued)

(I) Company Overview (Continued)

5. Basic organizational structure of the Company

The Group has established Shareholders' General Meeting, the Board of Directors and the Supervisory Committee. The Company has: Investment Department, Finance Department, Securities Department, Technology Management Department, Development Planning Department, Human Resources Department, Information Service Department, Administration Department, Marketing Department, Legal Affairs Department, Engineering Technology Department, Office of the President and other functional departments.

6. The financial statements was approved by the board of directors of the Company on 29 March 2019.

(II) Scope of consolidated financial statements

As of 31 December 2018, the Group's subsidiaries within the consolidated financial statements are as follows:

Name of subsidiaries	Referred to as
江蘇智運科技發展有限公司 (Jiangsu Intellitrans Company Ltd.*)	Jiangsu Intellitrans
江蘇瑞福智能科技有限公司 (Jiangsu Ruifu Intelligent Tech. Co., Limited*)	Ruifu
南京三寶物流科技有限公司 (Nanjing Sample Logistic Company Ltd.*)	Logistic
南京物聯網研究院發展有限公司 (Nanjing Wu Lian Wang Yan Jiu Yuan Development Co., Ltd.*)	Wu Lian Wang
Sample Technology (H.K.) Co., Ltd.	Sample HK
Federal International Enterprise Ltd.	Federal
新興企業有限公司 (Sun Supreme Enterprises Limited.)	Sun Supreme
南京城市智能交通股份有限公司 (Nanjing City Intelligent Transportation Co., Ltd.*)	Intelligent Transportation
徐州三寶智能科技發展有限公司 (Xuzhou Sample Intelligent Technology Development Co., Ltd.*)	Xuzhou Sample
江蘇思瑞德物聯科技有限公司 (Jiangsu Siruide IOT Technology Co., Ltd.*)	Siruide
南京三寶鏈式數據技術有限公司 (Nanjing Sample Chain Information Technology Co., Ltd.)	Chain Information
南京數字城市投資建設有限公司 (Nanjing Intelligent Urban Constructive Investment Co., Ltd.)	Urban Constructive
南京森遠勝商務信息諮詢合夥企業 (有限合夥) (Nanjing Senyuansheng Business Information Consulting Partnership (limited partnership))	Senyuansheng

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

I. BASIC CORPORATE INFORMATION *(Continued)*

(II) Scope of consolidated financial statements *(Continued)*

For details of the scope of consolidated financial statements and its changes in the reporting period, please refer to “Note VI. Changes in the scope of consolidation” and “VII. Interests in Other Entities”.

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(I) Basis of preparation

The Group is on a going concern basis and the financial statements have been prepared based on the actual transactions and matters incurred and in accordance with the Accounting Standards for Business Enterprises-Basic Standards and all specific accounting standards promulgated by the Ministry of Finance, the application guidelines of the Accounting Standards for Business Enterprises, interpretations and other related rules of the Accounting Standards for Business Enterprises (hereinafter referred to as “ASBEs”) as well as Information Disclosure Rule No. 15 of Public Offerings Company-Financial Reporting General Provisions issued by CSRC.

(II) Going concern

The Group has ability to continue as a going concern for at least 12 months since the end of the reporting period and there’s no significant events affecting its ability to continue as a going concern.

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES

(I) Statement of compliance of accounting standards for business enterprises

The financial statements have been prepared by the Group in conformity with the China Accounting Standards for Business Enterprises, and present truly and completely the consolidated and the Company’s financial position as at 31 December 2018, and the consolidated and the Company’s operating results and cash flow and other related information during the year then ended.

(II) Accounting period

The accounting period is from 1 January to 31 December of each calendar year.

(III) Operating period

The Group’s operating period is 12 months.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

(IV) Reporting currency

The reporting currency of the Company and its domestic subsidiaries is Renminbi (“RMB”). The reporting currency for the offshore subsidiaries and businesses is the currency of the place in which they operate.

The currency used by the Group in the preparation of the financial statements is RMB.

(V) Accounting treatments for business combinations involving entities under and not under common control

1. Business combinations involving entities under common control

The assets and liabilities acquired by the Group in business combination shall be measured at the carrying value of the assets, liabilities of the acquiree (including goodwill incurred in the acquisition of the acquiree by ultimate controlling party) in the financial statements of the ultimate controlling party at the date of combination. If there is an inconsistency between the accounting policies adopted by the acquirees and those of the Company, the adjustment will be made by the Group according to the Group’s accounting policies at the date of the combination, and the adjusted carrying value will be recognised on this basis.

The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or total nominal value of the issued shares) is adjusted to capital premium in capital reserve. If the capital premium in capital reserve is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings.

The direct expenses incurred in business combination, including the audit fee, appraisal fee and legal service fee paid by the Group in connection with business combination shall be charged to the profit or loss when incurred.

The administrative charges and commission incurred upon issuance of equity securities in business combination shall be offset against the premium income from equity securities. If such amount cannot be offset by premium income, it shall be adjusted against retained earnings.

2. Business combinations involving entities not under common control

The assets paid and liabilities incurred or committed as a consideration of business combination by the Group were measured at fair value on the date of acquisition and the difference between the fair value and its carrying value shall be charged to the profit or loss for the period.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(V) Accounting treatments for business combinations involving entities under and not under common control *(Continued)*

2. Business combinations involving entities not under common control *(Continued)*

The Group shall allocate the cost of combination on the date of acquisition and recognize the fair value of the identifiable assets, liabilities and contingent liabilities acquired from the acquiree.

Where the cost of combination is higher than the fair value of the identifiable net assets acquired from the acquiree in business combination, the Group shall recognize such difference as goodwill; where the cost of combination is less than the fair value of the identifiable net assets acquired from the acquiree in business combination, such difference shall be charged to the profit or loss for the current period after verification.

As for the assets other than intangible assets acquired from the acquiree in a business combination (not limited to the assets which have been recognized by the acquiree), if the economic benefits brought by them are likely to flow into the Group and their fair values can be measured reliably, they shall be separately recognized and measured in light of their fair values; if the fair value of any intangible asset can be measured reliably, it shall be separately recognized as an intangible asset and shall be measured in light of its fair value; As for the liabilities other than contingent liabilities acquired from the acquiree, if the performance of the relevant obligations are likely to result in any out-flow of economic benefits from the Group, and their fair values can be measured reliably, they shall be separately recognized and measured in light of their fair values; As for the contingent liabilities of the acquiree obtained in a combination, if their fair values can be measured reliably, they shall separately recognized as liabilities and shall be measured in light of their fair values.

In a business combination, the acquiree's deductible temporary differences obtained by the Group are not recognised if the deductible temporary differences do not satisfy the criteria for recognition of deferred tax assets on the date of acquisition. The Company recognises the relevant deferred tax assets and reduces goodwill accordingly if within 12 months of the acquisition date, new or updated information indicates that on the date of acquisition, the economic benefits brought by the deductible temporary differences is expected to be realized. If the goodwill is insufficient to be deducted, any remaining deferred tax benefits shall be recognised in profit or loss for the current period. Save as above, all other acquired deferred tax assets recognised under business combination shall be charged to profit or loss for the current period.

For business combinations involving entities not under common control, the agency fee paid by the acquirer such as audit, legal service and evaluation consultation and other management fees shall be recognised as the profit or loss in the period when the costs are incurred; the transaction costs for the equity securities or debt securities issued by the acquirer as the combination consideration shall be included in the amount of initial recognition of the equity securities or debt securities.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

(VI) Preparation of consolidated financial statements

1. Scope of consolidation

The scope of consolidation of the consolidated financial statements of the Group is based on controlling interests, and all the subsidiaries (including separate entities controlled by the Group) are included in the consolidated financial statements.

2. Consolidation method

The consolidated financial statements are prepared by the Group based on the financial statements of the Company and its subsidiaries and in accordance with the other relevant information. In preparation of the Group's consolidated financial statements, the Group will treat the enterprise group as a single accounting entity. The Group's overall financial condition, operating results and cash flow are reflected based on the relevant accounting standards, measurement and presentation requirements and in accordance with the unified accounting policy.

The subsidiaries that are within the scope of the consolidation shall have the same accounting policies and the accounting periods with those of the Group. In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Group and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Group. For subsidiaries acquired from a business combination involving entities not under common control, its financial statements are adjusted based on the fair value of the identifiable net assets on the date of acquisition. For subsidiaries acquired from a business combination involving entities under common control, its financial statements are adjusted based on the carrying value of the assets, liabilities of the acquiree (including goodwill incurred in the acquisition of the acquiree by ultimate controlling party) in the financial statements of the ultimate controlling party.

The owner's equity, the net profit or loss and the comprehensive income attributable to minority shareholders of a subsidiary of the current period are presented separately under the owners' equity in the consolidated balance sheet, the net profit and the total comprehensive income in the consolidated income statement respectively. Where losses attributable to the minority shareholders of a subsidiary exceed the minority shareholders' interest entitled in the shareholders' equity of the subsidiary at the beginning of the period, the excess is allocated against the minority shareholders interest.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(VI) Preparation of consolidated financial statements *(Continued)*

2. Consolidation method *(Continued)*

(1) Acquisition of subsidiaries or business

For acquisition of subsidiaries or business due to business combination involving entities under common control during the reporting period, the opening balance of the consolidated balance sheet shall be adjusted; the revenue, expense and profit of such subsidiaries or business from the beginning to the end of the reporting period when the merger occurs are included in the consolidated income statement; the cash flows of such subsidiaries or business from the beginning to the end of the reporting period when the merger occurs are included in the consolidated cash flow statement, and the comparative figures of the financial statements should be adjusted simultaneously as if the consolidated reporting entity had been in existence since the beginning of the control by the ultimate controlling party.

An investor that may impose control over the investee under joint control due to additional investment shall be deemed a party participating in the combination, and shall be adjusted at current existence status when the ultimate controlling party begins the control. The equity investment held before gaining the control of the combined party is recognized as relevant profit or loss, other comprehensive income and changes in other net assets at the later of the date of acquisition of the original equity and the date when the combining and the combined parties are under joint control, and shall be written down to the opening balance of retained earnings or current profit or loss in the comparative reporting period.

For acquisition of subsidiaries or business due to business combination involving entities not under common control during the reporting period, the opening balance of consolidated balance sheet needs not be adjusted; the revenue, expense and profit of such subsidiaries or business from the date of acquisition to the end of the reporting period are included in the consolidated income statement; the cash flows of such subsidiaries or business from the date of acquisition to the end of the reporting period are included in the consolidated cash flow statement.

In connection with imposing control over the investee not under joint control as a result of additional investment and other reasons, the equity of acquiree held before acquisition date shall be remeasured by the Group at the fair value of such equity on the acquisition date and the difference between fair value and carrying amount shall be recognised as investment income in current period; if the acquiree's equity held before the acquiring date contains other comprehensive income and the other changes of owner's equity except for net profits and losses, other comprehensive income and profit distributions under the equity method, the related other comprehensive income and changes in other owner's equity shall be transferred to investment gains or losses on the date of acquisition, excluding the other comprehensive income derived from changes of net liabilities or net assets due to re-measurement on defined benefit plan by the investee.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

(VI) Preparation of consolidated financial statements (Continued)

2. Consolidation method (Continued)

(2) Disposal of subsidiaries or business

① General treatment

For disposal of subsidiaries or business during the reporting period, the revenue, expense and profit of such subsidiaries or business from the beginning of the period to the date of disposal are included in the consolidated income statement; the cash flows of such subsidiaries or business from the beginning of the period to the date of disposal are included in the consolidated cash flow statement.

Where control of the investee is lost due to partial disposal of the equity investment, or any other reasons, the remaining equity investment is remeasured to fair value at the date in which control is lost. The sum of consideration received from disposal of equity investment and the fair value of the remaining equity investment, net of the difference between the sum of the Company's previous share of the subsidiary's net assets recorded from the acquisition date or combination date and the sum of goodwill, is recognised in investment income in the period in which control is lost. Other comprehensive income or net profit and loss related to the previous equity investment in the subsidiary, changes in equity except the other comprehensive income and profit distribution, are transferred to investment income of the current period when control is lost, except the other comprehensive income as a result of the changes arising from the remeasurement of the net assets and net liabilities of the investee's defined benefit plan.

When the Group's shareholding decreased thereby losing control as a result of the additional investment by other investor, the accounting treatment shall be made in accordance with the above principles.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(VI) Preparation of consolidated financial statements *(Continued)*

2. Consolidation method *(Continued)*

(2) Disposal of subsidiaries or business *(Continued)*

② Disposal of subsidiary achieved by stages

When disposal of equity interests of subsidiaries through multiple transactions until control is lost, generally transactions in stages are treated as a package deal in accounting if the transaction terms, conditions, and economic impact of all transactions of disposal of the subsidiary's equity interests satisfy one or more of the following:

- i. These transactions are entered at the same time or the mutual effects on each other are considered;
- ii. A complete set of commercial results can be achieved with reference to the series of transactions as a whole;
- iii. Achieving a transaction depends on at least achieving of one of the other transaction;
- iv. One transaction recognized separately is not economical, but it is economical when considered together with other transactions. If losing control of a subsidiary in disposal of equity interests through multiple transactions is recognized as a package deals, these transactions shall be in accounting treated as loss control of a subsidiary in disposal of equity interests achieved. However, the differences between price on each disposal and the Company's share in the subsidiary's net assets corresponding to the investment disposal before the loss of the control shall be recognized in other comprehensive income in the consolidated financial statements, and included in profit or loss for the period when the control is lost.

If all transactions in disposal of equity interests of subsidiaries until losing control are not a package deals, accounting treatment for partial disposal of equity investments of subsidiary without losing control shall be applied before control is lost. When control is lost, general accounting treatment for disposal of a subsidiary shall be used.

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For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(VI) Preparation of consolidated financial statements *(Continued)*

2. Consolidation method *(Continued)*

(3) Acquisition of minority interest of subsidiary

The Group shall adjust the share premium in the capital reserve of the consolidated balance sheet with respect to any difference between the long-term equity investment arising from the purchase of minority interest and the net assets attributing to the parent company continuously calculated on the basis of the newly increased share proportion as of the acquisition date (or date of combination) or, adjust the retained earnings in case the share premium in the capital reserve is insufficient for offsetting.

(4) Partial disposal of equity investment in subsidiary without losing control

The difference between disposal consideration of long-term equity investment in subsidiaries partially disposed by the Group without losing control and the share of net assets continuously calculated from the date of acquisition or combination date shall be adjusted to share premium in the capital reserve in the consolidated balance sheet. Adjustments shall be made to retained earnings in the event that the share premiums in the capital reserves are not sufficient for offsetting.

(VII) Determination of cash and cash equivalents

In preparing the cash flow statement, the cash on hand and deposits that are available for payment at any time of the Group are recognised as cash. The short-term (due within 3 months of the date of purchase) and highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value are recognised as cash equivalents.

(VIII) Foreign currency transactions and translation of foreign currency financial statements

1. Foreign currency transactions

Foreign currency transactions shall be translated into RMB at the spot exchange rate on the day when the transactions occurred.

Foreign currency monetary items at the balance sheet date shall be translated using the spot exchange rate at the balance sheet date. The resulting exchange differences are recognised in profit or loss for the current period, except for those differences attributable to foreign currency borrowings that have been taken out specifically for the acquisition or construction of qualifying assets, which are capitalized as cost of those assets.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(VIII) Foreign currency transactions and translation of foreign currency financial statements *(Continued)*

2. Translation of foreign currency financial statements

All assets and liabilities items in balance sheet are translated based on spot exchange rate on the balance sheet date; owner's equity items other than "undistributed profit" are translated at a spot exchange rate when occurred. Revenue and expense items in the income statement are translated at a spot exchange rate at the transaction occurrence date.

For disposal of overseas operation, the translation difference in the foreign currency financial statements relating to overseas operation be transferred from the owner's equity to the profit and loss account in the current period.

(IX) Financial instruments

Financial instruments include financial assets, financial liabilities and equity instruments.

1. Classification of the financial instruments

Applicable accounting standards from 1 January 2018

According to the business model of the Group's management of financial assets and the contractual cash flow characteristics of financial assets, financial assets are classified at the time of initial recognition: financial assets measured at amortized cost, financial assets (debt instruments) measured at fair value and its change included in the other comprehensive income and financial assets measured at fair value and its change included in the profit or loss for the current period. For non-trading equity instrument investments, the Group determines at time of initial recognition whether it is designated as a financial asset (equity instrument) that is measured at fair value and its change included in the other comprehensive income. In the time of initial recognition, in order to eliminate or significantly reduce the accounting mismatches, financial assets can be designated as financial assets measured at fair value and its change included in the profit or loss for the current period. According to the above conditions, such financial assets designated by the Group mainly include: financial assets measured at amortized cost, financial assets (debt instruments) measured at fair value and its change included in the other comprehensive income.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(IX) Financial instruments *(Continued)*

1. Classification of the financial instruments *(Continued)*

Applicable accounting standards from 1 January 2018 *(Continued)*

Financial liabilities at the time of initial recognition are classified into financial liabilities measured at fair value and its change included in the profit or loss for the current period and financial liabilities measured at amortized cost.

Financial liabilities at the time of initial recognition can be designated as financial liabilities measured at fair value and its change included to the profit or loss for the current period if one of the following conditions can be met:

- 1) Such designation can eliminate or significantly reduce accounting mismatches.
- 2) According to the enterprise risk management or investment strategy stated in the official written document, management and evaluation of the financial liabilities portfolio or financial assets and financial liabilities portfolio are based on fair value which will be used as the basis for reporting to the key management personnel.
- 3) The financial liabilities include embedded derivatives that need to be separately split.

Applicable accounting standards before 1 January 2018

The financial assets and financial liabilities was classified at the time of initial recognition as: financial assets or financial liabilities measured at fair value and its change included in the profit or loss for the current period, including financial assets or liabilities for trading and financial assets or financial liabilities that are directly designated for measurement at fair value and its change included in the profit or loss for the current period, held-to-maturity investments; accounts receivable; available-for-sale financial assets and other financial liabilities etc.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(IX) Financial instruments *(Continued)*

2. Recognition and measurement of financial instruments

Applicable accounting standards from 1 January 2018

(1) Financial assets measured at amortized cost

Financial assets measured at amortized cost include notes receivable and accounts receivable, other receivables, long-term receivables, debt investment etc., which are initially measured at fair value, and related transaction costs are included in the initial recognition amount. The accounts receivable of major financing components and the accounts receivable of the Group's decision not to consider the financing component of not more than one year are initially measured at the contract transaction price.

Interest calculated by the effective interest method during the period of holding is included in the profit and loss for the current period.

Upon recovery or disposal, the difference between the acquisition price and the book value of the financial asset shall be included in the profit and loss for the current period.

(2) Financial assets (debt instruments) measured at fair value and its changes included in other comprehensive income

Financial assets (debt instruments) that are measured at fair value and its changes included in other comprehensive income include other debt investments, which are initially measured at fair value, and related transaction costs are included in the initial recognition amount. The financial assets are subsequently measured at fair value. Changes in fair value are included in other comprehensive income except for interest calculated using the effective interest method, impairment losses or gains and exchange gains and losses.

When it is derecognized, the accumulated gain or loss previously included in other comprehensive income shall be transferred from other comprehensive income and included in profit or loss for the current period.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(IX) Financial instruments *(Continued)*

2. Recognition and measurement of financial instruments *(Continued)*

Applicable accounting standards from 1 January 2018 *(Continued)*

- (3) Financial assets (equity instruments) measured at fair value and its changes included in other comprehensive income

Financial assets (equity instruments) measured at fair value and its changes included in other comprehensive income include other equity instruments, are initially measured at fair value, and related transaction costs are included in the initial recognition amount. The financial assets are subsequently measured at fair value, and changes in fair value are included in other comprehensive income. The dividends received are included in the profit and loss for the current period.

When it is derecognized, the accumulated gain or loss previously included in other comprehensive income shall be transferred from other comprehensive income and included in retained earnings.

- (4) Financial assets measured at fair and its changes included in the profit or loss for the current period

Financial assets measured at fair and its changes included in the profit or loss for the current period include held-for-trading financial assets, derivative financial assets and other non-current financial assets, etc., which are initially measured at fair value, and related transaction costs are included in the profit or loss for the current period. The financial assets are subsequently measured at fair value and its changes in fair value are included in the profit or loss for the current period.

When it is derecognized, the difference between the fair value and the initially recorded amount shall be recognized as investment income and the gains and losses on changes in fair value are adjusted.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(IX) Financial instruments *(Continued)*

2. Recognition and measurement of financial instruments *(Continued)*

Applicable accounting standards from 1 January 2018 *(Continued)*

- (5) Financial liabilities measured at fair value and its changes included in the profit or loss for the current period

Financial liabilities measured at fair value and its changes included in the profit or loss for the current period include held-for-trading financial liabilities, derivative financial liabilities, etc., are initially measured at fair value, and related transaction expense are included in the profit or loss for the current period. The financial liabilities are subsequently measured at fair value and its changes in fair value are included in the profit or loss for the current period.

When it is derecognized, the difference between the fair value and the initially recorded amount shall be recognized as investment income and the gains and losses on changes in fair value are adjusted.

- (6) Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost include short-term borrowings, notes payable and accounts payable, other payables, long-term borrowings, bonds payable, long-term payables, initially measured at fair value, and related transaction costs are included in the initial recognition amount.

Interest calculated by the effective interest method during the period of holding is included in the profit and loss for the current period.

When it is derecognized, the difference between the consideration paid and the carrying amount of the financial liabilities shall be included in the profit or loss for the current period.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(IX) Financial instruments *(Continued)*

2. Recognition and measurement of financial instruments *(Continued)*

Applicable accounting standards before 1 January 2018

- (1) Financial assets (financial liabilities) measured at fair value and its change included in the profit or loss for the current period

When acquired, the financial assets or financial liabilities shall be initially recognised at their fair value (except for cash dividends which are declared but not distributed or interests on bonds of which the maturity interest is not drawn), its transaction costs are included in the profit or loss for the current period.

The interest or cash dividend which was gained in the holding period are recognized as investment income. At the end of the period, the change in the fair value of the financial asset or financial liability shall be included in the profit or loss for the current period.

When disposed, the difference between the fair value and the amount of initial recognition shall be recognized as investment income; meanwhile, the gains and losses on changes in fair value are adjusted.

- (2) Held-to-maturity investments

Held-to-maturity investments are initially recognised the sum of its fair value at the time of acquisition (except for interests on bonds of which the maturity interest is not drawn) plus relevant transaction costs.

Interest income is calculated according to the amortised cost and effective interest rate and included into investment income during the holding period. The effective interest rate is determined at the time of acquisition and shall remain unchanged within the predicted term of existence or within a shorter applicable term.

When disposed, the difference between the consideration obtained and the carrying amount of the investment shall be included into investment income.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(IX) Financial instruments *(Continued)*

2. Recognition and measurement of financial instruments *(Continued)*

Applicable accounting standards before 1 January 2018 *(Continued)*

(3) Accounts receivable

The receivables that are formed in sale of goods or rendering of labor services to external parties, and the debts of other companies held by the company that do not include debt instruments that are quoted in an active market, including accounts receivable, other receivables, etc., are initially recognised at the consideration of the contract or agreement to be received from the buyers. Accounts receivable that are of a financing nature are initially recognised at their present value.

Upon recovery or disposal of accounts receivable, the difference between the consideration obtained and the carrying amount of accounts receivable is included to profit or loss for the current period.

(4) Available-for-sale financial assets

Available-for-sale financial assets are initially recognised the sum of its fair value when obtained (except for cash dividends which are declared but not distributed or interests on bonds of which the maturity interest is not drawn) plus relevant transaction costs.

The interests or cash dividends to be obtained during the period of holding are included into investment income. At the end of the period, financial assets are measured at fair value, and its change are included into other comprehensive income. However, an equity instrument investment that is not quoted in an active market and whose fair value cannot be reliably measured, and derivative financial assets that are linked to the equity instrument and that must be settled through the delivery of the equity instrument are measured at cost.

When disposed, the difference between the consideration obtained and the carrying amount of the financial assets shall be included in the current profit and loss; meanwhile, the corresponding disposal portion of accumulated change in fair value previously included into other comprehensive income shall be transferred to profit or loss for the current period.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(IX) Financial instruments *(Continued)*

2. Recognition and measurement of financial instruments *(Continued)*

Applicable accounting standards before 1 January 2018 *(Continued)*

(5) Other financial liabilities

Other financial liabilities are initially recognised the sum of its fair value and the relevant transaction costs, and subsequently measured at amortized cost.

3. Recognition and measurement of transfer of financial assets

A financial asset shall be derecognised while the Company has transferred nearly all the risks and rewards related to the ownership of the financial asset to the transferee, and it shall not be derecognised if the Group has retained nearly all the risks and rewards related to the ownerships of the financial asset.

The substance-over-form principle shall be adopted while making a judgment on whether the transfer of financial assets satisfies the above conditions for derecognition. The transfer of financial assets could be classified into entire transfer and partial transfer. If the transfer of an entire financial asset satisfies the conditions for derecognition, the difference between the two amounts below shall be included into profit or loss for the current period:

- (1) The carrying amount of the financial asset transferred;
- (2) The consideration received as a result of the transfer, plus the accumulative amount of the change in fair value previously included into the owners' equity (in cases where the transferred financial asset is available-for-sale financial asset).

If the partial transfer of financial assets satisfies the conditions for derecognition, the overall carrying amount of the transferred financial asset shall be apportioned according to their respective relative fair value between the portion of derecognised part and the remaining part, and the difference between the two amounts below shall be included into profit or loss for the current period:

- (1) The carrying amount of the derecognised portion;
- (2) The sum of consideration of the derecognised portion and the corresponding derecognised portion of accumulated change in fair value previously included into owners' equity (in cases where the transferred financial assets are available-for-sale financial assets).

If the transfer of financial assets does not meet the conditions for derecognition, the financial assets continue to be recognized and the consideration received is recognized as a financial liability.

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For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(IX) Financial instruments *(Continued)*

4. Conditions for derecognition of financial liabilities

When the current obligation under a financial liability is completely or partially discharged, the whole or relevant portion of the liability is derecognized; if an agreement is entered between the Group and a creditor to replace the original financial liabilities with new financial liabilities with substantially different terms, derecognize the original financial liabilities as well as recognize the new financial liabilities.

If all or part of the contract terms of the original financial liabilities are substantially amended, the original financial liabilities will be derecognized in full or in part, and the financial liabilities whose terms have been amended shall be recognised as a new financial liability.

When financial liabilities is derecognized in full or in part, the difference between the carrying amount of the financial liabilities derecognized and the consideration paid (including transferred non-cash assets or new financial liability) is recognized in profit or loss for the current period.

Where the Group repurchases part of its financial liabilities, the carrying amount of such financial liabilities will be allocated according to the relative fair value between the continued recognised part and derecognised part on the repurchase date. The difference between the carrying amount of the derecognized portion of financial liabilities and the consideration paid (including transferred non-cash assets or new financial liability) is recognized in profit or loss for the current period.

5. Method of determining the fair values of financial assets and liabilities

A financial instrument with an active market that determines its fair value by quoted prices in an active market. Financial instruments that do not exist in an active market shall use valuation techniques to determine their fair value. At the time of valuation, the Group adopts valuation techniques that are applicable under current circumstances and that are sufficiently supported by data and other information. Input that are consistent with the characteristics of assets or liabilities as considered by market participants in transactions in related assets or liabilities shall be selected and the relevant observable inputs will be firstly used. Unobservable inputs are used only if the relevant observable inputs are not available or are not practicable.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(IX) Financial instruments *(Continued)*

6. Impairment test method and accounting treatment for impairment of financial assets (excluding accounts receivable)

Applicable accounting standards from 1 January 2018

The Group considers all reasonable and evidence-based information, including forward-looking information, the expected credit losses are estimated on a single or combination of financial assets measured at amortised cost and financial asset (debt instruments) measured at fair value and its change included in the other comprehensive income. The measurement of expected credit losses depends on whether the credit risk of the financial assets have increased significantly since the initial recognition.

If the credit risk of the financial instrument has increased significantly since the initial recognition, the Group measures its loss provision based on the amount of expected credit loss for the lifetime of the financial instrument; if the credit risk of the financial instrument has not significantly increased since the initial recognition, the Group measures its loss provision based on the amount of expected credit losses for the financial instrument in the next 12 months. The increase or reversal of the loss provision resulting therefrom is included in the current profit and loss as an impairment loss or gain.

Usually, an overdue for more than 30 days, the Group believes that the credit risk of the financial instrument has increased significantly unless there is conclusive evidence that the credit risk of the financial instrument has not increased significantly since the initial recognition.

If the credit risk of financial instrument at the balance sheet date is low, the Group believes that the credit risk of the financial instrument has not increased significantly since the initial recognition.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(IX) Financial instruments *(Continued)*

6. Impairment test method and accounting treatment for impairment of financial assets (excluding accounts receivable) *(Continued)*

Applicable accounting standards before 1 January 2018 *(Continued)*

The Group shall assess the carrying amount of financial assets other than those measured at fair value and its change included into current profit or loss at the balance sheet date. If there is objective evidence that the financial asset is impaired, impairment provision shall be made.

(1) Impairment provision for available-for-sale financial assets

If the fair value of available-for-sale financial asset falls significantly, or judged by the Company that descending trend is not temporary after taking into account related data comprehensively at the end of the period, they will be recognised as impaired, the cumulative loss arising from decline in fair value that had been recognised directly in the shareholders' equity shall be transferred from the shareholders' equity and recognised as impairment loss.

If after an impairment loss has been recognised on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss originally recognized shall be reversed and included in the profit or loss for the current period.

Impairment losses recognised for an investment in an available-for-sale equity instrument shall not be reversed through profit or loss.

(2) Impairment provision for held-to-maturity investments

The measurement of the impairment loss for held-to-maturity investments shall be treated with reference to that for the accounts receivable.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(X) Bad debts provision for accounts receivable

Applicable accounting standards from 1 January 2018

1. Accounts receivable and contract assets

For accounts receivable and contract assets, whether or not they contain significant financing components, the Group uses a simplified measurement method to measure loss provision based on the expected amount of credit losses of the lifetime period, and the resulting increase or reversal of loss provision shall be recognized an impairment loss or gain and included in the current profit and loss.

Based on the common risk characteristics, the Group classifies accounts receivable and contract assets into different groups and recognizes the loss provision for accounts receivable and contract assets based on all reasonable and evidenced information, including forward-looking information.

2. Other receivables

At the end of the period, the measurement of impairment losses on notes receivable, prepayments, other receivables, etc. shall be treated in accordance with the abovementioned measurement method of impairment losses of financial assets (excluding accounts receivable).

Applicable accounting standards before 1 January 2018

3. Accounts receivable that are individually significant and subject to separate bad debts provision

Individually significant accounts receivable: the amount of accounts receivable are individually more than RMB10 million (including RMB10 million) and other receivables are individually more than RMB5 million (including RMB5 million).

Individually significant accounts receivable are subject to separate impairment test, and if there are objective evidence that they are impaired, the difference between the present value of future cash flows and its carrying amount is recognized as the impairment loss and the provision for bad debts is made. Accounts receivable which are not impaired according to the separate impairment test, shall be categorised into the corresponding groups for provision of bad debts.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(X) Bad debts provision for accounts receivable *(Continued)*

Applicable accounting standards before 1 January 2018 *(Continued)*

4. Accounts receivable that are subject to bad debts provision by groups based on the credit risk characteristics

Basis for determination of groups:

Group 1	Engineering and sales receivable
Group 2	Receivables from related party within the scope of consolidation
Group 3	Receivables from related party outside the scope of consolidation
Group 4	Construction guarantee deposits
Group 5	Export tax refund
Group 6	Other receivable

Methods for provision of bad debts by groups:

Group 1	Aging analysis method
Group 2	No provisions are made
Group 3	Balance percentage method
Group 4	No provisions are made
Group 5	No provisions are made
Group 6	Aging analysis method

Where aging analysis method is used for provision ratios of bad debts for groups:

Aging	Provision ratios for accounts receivable (%)	Provision ratios for other receivables (%)
Within 1 year (including 1 year)	4	5
1 to 2 years	8	10
2 to 3 years	30	50
Over 3 years	100	100

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(X) Bad debts provision for accounts receivable *(Continued)*

Applicable accounting standards before 1 January 2018 *(Continued)*

4. Accounts receivable that are subject to bad debts provision by groups based on the credit risk characteristics *(Continued)*

In the groups, the provision of bad debts is calculated using the percentage balance method:

Name of the Group	Provision ratio for accounts receivable (%)	Provision ratio for other receivables (%)
Accounts receivable of related party outside the scope of consolidation	5	5

5. Accounts receivable which are individually insignificant but subject to separate bad debts provision

For individually insignificant accounts receivable, if there is objective evidence that the receivables are impaired at the end of the period, the difference between the present value of future cash flows and its carrying amount is recognized as the impairment loss and the provision for bad debts is made.

6. Notes to bad debts provision

At the end of the period, notes receivable and prepayments which are not classified into groups with similar credit risks characteristics are subject to separate impairment test. If there is objective evidence that the receivables are impaired, the difference between the present value of future cash flows and its carrying amount is recognized as the impairment loss and the provision for bad debts is made. If there is no impairment identified according to the impairment test, no provision for bad debts shall be recognised.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XI) Inventories

1. Classification of inventories

Inventories include raw materials, goods-in-stock and assets formed by construction contracts, etc.

2. Cost of inventories

Cost of inventories is determined using the weighted average method.

3. Basis for the determination of net realisable value for different type of inventories

(1) Commodity inventory

Net realisable value of held-for-sale commodity stocks, such as finished goods, goods-in-stock, and held-for-sale raw materials, during the normal course of production and operation, shall be determined by their estimated selling price less the related selling expenses and taxes; the net realizable value of material inventories, which need to be processed, during the normal course of production and operation, shall be determined by the amount after deducting the estimated cost of completion, estimated selling expenses and relevant taxes from the estimated selling price of finished goods; the net realizable value of inventories held for execution of sales contracts or labor contracts shall be calculated on the ground of the contracted price. If an enterprise holds more inventories than the quantity stipulated in the sales contract, the net realizable value of the exceeding part shall be calculated on the ground of general selling price.

Decline in value of inventories is made on an item-by-item basis at the end of the period. For large quantity and low value items of inventories, provision for decline in value may be made based on categories of inventories; for items of inventories relating to a product line that is produced and marketed in the same geographical area and with the same or similar end uses or purposes, which cannot be practicable evaluated separately from other items in that product line, provision for decline in value of inventories may be determined on an aggregate basis.

Unless there is evidence clearly shows that abnormality in market price exists as of the balance sheet date, the net realisable value of inventories is determined based on the market price as of the balance sheet date.

The net realizable value of inventories at the end of current period is determined based on the market price of sales contract.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XI) Inventories *(Continued)*

3. Basis for the determination of net realisable value for different type of inventories *(Continued)*

- (2) Assets formed by construction contract

For the construction costs, the provision for decline in value of inventories will be made on the portion of the expected total cost of the project exceeds the expected total income (deducting the relevant taxes). At the completion of the project, the declined value of inventories will be written off.

4. Inventory system

The perpetual inventory system is adopted.

5. Amortisation of low-value consumables and packaging materials

Low-value consumables and packaging materials are amortised using the one-time write-off method.

(XII) Contract assets and contract liabilities

Contracts with customers will be presented in the Group's statement of financial position as contract liabilities or contract asset, depending on the relationship between the Group's performance obligation of the contracts and the customer's payment. The consideration (except for receivables) that the Group entitled for the goods transferred or services provided to customers is presented as contract assets. The obligation of the Group to transfer goods or to provide services for consideration received or to be received is presented as contract liabilities.

For contract assets, whether or not they contain significant financing components, the Group always measures its loss provision according to the amount of expected credit losses for the entire lifetime period, and the increase or reversal amount of provision loss resulted therefrom shall be included in the current profit and loss as impairment loss or gain.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XIII) Long-term equity investments

1. Joint control or significant influence criterion

Joint control is the contractually agreed sharing of control of an arrangement, and exists only when decisions about the relevant activities of the arrangement require the unanimous consent of the parties sharing control. The Group together with the other joint venture parties can jointly control over the investee and are entitled to the right of the net assets of the investee, the investee is joint venture of the Group.

Significant influence refers to the power to participate in making decisions on the financial and operating policies of an enterprise, but no power to control, or jointly control, the formulation of such policies with other parties. Where the investor can exercise significant influence over the investee, the investee is an associate of the Group.

2. Recognition of initial investment cost

(1) Long-term equity investments formed through business combination of entities

For business combinations involving entities under common control: where the Group pays cash, transfers non-cash assets, bear debts or issue equity securities as consideration of combinations, the initial investment cost of long-term equity investments are the share with reference to the book value of the shareholders' equity of the acquiree in the financial statements of the ultimate controlling party on the date of combinations. In connection with imposing control over the investee under joint control as a result of additional investment and other reasons, on the combination date, the initial cost of long-term equity investments shall be determined based on share of carrying amounts in the consolidated financial statement of the ultimate controlling party by net assets of the combined party after the combination. The difference between initial investment cost of long-term equity investments on the date of combination and the carrying value of long-term equity investment before combination and the sum of carrying value of newly paid consideration for additional shares acquired on the date of combination is to adjust share premium. If the balance of share premium is insufficient, any excess is adjusted to retained earnings.

Business combinations involving entities not under common control: the cost of the combination ascertained on the date of acquisition shall be taken as the initial investment cost of the long-term equity investments. In connection with imposing control over the investee not under joint control as a result of additional investment and other reasons, the initial investment cost when changing to the cost method shall be the sum of the carrying value of the equity investment originally held and the newly increased initial investment cost.

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For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XIII) Long-term equity investments *(Continued)*

2. Recognition of initial investment cost *(Continued)*

(2) Long-term equity investments acquired by other means

The initial cost of investment of a long-term equity investment obtained by the Company by cash payment shall be the purchase cost which is actually paid.

The initial cost of investment of a long-term equity investment obtained by the Company by means of issuance of equity securities shall be the fair value of the equity securities issued.

If the non-monetary assets transaction is commercial in nature and the fair value of the assets received or surrendered can be reliably measured, the long-term equity investment obtained through exchange by non-monetary assets, its initial investment cost shall be determined on the basis of the fair value of the assets surrendered and the related tax payable, unless there are concrete evidence that the fair value of the assets received is more reliable. For non-monetary assets transaction which does not meet the above conditions, the initial cost of investment of a long-term equity investment received shall be the book value of the assets surrendered and the relevant taxes payable. The initial cost of investment of a long-term equity investment obtained by the Company through debt restructurings shall be ascertained based on their fair value.

3. Subsequent measurement and recognition of profit or loss

(1) Long-term equity investment accounted for by cost method

Long-term equity investment in subsidiaries of the Group is accounted for by cost method, except for the actual consideration paid for the acquisition of investment or the declared but not yet distributed cash dividends or profits which are included in the consideration, investment gains is recognised as the Company' shares of the cash dividends or profits declared by the investee.

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(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XIII) Long-term equity investments *(Continued)*

3. Subsequent measurement and recognition of profit or loss *(Continued)*

(2) Long-term equity investment accounted for by equity method

Long-term equity investments of associates and jointly controlled entities are accounted for using equity method. Where the initial investment cost of a long-term equity investment exceeds the investor's interest in the fair value of the investee's identifiable net assets at the acquisition date, no adjustment shall be made to the initial investment cost; where the initial investment cost is less than the investor's interest in the fair value of the investee's identifiable net assets at the acquisition date, the difference shall be charged to profit or loss for the current period.

The Group recognizes the investment income and other comprehensive income according to the shares of net profit or loss and other comprehensive income realized by the investee which it shall be entitled or shared respectively, and simultaneously makes adjustment to the carrying value of long-term equity investments. The carrying value of long-term equity investment shall be reduced by attributable share of the profit or cash dividends for distribution declared by the investee. In relation to other changes of owner's equity except for net profits and losses, other comprehensive income and profit distributions of the investee, the carrying value of long-term equity investments shall be adjusted and included in owner's equity.

When determining the amount of proportion of net profit or loss in the investee which it entitles, fair value of identifiable assets of the investee at the time when the investment is obtained shall be used as basis, and according to the accounting policies and accounting period of the Group, recognition shall be made after the adjustment of the net profit of the investee. During the period of holding investments, when preparing consolidated financial statements by the investee, the accounting shall be based on the amounts attributable to the investee in the net profit, other comprehensive income and other changes of the owners' equity in the consolidated financial statements.

In recognition of share of losses in the investee, the Group treats it in the following order: Firstly, the Group will write off the carrying value of long-term equity investments. Secondly, in the event the aforesaid carrying value is insufficient for write off, it shall continue to recognize investment loss and write off carrying values of long-term receivables to the extent of the carrying amount of the long-term equity which substantively constitutes the net investment in the investee. Finally, after the above treatment, for the additional obligations which shall be still assumed by entities according to investment contract or agreement, the estimated liabilities shall be recognized based on the obligations which are expected to assume and included in the investment loss for the current period.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XIII) Long-term equity investments *(Continued)*

3. Subsequent measurement and recognition of profit or loss *(Continued)*

(3) Disposal of long-term equity investments

For disposal of long-term equity investment, the difference between the book value and the consideration actually received shall be included in the current profit or loss.

For the long-term equity investment under the equity method, when disposing of such investment, part of amounts that shall be originally included in other comprehensive income shall be accounted for in proportion by using the same basis as the investee used for direct disposal of relevant assets or liabilities. The owner's equity which is recognized due to other changes of owner's equity except for net profits and losses, other comprehensive income and profit distributions shall be transferred in proportion into the current profit or loss, excluding the other comprehensive income derived from changes of net liabilities or net assets due to re-measurement on defined benefit plan by the investee.

When the Group loses the controls or material influence over the investee due to partially disposal of equity investment and other reasons, the remaining equities shall be accounted for in accordance with the standards on recognition and measurement of financial instruments, and the difference between the fair value and the carrying value at the date of losing control or material influence shall be included in current profit or loss. For other comprehensive income recognized in the original equity investment due to the equity method is adopted, it shall be treated using the same accounting basis as the investee used for direct disposal of relevant assets or liabilities when ceasing to use the equity method. All owner's equities which are recognized due to other changes of owner's equity except for net profits and losses, other comprehensive income and profit distributions shall be transferred into the current profit or loss when ceasing to use the equity method.

When the Group loses the controls over the investee due to partially disposal of equity investment, the additional investment by other investors causing the Company's shareholding decreased and other reasons, the remaining equities shall be accounted for under equity method in preparation of individual financial statements provided that common control or material influence over the investee can be imposed, and shall be adjusted as if such remaining equities has been accounted for under the equity method since they are obtained. Where the remaining equities can not impose common control or material influence over the investee, it shall be accounted for according to relevant provisions of the standards on recognition and measurement of financial instruments, and the difference between fair value and the carrying value on the date of losing control shall be included in the current profit or loss.

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(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XIII) Long-term equity investments *(Continued)*

3. Subsequent measurement and recognition of profit or loss *(Continued)*

(3) Disposal of long-term equity investments *(Continued)*

The disposed equity interest was acquired in a business combination as resulted from such as making additional investment, the remaining equity interest after disposal will be accounted for using cost method or equity method when preparing the separate financial statements. Other comprehensive income and other owners' equity recognized when the equity interests held on the acquisition date is accounted for using equity method and shall be transferred on pro rata basis; For the remaining equity interest after disposal accounted for using the recognition and measurement standard of financial instruments, other comprehensive income and other owners' equity shall be fully transferred.

(XIV) Investment property

Investment property is held to earn rentals or for capital appreciation or both which include leased land use rights; land use rights held for sale after appreciation; leased buildings (including buildings after self-completion of construction or development for the purpose of leasing and buildings that is being constructed or developed for the purpose of leasing in future).

For investment property where there is an active property market and the Group can obtain the market price and the relevant information regarding the same type of or similar property market, so as to reasonably estimate the fair value of the investment property, the Group adopts the fair value model for subsequent measurement of investment property. Changes in fair value will be charged to the profit and loss for the current period.

To ascertain the fair value for the investment property shall be referenced to the current market price of the same type of or similar property in the active property market. When the current market price of the same type of or similar property cannot be obtained, it shall be referenced to the recent transaction price of the same type of or similar property in the active property market and also shall be considered the status, date and location of transaction, so as to reasonably estimate the fair value of the investment property or the fair value shall be ascertained based on the future expected rental income or the relevant present value of cashflows.

When there's evidence that the fair value of an investment property cannot be reliably obtained, the investment property when firstly acquired shall be measured by the cost model until disposal and assuming no residual value.

The net amount of proceeds from sale, transfer, retirement or damage of an investment property after deduction of its carrying amount and related taxes and expenses shall be recognised in profit or loss for the current period.

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For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

(XV) Fixed assets

1. Conditions for recognition of fixed assets

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and have a useful life of more than one accounting year. Fixed asset is recognised when it meets the following conditions:

- (1) it is probable that the economic benefits associated with the fixed asset will flow into the Group;
- (2) and its cost can be reliably measured.

2. Method for depreciation of different fixed assets

Fixed assets are depreciated by categories using the straight-line method, and the annual depreciation rates are determined by categories based upon their estimated useful lives and their estimated residual values. Where the parts of a fixed asset have different useful lives or cause economic benefits for the enterprise in different ways, different depreciation rates or depreciation methods shall apply, and each part is depreciated separately.

For fixed assets leased under finance lease, if it can be reasonably determined that the ownership of the leased asset can be acquired upon the expiry of the lease term, depreciation policies in line with the fixed assets will be adopted for depreciation during the remaining useful life of the leased asset. If it cannot be reasonably determined that the ownership of the leased asset can be acquired upon the expiry of the lease term, depreciation policies in line with the fixed assets will be adopted for depreciation during the shorter of the lease term and the remaining useful life of the leased asset.

The useful life and annual depreciation rate of each category of fixed assets are as follows:

Category	Useful lives of depreciation (years)	Estimated residual value (%)	Annual depreciation rate (%)
Buildings and structures	30	5	3.17
Machinery and equipment	10	5	9.50
Transportation equipment	5	5	19.00
Electronic and office equipment	3-10	5	9.5-31.67

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(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XV) Fixed assets *(Continued)*

3. Recognition basis and measurement method of fixed assets under finance lease

Where any one of the following conditions is provided in the lease agreement between the Group and the lessor, assets under finance lease will be recognised:

- (1) upon the expiry of lease, the ownership of the leased asset is transferred to the Group;
- (2) The Company has the option to purchase the leased asset, the purchase consideration entered into is expected to be far less than the fair value of the leased asset upon the exercise of the option;
- (3) the lease term accounts for the majority of the useful life of the leased asset;
- (4) the present value of the minimum lease payment upon the commencement of the lease is substantially the same as the fair value of the leased asset.

On the commencement of the lease, the leased asset shall be recorded at an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments, and the minimum lease payments shall be recorded as the carrying amount of long-term payables. The difference between the recorded amount of the leased asset and the minimum lease payments shall be accounted for as unrecognised finance charge.

(XVI) Construction in progress

Construction in progress is measured and recognised as fixed assets at all the expenditures incurred to bring the fixed assets ready for their intended use. If the construction in progress of fixed assets constructed are ready for their intended use but the final account of completed project has not been issued, it should be transferred to fixed assets at an estimated cost according to the construction budget, construction price or actual cost, and depreciation should be provided according to the Group's depreciation policy for fixed assets from the date when the assets are ready for their intended use. When the final account of completed project is issued, the estimated cost will be adjusted according to the actual cost, while the original depreciation charge will not be adjusted.

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For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XVII) Borrowing costs

1. Criteria for recognition of capitalised borrowing costs

Borrowing costs refers to the borrowing interests, amortisation of discounts or premiums, ancillary costs and exchange differences arising from foreign currency borrowings, etc.

For borrowing costs incurred by the Company that are directly attributable to the acquisition, construction or production of assets qualified for capitalisation, the costs will be capitalised and included in the costs of the related assets. Other borrowing costs shall be recognised as expense in the period in which they are incurred and included in profit or loss for the current period.

Assets qualified for capitalisation are assets (fixed assets, investment property, inventories, etc.) that necessarily take a substantial period of time for acquisition, construction or production to get ready for their intended use or sale.

Capitalisation of borrowing costs begins when the following conditions are fully satisfied:

- (1) expenditures for the assets (including cash paid, transferred non-monetary assets or expenditure for holding debt liability for the acquisition, construction or production of assets qualified for capitalisation) have been incurred;
- (2) borrowing costs have been incurred;
- (3) acquisition, construction or production that are necessary to enable the asset reach its intended usable or saleable condition have commenced.

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(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XVII) Borrowing costs *(Continued)*

2. Capitalisation period of borrowing costs

The capitalisation period shall refer to the period between the commencement and the cessation of capitalization of borrowing costs, excluding the period in which capitalisation of borrowing costs is temporarily suspended.

Capitalisation of borrowing costs shall be suspended when the qualifying asset under acquisition and construction or production is ready for the intended use or sale.

If part of an asset being acquired, constructed or produced has been completed respectively and put into use individually, capitalization of its relevant borrowing costs should be suspended.

If different parts of the assets acquired, constructed or produced are completed separately, but such asset will not be ready for the intended use or sale until all parts have been completed, then the borrowing costs will be capitalized until the completion of all parts of the said asset.

3. Suspension of capitalisation period

Capitalisation of borrowing costs shall be suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally, when the interruption is for a continuous period of more than 3 months; if the interruption is a necessary step for making the qualifying asset under acquisition and construction or production ready for the intended use or sale, the capitalisation of the borrowing costs shall continue. The borrowing costs incurred during such suspension period shall be recognised as profits and losses of the current period. When the acquisition and construction or production of the asset resumes, the capitalisation of borrowing costs commences.

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For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

(XVII) Borrowing costs (Continued)

4. Calculation method of capitalization rate and capitalization amount of borrowing costs

Specific borrowings for the acquisition, construction or production of assets qualified for capitalization, borrowing costs of the specific borrowings actually incurred in the current period minus the interest income earned on the unused borrowing loans as a deposit in the bank or as investment income earned from temporary investment will be used to determine the amount of borrowing costs for capitalisation.

General borrowings for the acquisition, construction or production of assets qualified for capitalisation, the to-be-capitalised amount of interests on the general borrowing shall be calculated and determined by multiplying the weighted average asset disbursement of the part of the accumulative asset disbursements minus the specifically borrowed loans by the capitalisation rate of the general borrowing used. The capitalisation rate shall be calculated and determined according to the weighted average interest rate of the general borrowing.

Where there is any discount or premium for the borrowings, the amount of discounts or premiums that shall be amortized during each accounting period shall be determined based on the effective interest method and an adjustment shall be made to the amount of interests in each period.

(XVIII) Intangible assets

1. Calculation method of intangible assets

- (1) Intangible assets are initially measured at cost upon acquisition

The costs of an externally purchased intangible asset include the purchase price, relevant taxes and expenses paid, and other expenditures directly attributable to putting the asset into condition for its intended use. If the payment for an intangible asset is delayed beyond the normal credit conditions and it is of financing nature in effect, the cost of the intangible assets shall be ascertained based on the present value of the purchase price.

The amount of intangible assets acquired from debt restructuring should be recorded at the fair value of such intangible assets, and the difference between the carrying amount of the restructured debt and the fair value of the intangible assets acquired from debt restructuring should be included in the profit or loss for the current period.

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(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XVIII) Intangible assets *(Continued)*

1. Calculation method of intangible assets *(Continued)*

(1) Intangible assets are initially measured at cost upon acquisition *(Continued)*

If the non-monetary assets transaction is commercial in nature and the fair value of the assets received or surrendered can be reliably measured, the intangible assets received in the non-monetary assets transaction, shall be measured on the basis of the fair value of the assets surrendered, unless there are concrete evidence that the fair value of the assets received is more reliable. For non-monetary assets transaction which does not meet the above conditions, the cost of intangible assets received shall be the book value of the assets surrendered and the relevant taxes and expenses payable, and the profit or loss will not be recognised.

(2) Subsequent measurement

The Company shall analyse and judge the useful life of intangible assets upon acquisition.

As for intangible assets with a finite useful life, they are amortised using the straight-line method over the term in which economic benefits are brought to the Group. If the term in which economic benefits are brought to the Group by an intangible asset cannot be estimated, the intangible asset shall be taken as an intangible asset with indefinite useful life, and shall not be amortised.

2. Estimated useful lives for the intangible assets with finite useful life:

Items	Estimated useful lives (year(s))	Basis
Land use rights	50	Terms of the land lease
Software	8	expected useful lives
Know-how	5-8	expected useful lives

For an intangible asset with a finite useful life, review on its useful life and amortisation method is performed at each year end.

Upon review, useful life and amortisation method for the intangible assets are no different from the previous estimate at the end of this period.

Notes to the Financial Statements

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III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XVIII) Intangible assets *(Continued)*

3. Judgement basis for the intangible assets with indefinite useful lives and the procedure for review of its useful lives

As of the balance sheet date, there weren't intangible assets with indefinite useful lives.

4. Specific criteria for the division of research phase and development phase

The expenses for internal research and development projects of the Group are divided into expenses in the research phase and expenses in the development phase.

Research phase: Scheduled innovative investigations and research activities to obtain and understand scientific or technological knowledge.

Development phase: Apply the research outcomes or other knowledge to a plan or design prior to a commercial production or use in order to produce new or essentially-improved materials, devices, products, etc.

5. Specific criteria for expenses qualified for capitalisation in the development phase

The expenses in the development phase for internal research and development projects are recognized as intangible assets if the following conditions are fulfilled:

- (1) it is technically feasible to complete such intangible asset so that it will be available for use or for sale;
- (2) there is intention to complete the intangible asset for use or sale;
- (3) the intangible asset can produce economic benefits, including there is evidence that the products produced using the intangible asset has a market or the intangible asset itself has a market; if the intangible asset is for internal use, there is evidence that there exists usage for the intangible asset;
- (4) there is sufficient support in terms of technology, financial resources and other resources in order to complete the development of the intangible asset, and there is capability to use or sell the intangible asset;
- (5) the expenses attributable to the development stage of the intangible asset can be measured reliably.

Expenses incurred during the development stage which do not meet the above conditions, are accounted for in profit or loss for the current period when it is incurred. Expenses incurred during the research phase are accounted for in the profit or loss for the current period when it is incurred.

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(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XIX) Impairment of long-term assets

Long-term assets, such as long-term equity investment, investment properties measured by cost model, fixed assets, projects under construction, intangible assets with finite useful life are tested for impairment if there is any indication that an asset may be impaired at the balance sheet date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, the difference of which shall be used to make impairment provision and an impairment loss are recognized.

The recoverable amount is the higher of the net amount of asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs to is determined. A group of assets is the smallest group of assets that is able to generate cash inflows independently.

Impairment test to goodwill and intangible assets with indefinite useful life shall be carried out at least at the end of each year.

When the Company carry out impairment test to goodwill, the Company shall, as of the purchasing day, allocate on a reasonable basis the carrying value of the goodwill formed by merger of enterprises to the relevant asset groups, or if there is a difficulty in allocation, to allocate it to the relevant sets of asset groups. When the carrying value of goodwill is allocated to the related asset group or sets of asset group, the allocation shall be made based on the proportion of the fair value of each asset groups or sets of asset groups to the total fair value of the relevant assets groups or sets of asset group. If there is difficulty for the fair value to be reliably measured, the allocation shall be made based on the proportion of the carrying value of each asset groups or sets of asset groups to the total carrying value of the relevant assets groups or sets of asset groups.

For the purpose of impairment test on the relevant asset groups or the sets of asset groups containing goodwill, if any evidence shows that the impairment of asset groups or sets of asset groups related to goodwill existed, an impairment test will be made firstly on the asset groups or sets of asset groups not containing goodwill, thus calculating the recoverable amount and comparing it with the relevant carrying value so as to recognize the corresponding impairment loss. Then the Company will make an impairment test on the asset groups or sets of asset groups containing goodwill, and compare the carrying value of these asset groups or sets of asset groups (including the carrying value of the goodwill allocated thereto) with the recoverable amount. Where the recoverable amount of the relevant assets or sets of the asset groups is lower than the carrying value thereof, it shall recognize the impairment loss of the goodwill.

Once the above asset impairment loss is recognized, it will not be reversed in the subsequent accounting periods.

Notes to the Financial Statements

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(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

(XX) Long-term deferred expenses

Long-term deferred expenses are expenditures and other expenses which have occurred with amortization period over 1 year and shall be borne by the current period and subsequent periods. Long-term deferred expenses are amortized evenly over the benefit period.

Type	Amortization method	Amortization period	Note
Renovation fee	Straight-line method	5 years	Benefit period
e-Card fee	Straight-line method	5 years	Benefit period
Consultation fee	Straight-line method	5 years	Benefit period
Insurance	Straight-line method	2 years	Benefit period

(XXI) Employee remuneration

1. Method of accounting treatment for short-term remuneration

During the accounting period when the staff provides service, the Group will recognize the short-term remuneration actually incurred as liabilities, and the liabilities would be charged into current profits and loss or costs of assets.

The Group will pay social insurance and housing funds, and will make provision of trade union funds and staff education costs in accordance with the requirements. During the accounting period when the staff provides service, the Group will determine the relevant amount of employee remuneration in accordance with the required provision basis and provision ratios.

Employee welfare is non-monetary benefits which are measured at fair value.

2. Method of accounting treatment for retirement benefit plan

(1) Defined contribution scheme

The Group will pay basic pension insurance and unemployment insurance in accordance with the relevant provisions of the local government for the staff. During the accounting period when the staff provides service, the Group will calculate the amount payable in accordance with the local stipulated basis and proportions which will be recognized as liabilities, and the liabilities would be charged into current profits and loss or costs of assets.

In addition to basic pension insurance, the Group also established the enterprise annuity payment system (supplementary pension insurance)/enterprise annuity scheme according to relevant policy of national enterprise annuity system. The Group makes payment to local social insurance agencies/annuity scheme based on a certain proportion of total staff remunerations. Corresponding expenditure is included in the profit or loss for the current period or costs of related assets.

Notes to the Financial Statements

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III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XXI) Employee remuneration *(Continued)*

2. Method of accounting treatment for retirement benefit plan *(Continued)*

(2) Defined benefit scheme

The welfare responsibilities generated from defined benefit scheme based on the formula determined by projected unit credit method would be vested to the service period of the staff and charged into current profits and loss or relevant costs of assets.

The deficit or surplus generated from the present value of obligations of the defined benefit scheme minus the fair value of the assets of defined benefit scheme is recognized as net liabilities or net assets of the defined benefit scheme. When the defined benefit scheme has surplus, the Group will measure the net assets of the defined benefit scheme at the lower of the surplus of defined benefit scheme and the upper limit of the assets.

All defined benefit plans obligations, including the expected duty of payment within 12 months after the end of annual reporting period during which the staff provided service, were discounted based on the bond market yield of sovereign bond matching the term of defined benefit plans obligations and currency or corporate bonds of high quality in the active market on the balance sheet date.

The service cost incurred by defined benefit scheme and the net interest of the net liabilities and net assets of the defined benefit scheme would be charged into the current profits and loss or relevant costs of assets. The changes generated from the re-measurement of the net liabilities or net assets of the defined benefit scheme would be included in the other comprehensive income and are not reversed to profit or loss in subsequent accounting period.

When the defined benefit scheme is settled, the gain or loss is recognised based on the difference between the present value of obligations as at the settlement date and the settlement price of the defined benefit scheme.

3. Method of accounting treatment for termination benefits

The Group will pay termination benefits when the Group can no longer withdraw the offer of termination plan or layoff proposal or when the Group recognizes costs and expense for restructuring which involving the payment of termination benefits (whichever the earliest). The remuneration incurred by the termination benefits will be recognized as liabilities which would be charged into current profits and loss.

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(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XXII) Estimated liabilities

1. Recognition criteria for estimated liabilities

The Group shall recognise the obligations related to litigations, guarantees provided to debts, loss-making contracts, contingencies involving restructuring as estimated liabilities, when all of the following conditions are satisfied:

- (1) the obligation is a present obligation of the Group;
- (2) it is probable that an outflow of economic benefits will be caused to perform the obligation;
- (3) the amount of the obligation can be measured reliably.

2. Method of measuring the various estimated liabilities

Estimated liabilities shall be initially measured at the best estimate of the expenditure required to perform the related present obligation.

Factors pertaining to a contingency such as risk, uncertainties, and time value of money shall be taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate shall be determined by discounting the related future cash outflow.

The best estimate will be dealt with separately in the following circumstances:

The expenses required have a successive range (or band), in which the possibilities of occurrence of each result are the same, and the best estimate should be determined as the middle value for the range, i.e. the average of the upper and lower limit.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XXII) Estimated liabilities *(Continued)*

2. Method of measuring the various estimated liabilities *(Continued)*

The expenses required does not have a successive range (or band), or although there is a successive range, the possibilities of occurrence of each result are not the same, if the contingency is related to individual item, the best estimate should be determined as the most likely amount; where the contingency is related to a number of items, the best estimate should be calculated and determined according to the different possible results and the relevant possibilities.

Where some or all of the expenditure required to settle an estimated liability is expected to be reimbursed by a third party, the reimbursement is separately recognized as an asset when it is virtually certain that the reimbursement will be received. The amount recognized for the reimbursement is limited to the carrying amount of the liability recognized.

(XXIII) Revenue

Applicable accounting standards from 1 January 2018

1. The Group's revenue recognition principles and measurement method

The Group performs its obligations in the contract, that is, the revenue was recognized when the customer obtains control of the relevant assets (goods or services). Whether the performance obligation is fulfilled within a certain period of time or at a particular point of time depends on the terms of the contract and relevant legal provisions. The performance obligation is fulfilled in a certain period of time if the Group meets one of the following conditions:

1. The customer simultaneously receives and consumes the economic benefits brought by the Group in its performance of the contract obligation.
2. The customer is able to control the assets under construction in the course of the Group's performance of the contract obligation.
3. The assets produced during the performance of the contract obligation by the Group have irreplaceable uses, and the Group has the right to receive payments for the portion of the performance that has been completed to date.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

(XXIII) Revenue (Continued)

Applicable accounting standards from 1 January 2018 (Continued)

1. The Group's revenue recognition principles and measurement method (Continued)

If the contract obligation is performed within a certain period of time, the Group recognises revenue in accordance with the progress of the performance of the contract obligation. Otherwise, the Group recognises revenue at a particular point of time when the customers obtain control of the relevant assets. The progress of the performance of the contract obligation is measured by the expenditure or investment incurred by the Group in fulfilling its performance obligations, which is determined based on the proportion of the accumulated cost incurred per contract as of the balance sheet date to the estimated total cost.

In determining the transaction price of a contract, if there is a variable consideration, the Group determines the best estimate amount of the variable consideration based on the expected value or the most likely amount and does not exceed the amount in the accumulated revenue that is likely not to be significantly reversed when the relevant uncertainty is eliminated. If there is a major financing component in the contract, the Group will adjust the transaction price according to the financing component in the contract. If the interval of control transferred and consideration paid by the customer is not more than one year, the Group does not consider the financing component.

2. Specific judgment criteria for revenue recognition of the Group

(1) Specific methods for revenue recognition of the Group's system integration construction contract

The Group's system integration construction contract business mainly belongs to the contract obligations performed during a certain period of time, and the revenue is recognized during the contract period according to the progress of the performance of the contract. The Group adopts the input method, which is to determine the appropriate performance progress based on the proportion of accumulated actual costs incurred to the estimated total cost of the contract.

① If the construction period of the project is more than one year, the revenue shall be recognized based on the completion progress which shall be confirmed according to the input method.

② If the construction period of the project is less than one year, the simplified percentage of completion method shall be adopted to recognize the revenue at the time of completion of the project, that is, when the final acceptance certificate of the customer is obtained (including but not limited to the final acceptance report, completion certificate or proof of delivery).

Notes to the Financial Statements

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(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XXIII) Revenue *(Continued)*

Applicable accounting standards from 1 January 2018 *(Continued)*

2. Specific judgment criteria for revenue recognition of the Group *(Continued)*

- (1) Specific methods for revenue recognition of the Group's system integration construction contract *(Continued)*

The construction period of the Group's intelligent transportation system integration project is generally more than one year, and the construction period of the customs logistics system integration project is generally within one year.

- (2) Specific methods for revenue recognition for the sales of the Group's goods (products)

The sales business of the Group's goods (products) mainly belongs to the performance obligations fulfilled at a particular point of time. For products that do not need to be installed, the revenue is recognized at delivery and confirmation of receipt of the products by the purchaser. For products that need to be installed and commissioned, the revenue is recognized after the project is completed and accepted by the customer according to the contract.

- (3) Specific methods for revenue recognition for services rendering by the Group

Revenue from rendering of services of the Group mainly consists of technological development revenue, maintenance service revenue, of which:

- ① Technological development income mainly belongs the contract obligations performed at a particular point of time. Revenue is recognized at the completion of the technology development project and the customer acceptance certificate (including but not limited to the final acceptance report, completion certificate or delivery certificate) is obtained.
- ② Maintenance service revenue mainly belongs to the contract obligation performed during a certain period of time. The revenue is recognized based on the total revenue as stipulated in relevant contracts evenly allocated over the period for the rendering of services thereunder.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

(XXIII) Revenue (Continued)

Applicable accounting standards before 1 January 2018

1. Principles of recognition of the revenue from sales of goods and method of measurement

- (1) Recognition of the revenue from sales of goods and general principles of measurement

Revenue from the sale of goods is recognised when all the significant risks and rewards of ownership of the goods have been transferred to the buyer; the Group does not retain either continuing managerial involvement to the degree usually associated with ownership or effective control over the sold goods; the amount of revenue can be reliably measured; it is probable that the economic benefits associated will flow to the Group and the relevant amount of costs incurred or to be incurred can be measured reliably.

- (2) Specific criteria for judging recognition of the revenue from sales of goods of the Group

Sales of goods (products) of the Group mainly consist of sales of intelligent terminal products. For installation-free products, income is recognised after delivery and accepted by the purchaser. For products required installation and testing, income is recognised after completion of the project and accepted by the client as stipulated in the relevant contracts or agreements.

2. Principles of recognition of revenue from abalienating the right of use assets and method of measurement

When the economic benefit related to the transaction will very likely flow to the Group and the income amount can be reliably measured, the income amount from abalienating the right to use assets is recognized according to the below conditions:

- ① The amount of interest income shall be determined based on the time and actual interest rate of the use of the Group's monetary funds by others.
- ② Income from the use of the assets is calculated and determined with reference to the agreed chargeable hours and calculation method stipulated in the relevant contracts or agreements.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XXIII) Revenue *(Continued)*

Applicable accounting standards before 1 January 2018 *(Continued)*

3. Principles of recognition of revenue from rendering of services and method of measurement

- (1) The overall general principles of recognition of revenue from rendering of services and method of measurement

If the outcome of the rendering of services transaction can be reliably estimated at the balance sheet date, the percentage of completion method shall be used to recognize revenue from the rendering of services. The progress of the completion of the rendering of services are recognized based on the measurement of the finished work, the proportion of the services already rendered to the total amount of services to be rendered or the proportion of the costs incurred to the estimated total cost.

The outcome of the rendering of services transaction can be reliably estimated which mean that the following conditions must simultaneously be satisfied: (1) the amount of income can be reliably measured; (2) the relevant economic benefits are likely to flow into the Group; (3) the progress of completion of the transaction can be reliably determined; (4) the costs incurred and the costs to be incurred in the transaction can be reliably measured.

The total revenue of rendering of services shall be determined in accordance with the contract or agreed price received or receivable, except that contract or agreed price received or receivable is unfair. At the balance sheet date, the total revenue of rendering of services multiplied by the completion progress and deducting the aggregate revenue of rendering of services recognized in previous accounting period shall be recognized as the revenue of rendering of services for current period. Meanwhile, the total estimated cost of rendering of services multiplied by the completion progress and deducting the aggregate cost of rendering of services recognized in previous accounting period shall be transferred to the cost of rendering of services for current period.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XXIII) Revenue *(Continued)*

Applicable accounting standards before 1 January 2018 *(Continued)*

3. Principles of recognition of revenue from rendering of services and method of measurement *(Continued)*

(1) The overall general principles of recognition of revenue from rendering of services and method of measurement *(Continued)*

If the outcome of the rendering of services transaction cannot be reliably estimated at the balance sheet date, the following treatment shall be applied:

- ① If the cost of rendering of services is expected to be compensated, the cost already incurred for rendering of services shall be recognized as revenue of rendering of services, and the same amount shall be transferred to cost of service.
- ② If the cost of rendering of services is not expected to be compensated, the cost already incurred for rendering of services shall be included in the profits and losses for the current period and shall not be recognized as revenue of rendering of services.

The Company signed contracts or agreements with other enterprises that include the sale of goods and the rendering of services. When the portion of sale of goods and the portion of rendering of services can be differentiated and can be measured separately, the portion of sale of goods shall be treated as sale of goods and the portion of rendering of services shall be treated as rendering of services. When portion of sale of goods and the portion of rendering of services cannot be differentiated, or it can be differentiated but cannot be measured separately, the portion of sale of goods and the portion of rendering of services shall all be treated as sale of goods.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XXIII) Revenue *(Continued)*

Applicable accounting standards before 1 January 2018 *(Continued)*

3. Principles of recognition of revenue from rendering of services and method of measurement *(Continued)*

(2) Specific method of recognition of revenue from rendering of services

Revenue from rendering of services of the Group mainly consists of technological development revenue, maintenance service revenue, of which:

- ① Technological development revenue refers to the acceptance of the commissioning to develop the technological development project. In the implementation process of the project, if reliable external evidence (refer to customers and other independent external partners to confirm the completion progress) can be obtained to support the progress of completion, the revenue shall be recognized in accordance with the progress of the completion. If reliable external evidence to support the progress of completion cannot be obtained, taking a simplified percentage of completion method. The revenue shall be recognized as realized after the completion of the technological development with customer's acceptance certificate is obtained (including but not limited to the final acceptance report, proof of completion or proof of delivery).

The Group's technological development is generally difficult to obtain the completion progress from the external independent third party.

- ② Maintenance service revenue is recognized based on the total revenue as stipulated in relevant contracts evenly allocated over the period for the rendering of services thereunder.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

(XXIII) Revenue (Continued)

Applicable accounting standards before 1 January 2018 (Continued)

4. Principles of recognition of revenue from system integration and method of measurement

- (1) General principles of recognition of revenue of system integration construction contracts of the Group and the method of measurement

When the outcome of the construction contracts can be reliably measured, the revenue and cost of such contract at the balance sheet date shall be recognized by using percentage of completion method. When the outcome of the construction contracts cannot be reliably measured, it shall be treated as following respectively: If cost of the contracts is recoverable, sales revenue of the projects are recognized based on the actual recoverable contractual cost, the cost incurred is recognized as current contractual expenses. If cost of the contracts is unrecoverable, it is recognized as current contractual cost at occurrence and is not recognized as revenue of the projects.

The outcome of the construction contracts can be reliably estimated which mean that the following conditions can simultaneously be satisfied: A) the total income of the contracts can be reliably measured; B) the relevant economic benefits of the contracts are likely to flow into the Group; C) the actual costs incurred for the contract can be clearly divided and reliably measured; D) progress of completion of the contracts and the costs to be incurred for the contracts can be reliably determined.

- (2) Specific method of recognition of revenue for the Group's system integration construction contracts

- ① If the construction period of the project is more than one year, the revenue shall be recognized based on the completion progress which shall be confirmed according to the cost method.
- ② If the construction period of the project is less than one year, the simplified percentage of completion method shall be adopted to recognize the revenue at the time of completion of the project, that is, when the final acceptance certificate of the customer is obtained (including but not limited to the final acceptance report, completion certificate or proof of delivery).

The construction period of the Group's intelligent transportation system integration project is generally more than one year, and the construction period of the customs logistics system integration project is generally within one year.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XXIV) Contract costs

Contract costs are divided into contract performance costs and contract acquisition costs.

For the costs incurred by the Group for the performance of a contract, contract performance costs is recognized as an asset when the following conditions are met:

1. This cost is directly related to a current or anticipated contract.
2. This cost increases the resources of the Group to fulfil its performance obligations in the future.
3. The cost is expected to be recovered.

If the Group is expected to recover the incremental costs incurred in obtaining the contract, contract acquisition costs is recognized as an asset.

Assets related to the contract costs are amortized on the same basis as the recognition of the revenue of the relevant goods or services related to the asset; however, if the amortization period of the contract acquisition costs is not more than one year, the Group recognises them in the current profit or loss when incurred.

If the book value of an asset related to the contract costs is higher than the difference between the following two items, the Group will make impairment provision for the excess portion and recognize it as asset impairment loss:

1. The remaining consideration expected to be obtained by the transfer of goods or services related to the asset;
2. The costs expected to incur for the transfer of the relevant goods or services.

If the above-mentioned asset impairment provision is reversed thereafter, the reversed book value of the transferred asset shall not exceed the book value of the asset on the reversal date, assuming no provision for impairment.

Notes to the Financial Statements

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(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XXV) Government grant

1. Types

Government grants are monetary assets or non-monetary assets obtained from the government by the Group at no consideration, and are classified into government grant related to asset and government grant related to income.

Government grants related to assets is obtained by the Group for the purposes of constructing or forming long-term assets in other ways including funds allocation for purchase of fixed assets or intangible assets, financial discount of special loans for fixed assets. Government grants related to income refer to the government grants other than those related to assets.

The standard for the Group to classify the government grant as asset-related is: government grant that is used to purchase or form long-term assets in any other method, including the government allocations for purchase of fixed assets or intangible assets and financial interest subsidy for special loans for fixed assets.

The standard for the Group to classify the government grant as income-related is: government grant other than asset-related government grants.

2. Recognition time point

Government grants related to assets, recognition shall be made when the asset constructed or procured is put into use or relevant inspection report is obtained from the relevant departments.

Government grants related to income are recognized when the grants are received.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XXV) Government grant *(Continued)*

3. Accounting treatment

Government grants related to assets shall offset the carrying amount of the relevant assets or be recognized as deferred income. If it is recognized as deferred income, it shall be accounted for in the profit and loss in the current period in a reasonable and systematic way within the useful life of the relevant assets (if it is related to the daily activities of the Group which shall be included in other income; if it is irrelevant to the daily activities of the Group, it shall be included in the non-operating income).

Government grants related to income that are used for compensation for the relevant costs or losses of the Group in subsequent periods are recognized as deferred income and are included in the profit or loss in the current period (if it is related to the daily activities of the Group which shall be included in other income; if it is irrelevant to the daily activities of the Group which shall be included in the non-operating income) or offset the relevant cost expenses or losses in the periods in which the relevant costs, expenses or losses are recognized; a grant that are used for compensation for the relevant costs or losses of the Group already incurred shall be directly included in the profit or loss in the current period (if it is related to the daily activities of the Group which shall be included in other income; if it is irrelevant to the daily activities of the Group which shall be included in the non-operating income) or offset the related cost or losses.

Subsidised loans from preferential policy obtained by the Group is classified into the following two conditions and based on which to perform accounting treatment:

- (1) Where subsidy funds are paid to the loaning bank, the loaning bank provides the loan to the Group at a preferential policy rate, and the Group recognises the actual borrowing amount received as the borrowing amount, calculating the relevant borrowing costs based on the loan principal and the preferential policy rate.
- (2) Where subsidy funds are paid directly to the Group, the Group will offset the corresponding subsidy against the relevant borrowing expenses.

When a recognized government grant needs to be returned, if there is balance of relevant deferred income, the carrying balance of the relevant deferred income is offset and the excess is recognised in profit and loss in the current period. If the relevant deferred income does not exist, it is directly recognised in profit and loss in the current period.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

(XXVI) Deferred tax assets and deferred tax liabilities

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be offset. For deductible losses and tax credits that can be reversed in the future period, deferred tax assets shall be recognized to the extent that it is probable that taxable profit will be available in the future to offset the deductible losses and tax credits.

Save as the exceptions, deferred tax liabilities shall be recognised for the taxable temporary difference.

The exceptions for not recognition of deferred tax assets and liabilities include: the initial recognition of the goodwill; other transactions or matters other than business combinations in which neither profit nor taxable income (or deductible loss) will be affected when transactions occur.

When there is a statutory right to settle on a net basis and it is intended to settle on a net basis or acquire assets and pay off liabilities simultaneously, the current income tax assets and current income tax liabilities are presented at the net amount after offset.

When there is a statutory right to settle the current income tax assets and current income tax liabilities on a net basis, and the deferred income tax assets and deferred income tax liabilities are related to the income tax levied by the same tax collection authority on the same taxpayer or on different taxpayers, but in the future period in which each of the important deferred income tax assets and liabilities are reversed, the taxpayer involved intends to settle the current income tax assets and liabilities on a net basis or to acquire assets and liquidate liabilities simultaneously. Income tax assets and deferred income tax liabilities are presented at the net amount after offset.

(XXVII) Discontinued operations

Discontinued operations is a separately identifiable component that satisfies one of the following conditions, which has been disposed of by the Group or is classified as held-for-sale by the Group:

- (1) The component represents an independent main business or a separate major business area;
- (2) This component is proposed disposal plan on an independent main business or proposed disposal in a separate major business area;
- (3) This component is a subsidiary that is specifically acquired for resale.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

(XXVIII) Change in major accounting policies and accounting estimates

1. Change in major accounting policies

- (1) Implementation of “Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments”, “Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets”, “Accounting Standards for Business Enterprises No. 24 – Hedge Accounting” and “Accounting Standards for Business Enterprises” No. 37 – Presentation and Reporting of Financial Instruments (2017 Amendment), “Accounting Standards for Business Enterprises No. 14 – Revenue” (2017 Amendment)

In 2017, the Ministry of Finance of China revised the “Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments”, “Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets”, “Accounting Standards for Business Enterprises No. 24 – Hedge Accounting” and “Accounting Standards for Business Enterprises No. 37 – Presentation and Reporting of Financial Instruments”. The above revised standards were implemented from 1 January 2018. According to the standards, for the financial instruments that have not been derecognized on the date of implementation, if the previous recognition and measurement are inconsistent with the revised standards, they shall be retrospectively adjusted. If the comparative figures in financial statements for the prior period are inconsistent with the revised standards, no adjustment is required.

In 2017, the Ministry of Finance of China revised the “Accounting Standards for Business Enterprises No. 14 – Revenue”. The revised standard stipulates that entities at the first implementation of the standards shall adjust the opening balance of retained earnings and other related items in the financial statements at the beginning of the year based on the cumulative affected amounts, and the information for the comparable period shall not be adjusted.

The major impacts of the Group’s implementation of the above standards are detailed in Note III (XXVIII)3,

- (2) The impact of the change of volume of work method to the input method for the percentage of completion method

The Group is engaged in the system integration construction business, the specific work includes system design, equipment procurement, technology implementation, engineering facilities, etc. The nature of work varies greatly. It is difficult to measure the percentage of volume of work for different projects and it is also difficult for the confirmation and measurement of the percentage of volume of work for each item of the same project. At the same time, some projects are more difficult to obtain the measurement of volume of work from the owners or third party, and some project owners or third parties will delay the confirmation of volume of work.

Due to the above reasons, using the input method to confirm the completion progress can more truly and accurately reflect the Group’s operating results than using the volume of work method (also meet the requirements to obtain reliable external evidence to support the completion progress) to confirm the completion progress. In view of the above factors, the Group has changed the volume of work method to the input method for the percentage of completion method in the revenue recognition. The impact of the change of percentage of completion method on the financial statements for the years 2016 and 2017 are as follows:
Impact on the 2016 consolidated financial statements of the Group:

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

(XXVIII) Change in major accounting policies and accounting estimates (Continued)

1. Change in major accounting policies (Continued)

- (2) The impact of the change of volume of work method to the input method for the percentage of completion method (Continued)

Impact on the 2016 consolidated financial statements of the Group:

Items	Current listed amount	Original listed amount	Difference
Accounts receivable	757,345,498.16	526,069,368.54	231,276,129.62
Inventories	366,587,423.41	614,699,178.91	-248,111,755.50
Deferred income			
tax assets	30,325,463.82	28,391,637.47	1,933,826.35
Taxes payable	37,049,106.18	37,640,623.70	-591,517.52
Surplus reserves	77,954,450.56	77,443,332.15	511,118.41
Undistributed profits	908,730,871.98	923,552,272.40	-14,821,400.42
Operating incomes	1,483,379,149.40	1,569,750,558.83	-86,371,409.43
Operating cost	1,089,083,492.24	1,164,041,866.56	-74,958,374.32
Asset impairment losses	40,622,957.98	34,154,325.67	6,468,632.31
Income tax expenses	33,233,790.19	35,916,040.30	-2,682,250.11
Net profit	178,817,980.31	194,017,397.62	-15,199,417.31

Impact on the 2017 consolidated financial statements of the Group:

Items	Current listed amount	Original listed amount	Difference
Accounts receivable	681,350,608.61	589,865,277.78	91,485,330.83
Inventories	950,376,110.40	1,042,819,367.79	-92,443,257.39
Deferred income			
tax assets	34,054,177.63	32,303,033.76	1,751,143.87
Advances from			
customers	117,243,847.70	116,843,058.33	400,789.37
Taxes payable	46,577,774.22	45,030,437.72	1,547,336.50
Surplus reserves	84,701,819.19	84,326,994.53	374,824.66
Undistributed profits	1,076,559,118.85	1,078,088,852.07	-1,529,733.22
Operating incomes	1,716,862,749.61	1,672,987,895.57	43,874,854.04
Operating cost	1,254,829,906.97	1,225,214,079.72	29,615,827.25
Asset impairment losses	30,158,694.66	31,376,577.82	-1,217,883.16
Income tax expenses	45,248,963.45	42,927,426.95	2,321,536.50
Net profit	217,092,231.45	203,936,858.00	13,155,373.45

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

(XXVIII) Change in major accounting policies and accounting estimates (Continued)

2. Change in major accounting estimates

There were no changes in major accounting estimates for this period.

3. Adjustments of the opening balance of the relevant items in financial statements at the beginning of the year in which new financial instrument standards or new income standards were firstly implemented

(1) Consolidated balance sheet

Items	Opening balance at the beginning of the year	Closing balance of previous year	Adjusted amount
Notes receivable and accounts receivable	538,705,812.14	698,058,878.81	-159,353,066.67
Other receivables	467,387,779.28	484,891,213.33	-17,503,434.05
Inventories	109,975,990.57	950,376,110.40	-840,400,119.83
Contract assets	958,199,524.30	—	958,199,524.30
Total current assets	2,944,379,122.90	3,003,436,219.15	-59,057,096.25
Available-for-sale financial assets	—	111,782,201.95	-111,782,201.95
Other equity instruments investment	7,387,645.05	—	7,387,645.05
Other non-current financial assets	112,330,423.38	—	112,330,423.38
Deferred income tax assets	41,023,388.04	34,054,177.63	6,969,210.41
Other non-current assets	14,434,546.39	1,707,300.00	12,727,246.39
Total non-current assets	710,177,213.16	682,544,889.88	27,632,323.28
Total assets	3,654,556,336.06	3,685,981,109.03	-31,424,772.97
Advances from customers	—	117,243,847.70	-117,243,847.70
Contract liabilities	99,407,728.94	—	99,407,728.94
Other current liabilities	24,126,504.77	6,147,751.60	17,978,753.17
Total current liabilities	1,486,707,179.33	1,486,564,544.92	142,634.41

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

(XXVIII) Change in major accounting policies and accounting estimates (Continued)

3. Adjustments of the opening balance of the relevant items in financial statements at the beginning of the year in which new financial instrument standards or new income standards were firstly implemented (Continued)

(1) Consolidated balance sheet (Continued)

Items	Opening balance at the beginning of the year	Closing balance of previous year	Adjusted amount
Deferred income tax liabilities	10,502,043.81	9,228,730.88	1,273,312.93
Total non-current liabilities	116,343,417.98	115,070,105.05	1,273,312.93
Total liabilities	1,603,050,597.31	1,601,634,649.97	1,415,947.34
Capital reserves	445,006,045.54	444,930,544.69	75,500.85
Other comprehensive income	26,791,680.76	27,277,917.91	-486,237.15
Surplus reserves	85,217,319.96	84,701,819.19	515,500.77
Undistributed profits	1,043,792,815.00	1,076,559,118.85	-32,766,303.85
Total owners' equity attributable to the parent company	1,917,631,261.26	1,950,292,800.64	-32,661,539.38
Minority interest	133,874,477.49	134,053,658.42	-179,180.93
Total owners' equity	2,051,505,738.75	2,084,346,459.06	-32,840,720.31
Total liabilities and owners' equity	3,654,556,336.06	3,685,981,109.03	-31,424,772.97

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

(XXVIII) Change in major accounting policies and accounting estimates (Continued)

3. Adjustments of the opening balance of the relevant items in financial statements at the beginning of the year in which new financial instrument standards or new income standards were firstly implemented (Continued)

(2) Balance sheet

Items	Opening balance at the beginning of the year	Closing balance of previous year	Adjusted amount
Notes receivable and accounts receivable	185,992,273.50	193,934,498.90	-7,942,225.40
Other receivables	191,508,154.37	191,658,737.83	-150,583.46
Inventories	51,506,196.39	57,931,608.26	-6,425,411.87
Contract assets	12,248,484.76	–	12,248,484.76
Total current assets	723,740,949.62	726,010,685.59	-2,269,735.97
Available-for-sale financial assets	–	94,505,231.07	-94,505,231.07
Other equity instruments investment	3,117,445.05	–	3,117,445.05
Other non-current financial assets	98,571,597.71	–	98,571,597.71
Deferred income tax assets	9,079,278.53	8,834,969.38	244,309.15
Total non-current assets	963,536,627.93	956,108,507.09	7,428,120.84
Total assets	1,687,277,577.55	1,682,119,192.68	5,158,384.87
Advances from customers	–	17,259,057.62	-17,259,057.62
Contract liabilities	14,325,904.54	–	14,325,904.54
Other current liabilities	2,292,144.75	–	2,292,144.75
Total current liabilities	363,615,428.96	364,256,437.29	-641,008.33

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

(XXVIII) Change in major accounting policies and accounting estimates (Continued)

3. Adjustments of the opening balance of the relevant items in financial statements at the beginning of the year in which new financial instrument standards or new income standards were firstly implemented (Continued)

(2) Balance sheet (Continued)

Items	Opening balance at the beginning of the year	Closing balance of previous year	Adjusted amount
Deferred income tax liabilities	9,969,684.90	8,892,113.14	1,077,571.76
Total non-current liabilities	<u>110,126,450.72</u>	<u>109,048,878.96</u>	<u>1,077,571.76</u>
Total liabilities	<u>473,741,879.68</u>	<u>473,305,316.25</u>	<u>436,563.43</u>
Other comprehensive income	34,909,264.81	35,342,451.12	-433,186.31
Surplus reserves	85,217,319.96	84,701,819.19	515,500.77
Undistributed profits	359,112,613.42	354,473,106.44	4,639,506.98
Total owners' equity	<u>1,213,535,697.87</u>	<u>1,208,813,876.43</u>	<u>4,721,821.44</u>
Total liabilities and owners' equity	<u>1,687,277,577.55</u>	<u>1,682,119,192.68</u>	<u>5,158,384.87</u>

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

IV. TAXATION

(I) Main types of taxes and corresponding rates

1. Main types of taxes and tax rates of the Company

Tax Name	Tax basis	Tax rate
Value-added Tax ("VAT")	Output VAT is calculated on product sales and taxable services revenue, based on tax laws. The remaining balance of output VAT, after subtracting the deductible input VAT of the period, is VAT payable.	16%, 6%, 3%
City maintenance and construction tax	Based on actual VAT	7%
Education surcharge	Based on actual VAT	3%
Local education surcharge	Based on actual VAT	2%
Enterprise income tax	Based on taxable profits	25%

Note: According to Cai Shui [2018] No. 32: Since 1 May 2018, the taxpayer has a VAT-taxable sales behavior, the tax rate is adjusted to 16% from the original tax rate of 17%.

2. Effective tax rate of enterprise income tax of the companies of the Group

Name of taxpayer	Income tax rate	Notes
The Company	15%	High and new technology enterprise
Jiangsu Intellitrans Company Limited	15%	High and new technology enterprise
Jiangsu Ruifu Intelligent Tech. Co., Ltd.	15%	Note 1
Sample Technology (H.K.) Co., Limited	16.5%	Overseas company (Hong Kong)
Federal International Enterprise Limited	16.5%	Overseas company (Hong Kong)
Sun Supreme Enterprises Limited	16.5%	BVI
Nanjing City Intelligent Transportation Co., Ltd.	15%	Note 1
Other subsidiaries	25%	

Note 1: Details can be referred to Note IV(II).2

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

IV. TAXATION (Continued)

(II) Tax preferential

1. VAT

The VAT preferential policy relating to the sales revenue of software products are:

- (1) In accordance with the requirements of the document (Cai Shui [2011] No. 100) of Ministry of Finance and State Administration of Taxation of P.R. China: as for the sales of the self-developed and produced software products by the VAT general tax payers, after the VAT is levied at tax rate of 17%, the VAT refund policies will be applied for the excess of the actual VAT burden over 3%.
- (2) On 28 January 2011, the State Council of P.R. China issued the Circular on the Certain Policies to Further Encourage the Development of the Software Industry and Integrated Circuit Industry (Guofa [2011] No. 4), pursuant to which, the preferential VAT policies for software industry shall continue.

On 16 July 2001, the Company obtained the Software Enterprise Verification Certificate (軟件企業認定證書) and was certified as software enterprise.

On 24 June 2003, Nanjing Sample Logistic Company Limited, a subsidiary of the Company, obtained the Software Enterprise Verification Certificate (軟件企業認定證書) and was certified as software enterprise.

On 11 September 2003, Jiangsu Intellitrans Company Limited, a subsidiary of the Company, obtained the Software Enterprise Verification Certificate (軟件企業認定證書) and was certified as software enterprise.

On 17 September 2012, Nanjing City Intelligent Transporations Co., Ltd., a subsidiary of the Company, obtained the Software Enterprise Verification Certificate (軟件企業認定證書) and was certified as software enterprise.

On 27 October 2017, Jiangsu Ruifu Intelligent Tech. Co., Ltd., a subsidiary of the Company, obtained the Software Enterprise Verification Certificate (軟件企業認定證書) and was certified as software enterprise.

The above companies selling self-developed-and-manufactured software products enjoy the said preferential VAT policies.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

IV. TAXATION (Continued)

(II) Tax preferential (Continued)

2. Enterprise income tax

The enterprise income tax preferential policies for high-tech enterprise:

On 7 December 2017, the Company obtained the High and New Technology Enterprise certificate jointly issued by the Jiangsu Science and Technology Bureau, Jiangsu Finance Bureau, Jiangsu State Tax Bureau and Jiangsu Local Tax Bureau (江蘇省科學技術廳、江蘇省財政廳、江蘇省國家稅務局、江蘇省地方稅務局), for an effective period of three years. Pursuant to article 28 of the Enterprise Income Tax Law of the People's Republic of China, the income shall be taxed at the reduced rate of 15% for the New and High Technology Enterprise, therefore, the effective tax rate of enterprise income tax for the Company is 15% in 2018.

On 27 December 2017, Jiangsu Intellitrans Company Limited, a subsidiary of the Group, obtained the High and New Technology Enterprise certificate jointly issued by the Jiangsu Science and Technology Bureau, Jiangsu Finance Bureau, Jiangsu State Tax Bureau and Jiangsu Local Tax Bureau (江蘇省科學技術廳、江蘇省財政廳、江蘇省國家稅務局、江蘇省地方稅務局), for an effective period of three years. Pursuant to article 28 of the Enterprise Income Tax Law of the People's Republic of China, the income shall be taxed at the reduced rate of 15% for the New and High Technology Enterprise, therefore, its effective tax rate of enterprise income tax is 15% in 2018.

On 30 November 2018, Jiangsu Ruifu Intelligent Tech. Co., Ltd., a subsidiary of the Group, obtained the High and New Technology Enterprise certificate jointly issued by the Jiangsu Science and Technology Bureau, Jiangsu Finance Bureau, Jiangsu Provincial Taxation Bureau of State Administration of Taxation (江蘇省科學技術廳、江蘇省財政廳、國家稅務總局江蘇省稅務局), for an effective period of three years. Pursuant to article 28 of the Enterprise Income Tax Law of the People's Republic of China, the income shall be taxed at the reduced rate of 15% for the New and High Technology Enterprise.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

IV. TAXATION (Continued)

(II) Tax preferential (Continued)

2. Enterprise income tax (Continued)

On 28 November 2018, Nanjing City Intelligent Transportation Co., Ltd. a subsidiary of the Group, obtained the High and New Technology Enterprise certificate jointly issued by the Jiangsu Science and Technology Bureau, Jiangsu Finance Bureau, Jiangsu Provincial Taxation Bureau of State Administration of Taxation (江蘇省科學技術廳、江蘇省財政廳、國家稅務總局江蘇省稅務局), for an effective period of three years. Pursuant to article 28 of the Enterprise Income Tax Law of the People's Republic of China, the income shall be taxed at the reduced rate of 15% for the New and High Technology Enterprise. Therefore, its effective tax rate of enterprise income tax is 15% in 2018.

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS:

(I) Cash at bank and on hand

Items	Closing balance at the end of the period	Closing balance of previous year
Cash on hand	138,218.04	84,818.64
Bank deposits	496,350,458.75	725,956,004.00
Other monetary fund	36,469,360.13	37,078,830.28
Total	532,958,036.92	763,119,652.92
Including: Total amount of funds abroad	2,945,053.14	54,756,127.11

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(I) Cash at bank and on hand (Continued)

Of which, details of restricted cash are listed as below:

Items	Closing balance at the end of the period	Closing balance of previous year
Deposits for bank acceptance bills	14,470,407.79	21,389,063.84
Deposits of guarantee letter	17,932,927.48	15,646,334.88
Borrowing certificate deposit	3,000,000.00	—
Bid deposit	1,010,500.00	—
Total	36,413,835.27	37,035,398.72

Note: The above deposits have been excluded from the closing balance of cash and cash equivalents at the end of the year, and included in the cash relating to other operating activities and cash paid relating to other financing activities.

(II) Notes receivable and accounts receivable

Items	Closing balance at the end of the period	Closing balance of previous year
Notes receivable	259,450,275.36	16,708,270.20
Accounts receivable	837,139,367.60	681,350,608.61
Total	1,096,589,642.96	698,058,878.81

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(II) Notes receivable and accounts receivable (Continued)

1. Notes receivable

(1) Classification of notes receivable

Items	Closing balance at the end of the period	Closing balance of previous year
Bank acceptance bills	1,535,180.00	16,708,270.20
Commercial acceptance bills	269,369,891.00	—
Sub-total of carrying amount	270,905,071.00	16,708,270.20
Bank acceptance bills	—	—
Commercial acceptance bills	11,454,795.64	—
Sub-total of bad debts provision	11,454,795.64	—
Book value	259,450,275.36	16,708,270.20

(2) The Group has no pledged notes receivable at the end of the year.

(3) Notes receivable endorsed or discounted and not yet due as at the end of the year

Item	Derecognized amount at the end of the period	Amount not yet derecognize at the end of the period
Bank acceptance bills	59,525,056.20	—
Total	59,525,056.20	—

(4) The Company has no notes receivable which were converted to account receivables due to the drawer's inability to settle the note for the year.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(II) Notes receivable and accounts receivable (Continued)

2. Accounts receivable

- (1) Disclosure of accounts receivable based on the bad debts provision classification method

Aging	Closing balance at the end of the period	Closing balance of previous year
Within 1 year	753,089,331.43	459,299,355.65
1 to 2 years	101,348,947.18	203,068,841.14
2 to 3 years	47,833,613.39	70,078,710.79
Over 3 years	53,836,464.74	52,969,522.58
Sub-total	956,108,356.74	785,416,430.16
Less: Bad debts provision	118,968,989.14	104,065,821.55
Total	837,139,367.60	681,350,608.61

- (2) The situation of provision, reversal or recovery of provision of bad debts of the year

Items	Closing balance of previous year	Changes in accounting standards	Opening balance at the beginning of the year	Provision in the current period	Write-off of the current period	Increase in business combination	Closing balance at the end of the year
Provision of bad debts	104,065,821.55	-11,486,231.89	92,579,589.66	27,893,169.64	1,650,386.33	146,616.17	118,968,989.14
Total	104,065,821.55	-11,486,231.89	92,579,589.66	27,893,169.64	1,650,386.33	146,616.17	118,968,989.14

- (3) The actual write-off of accounts receivable of this period

Item	Write-off amount
Write-off of accounts receivable	1,650,386.33

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(II) Notes receivable and accounts receivable (Continued)

2. Accounts receivable (Continued)

(4) Particulars of the top five of accounts receivable at the end of the period

Name of Unit	Closing balance at the end of the period		
	Accounts receivable	Percentage of the total accounts receivables (%)	Provision of bad debts
Zhongji Guoneng Engineering Co., Ltd. (中機國能工程有限公司)	174,526,996.14	18.25	6,981,079.85
Nanjing Golden Sunshine Photovoltaic Power Co., Ltd. (南京金陽光光伏發電有限公司)	53,469,217.33	5.59	2,138,768.69
Changzhou Haide Real Estate Co., Ltd. (常州海德置業有限公司)	34,370,000.00	3.59	1,567,600.00
Luzhou City Gaoxin Investment Group Co., Ltd. (瀘州市高新投資集團有限公司)	34,074,290.41	3.56	1,466,135.28
Jiangsu Deya Intelligent Technology Co., Ltd. (江蘇德亞智能科技股份有限公司)	33,595,572.80	3.51	1,343,822.91
Total	330,036,076.68	34.50	13,497,406.74

(5) There were no accounts receivable derecognised due to transfer of financial assets in this period.

(6) There were no transfer of accounts receivable and continued to be involved in the formation of assets and liabilities at the end of the period.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(III) Prepayments

1. Prepayments by aging

Aging	Closing balance at the end of the period		Closing balance of previous year	
	Carrying amount	Percentage (%)	Carrying amount	Percentage (%)
Within 1 year	400,966,607.91	94.40	50,579,945.19	75.81
1 to 2 years	7,815,702.04	1.84	13,105,445.41	19.64
2 to 3 years	12,917,364.25	3.04	278,541.42	0.42
Over 3 years	3,036,094.96	0.72	2,757,553.54	4.13
Total	424,735,769.16	100.00	66,721,485.56	100.00

2. Particulars of the top five of prepayments at the end of the period

Prepaid object	Closing balance at the end of the period	Percentage of the closing balance of total prepayments (%)
Zhenjiang Xinhuan Group Co., Ltd. (鎮江新華電集團有限責任公司)	174,497,421.62	41.08
Nanjing Jiangsheng Building Material Co., Ltd. (南京江盛建材有限公司)	90,692,822.00	21.35
China Overseas Jiangsu Trade Development Co., Ltd. (中海外江蘇貿易發展有限公司)	42,507,201.73	10.01
Jiangsu Baocheng Fireproof and Anticorrosive Engineering Technology Co., Ltd. (江蘇寶城防火防腐工程科技有限公司)	42,098,252.31	9.91
Zhongji Guoneng Power Group Co., Ltd. (中機國能電力集團有限公司)	22,000,000.00	5.18
Total	371,795,697.66	87.53

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(IV) Other receivables

Items	Closing balance at the end of the period	Closing balance of previous year
Interest receivable	4,911,486.42	—
Other receivables	321,587,484.36	484,891,213.33
Total	326,498,970.78	484,891,213.33

1. Interest receivable

(1) Classification of interest receivable

Item	Closing balance at the end of the period	Closing balance of previous year
External loan	4,911,486.42	—
Total	4,911,486.42	—

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(IV) Other receivables (Continued)

2. Other receivables

(1) Disclosure of other receivables by categories

Aging	Closing balance at the end of the period	Closing balance of previous year
Within 1 year	59,261,990.10	469,916,512.49
1 to 2 years	274,511,613.16	14,706,485.15
2 to 3 years	8,891,064.47	8,484,793.78
Over 3 years	14,926,397.25	12,127,965.50
Sub-total	357,591,064.98	505,235,756.92
Less: Provision for bad debts	36,003,580.62	20,344,543.59
Total	321,587,484.36	484,891,213.33

(2) Classification of other receivables by nature

Nature	Book value at the end of the period	Book value at the previous year
Retention monies	258,929,232.36	404,989,937.83
Equity transfer	58,155,312.00	92,929,198.15
Petty cash	3,118,827.84	3,492,411.13
Refund for terminated contract	30,927,837.00	—
Other	6,459,855.78	3,824,209.81
Sub-total of book value	357,591,064.98	505,235,756.92
Less: Provision for bad debts	36,003,580.62	20,344,543.59
Closing balance at the end of the period	321,587,484.36	484,891,213.33

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(IV) Other receivables (Continued)

2. Other receivables (Continued)

(3) Particulars of provision for bad debts

	Stage I	Stage II	Stage III	
	Expected	Expected	Expected	
	credit loss	credit loss for	credit loss for	
	in the next	the entire	the entire	
	12 months	lifetime	lifetime (credit	
		(no credit	impairment	
		occurred)	has occurred)	
Provision for bad debts				Total
Closing balance of previous year	–	19,989,094.61	355,448.98	20,344,543.59
Changes in accounting standards	17,503,434.05	–	–	17,503,434.05
Opening balance at the beginning of the year	17,503,434.05	19,989,094.61	355,448.98	37,847,977.64
In the current period, the book value of other receivables at the beginning of the year has				
– transferred to stage II	–	–	–	–
– transferred to stage III	–	–	–	–
– reversed to stage II	–	–	–	–
– reversed to stage I	–	–	–	–
Provision in the current period	-6,819,641.60	5,257,956.04	–	-1,561,685.56
Reversal in the current period	–	–	–	–
Charge-off in the current period	–	–	–	–
Write-off in the current period	–	31,845.04	–	31,845.04
Other changes (business combination)	–	-250,866.42	–	-250,866.42
Closing balance at the end of the period	10,683,792.45	24,964,339.19	355,448.98	36,003,580.62

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(IV) Other receivables (Continued)

2. Other receivables (Continued)

- (4) The situation of provision, reversal or recovery of provision of bad debts of the current period

Items	Closing balance of previous year	Changes in accounting standards	Opening balance at the beginning of the year	Provision in the current period	Write-off in the current period	Increase in business combination	Closing balance at the end of the period
Provision for bad debts	20,344,543.59	17,503,434.05	37,847,977.64	-1,561,685.56	31,845.04	-250,866.42	36,003,580.62
Total	20,344,543.59	17,503,434.05	37,847,977.64	-1,561,685.56	31,845.04	-250,866.42	36,003,580.62

- (5) Particulars of actual write-off of other receivables in the current period

Item	Write-off amount
Actual write-off of other receivables	31,845.04

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(IV) Other receivables (Continued)

2. Other receivables (Continued)

(6) Particulars of the top five of other receivables at the end of the period

Name of units	Nature	Closing balance at the end of the period	Aging	Percentage of the total other receivables at the end of the period (%)	Closing balance of bad debts provision
China Coal Construction Group Co., Ltd. (中煤建工集團有限公司)	Guarantee deposits	170,000,000.00	1-2 years	47.54	8,500,000.00
Nanjing Construction Engineering Group Co., Ltd. (南京建工集團有限公司)	Equity transfer	58,155,312.00	1-2 years	16.26	5,815,531.20
China Overseas Jiangsu Trade Development Co., Ltd. (中海外江蘇貿易發展有限公司)	Refund for terminated contract	30,927,837.000	Within 1 year	8.65	1,546,391.85
Sichuan Mindong City Construction Development Co., Ltd. (四川岷東城市建設開發有限公司)	Guarantee deposits	23,406,221.22	1-2 years	6.55	1,170,311.06
Jiangsu Kelude Intelligent Technology Co., Ltd. (江蘇克路德智能科技有限 公司)	Guarantee deposits	5,692,433.85	1-2 years	1.59	284,621.69
Total		288,181,804.07		80.59	17,316,855.80

(7) There were no other receivables derecognised due to transfer of financial assets in the current period.

(8) There were no transfer of other receivable and continued to be involved in the formation of assets and liabilities at the end of the period.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(V) Inventories

1. Classification of Inventories

Items	Closing balance at the end of the period			Closing balance of previous year		
	Carrying amount	Provision for declines in value of inventories	Book value	Carrying amount	Provision for declines in value of inventories	Book value
Raw materials	15,404,025.18	25,105.01	15,378,920.17	2,382,197.76	–	2,382,197.76
Commodity Stocks	24,175,432.14	1,261,016.90	22,914,415.24	8,771,653.14	2,721,507.05	6,050,146.09
Work in process	–	–	–	89,059.08	–	89,059.08
Assets of construction contract completed but not yet settle	78,546,127.71	–	78,546,127.71	941,854,707.47	–	941,854,707.47
Total	118,125,585.03	1,286,121.91	116,839,463.12	953,097,617.45	2,721,507.05	950,376,110.40

2. Provision for declines in value of inventories

Items	Increase in current period			Decrease in current period		Closing balance at the end of the period
	Closing balance of previous year	Provision	Others	Reversal or write-off	Others	
Raw materials	–	25,105.01	–	–	–	25,105.01
Commodity stocks	2,721,507.05	232,875.28	–	1,693,365.43	–	1,261,016.90
Total	2,721,507.05	257,980.29	–	1,693,365.43	–	1,286,121.91

3. Completed but unsettled assets formed by construction contracts

Items	Closing balance at the end of the period	Closing balance of previous year
Accumulated costs incurred	80,022,018.08	2,064,372,885.35
Accumulated gross profit recognized	4,232,505.19	519,057,700.88
Less: Expected loss	–	–
Amount billed	5,708,395.56	1,641,575,878.76
Completed but unsettled assets formed by construction contracts	78,546,127.71	941,854,707.47

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(VI) Contract assets and contract liabilities

1. Particulars of Contract assets and contract liabilities

	Contract assets
Opening balance at the beginning of the year	1,011,382,052.79
Increase in current period	440,074,966.12
Converted into accounts receivable in current period	315,955,252.92
Contract asset impairment provision	49,031,565.83
Closing balance at the end of the period	1,086,470,200.16
Including: listed as contract assets	1,074,867,660.48
listed as other non-current liabilities	11,602,539.68
	Contract liabilities
Opening balance at the beginning of the year	100,196,312.00
Increase in current period	77,288,919.94
Interest adjustment	—
The amount confirmed in the current period including the income in the balance at the beginning of the year	84,985,272.37
Closing balance at the end of the period	92,499,959.57
Including: listed as contract liabilities	92,499,959.57

2. Particulars of impairment provision of contract assets in the current period

Item	Opening balance at the beginning of the year	Provision in the current period	Reversal in the current period	Charge-off/write-off in the current period	Closing balance at the end of the year
Contract assets	40,455,282.12	8,576,283.71	—	—	49,031,565.83
Total	40,455,282.12	8,576,283.71	—	—	49,031,565.83

Notes to the Financial Statements

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V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(VII) Non-current assets due within one year

Item	Closing balance at the end of the period	Closing balance of previous year
External loan due within one year	52,571,628.84	—
Total	52,571,628.84	—

(VIII) Other current assets

Items	Closing balance at the end of the period	Closing balance of previous year
Deductible and pending for verification input VAT	15,946,564.65	40,268,878.13
Prepaid tax	15,885,378.24	—
Total	31,831,942.89	40,268,878.13

(IX) Available-for-sale financial assets

Items	Closing balance of previous year		
	Closing balance	Impairment provision	Carrying amount
Available-for-sale equity instruments	111,782,201.95	—	111,782,201.95
Including: measured at cost	111,782,201.95	—	111,782,201.95
Total	111,782,201.95	—	111,782,201.95

Notes to the Financial Statements

For the year ended 31 December 2018

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V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(X) Long-term equity investments

Investee	Closing balance of previous year	Additional investment	Decrease in investment	Investment gains and losses recognized under the equity method	Other comprehensive income adjustment	Other changes in equity	Cash dividend declared or profits	Closing balance of the period	Impairment provision for the current period	Closing balance of impairment provision at the end of the period
Associates										
Nanjing Sample Hongzheng Vision Technology Co., Ltd. (南京三寶弘正視覺科技有限公司)	-	5,500,000.00	-	2,867,086.81	-	-	-	9,340,077.60	-	-
Jiangsu 1011 Network Technology Co., Ltd. (江蘇一零一一網絡科技有限公司)	1,044,069.33	-	1,026,000.00	-18,069.33	-	-	-	-	-	-
Zhongqing Century Sunshine Sports Technology (Nanjing) Co., Ltd. (中青世紀陽光體育科技(南京)有限公司)	2,496,444.77	-	2,496,444.77	-	-	-	-	-	-	-
Jiangsu Beidou Underground Pipeline Research Institute Co., Ltd. (江蘇北斗地下管線研究院有限公司)	10,000,000.00	-	-	-	-	-	-	-10,000,000.00	-	-
Jiangsu Yudeo Data Technology Co., Ltd. (江蘇野道數據科技有限公司)	4,867,000.60	5,250,000.00	-	-7,024,757.05	-	-	-	3,092,243.55	-	-
Nanjing Sample Chan Information Technology Co., Ltd. (南京三寶樣式數據技術有限公司)	2,867,597.98	-	-	-242,061.06	-	-	-	-2,625,546.82	-	-
Xuzhou Jili Bus Terminal Station Project Management Co., Ltd. (徐州市九里公交站項目管理有限公司)	22,547,499.73	-	-	-2,972.75	-	-	-	22,544,526.98	-	-
Total	43,822,612.31	10,750,000.00	3,522,444.77	-4,420,763.38	-	-	-	43,343,334.94	-	-

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For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(X) Long-term equity investments (Continued)

Note:

- (1) On 28 April 2018, Wu Lian Wang reduced the amount of capital contribution to Nanjing Sample Hongzheng Vision Technology Co., Ltd. and its shareholding changed from 51% to 41%, resulting Wu Lian Wang losing control of Hongzheng Vision. It is accounted for under the equity method instead of cost method and is no longer included in the scope of consolidated statement.
- (2) On 22 November 2018, Wu Lian Wang reduced the amount of capital contribution to Jiangsu Beidou Underground Pipeline Research Institute Co., Ltd., and its shareholding changed from 30% to 12.5%, causing Wu Lian Wang to lose its significant impact on Jiangsu Beidou Underground Pipeline Research Institute Co., Ltd. Based on the equity investment management model of Wu Lian Wang, this investment is included in other non-current financial assets.
- (3) On 11 April 2018, other shareholders of the Chain Information reduced the amount of capital contribution and the shareholding in the company held by the Company changed from 30% to 60%, which led to the Company owns control over Chain Information. It is accounted for under cost method instead of equity method and shall be included in the scope of the consolidated statement.

(XI) Other equity instrument investment

Particulars of other equity instrument investment

Items	Closing balance at the end of the period
Jiangsu Sailian Information Industry Research Institute Co., Ltd. (江蘇賽聯信息產業研究院股份有限公司)	1,423,335.60
Xuzhou Xingshanzi Bus Terminal Shoumo Station Project Management Co., Ltd. (徐州市杏山子公交首末站項目管理有限公司)	5,896,080.04
Jiangsu Private Investment Holdings Co., Ltd. (江蘇民營投資控股有限公司)	220,000,000.00
Total	227,319,415.64

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V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XII) Other non-current financial assets

Particulars of other non-current financial assets

Items	Closing balance at the end of the period
Financial assets measured at fair value and its changes included in the current profit or loss	134,623,072.37
Including: Equity instrument investment	134,623,072.37
Jiangsu Jiangtian Yonghua Data Service Co., Ltd. (江蘇江天永華數據服務有限公司)	1,750,000.00
Wuxi Internet of Things Innovation Center Co., Ltd. (無錫物聯網創新中心有限公司)	5,000,000.00
Equity Investment Fund Partnership of Shenzhen Rice Growing Emerging Industry (Limited Partnership) (深圳市大米成長新興產業股權投資基金合夥企業(有限合夥))	16,400,000.00
Nanjing City Information Investment Holdings Co., Ltd. (南京市信息化投資控股有限公司)	45,997,341.53
Hongtu Logistics Co., Ltd. (宏圖物流股份有限公司)	35,480,830.87
Xi'an Xiangnan Network Information Technology Co., Ltd. (西安向南網絡信息科技有限公司)	3,000,000.00
Nanjing E-port Co., Ltd. (南京市電子口岸有限公司)	2,284,557.87
Waterwood Technology Growth Fund I, L.P.	13,058,287.32
Jiangsu Beidou Underground Pipeline Research Institute Co., Ltd. (江蘇北斗地下管線研究院有限公司)	11,652,054.78
Total	134,623,072.37

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XIII) Investment property

1. Investment property using fair value measurement model

Items	Original value of property, building and land use right	Change in fair value	Total
1. Closing balance of previous year	160,109,545.74	59,280,754.26	219,390,300.00
2. Change in the current period	—	8,113,000.00	8,113,000.00
Add: Acquisition	—	—	—
Less: Disposal	—	—	—
Change in fair value	—	8,113,000.00	8,113,000.00
3. Closing balance at the end of the period	160,109,545.74	67,393,754.26	227,503,300.00

2. Pledge of investment property at the end of the year shall be referred to Note V(LV).

(XIV) Fixed assets

1. Fixed assets and disposal of fixed assets

Item	Closing balance at the end of the period	Closing balance of previous year
Fixed assets	376,964,307.99	229,877,091.68
Total	376,964,307.99	229,877,091.68

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XIV) Fixed assets (Continued)

2. Particulars of fixed assets

Items	Property and buildings	Machinery and equipment	Transportation equipment	Electronic equipment and others	Total
1. Original book value					
(1) Closing balance of previous year	142,013,475.81	173,612,925.09	5,398,061.27	64,622,938.59	385,647,400.76
(2) Increase in the current period	2,563,579.72	138,465,281.30	469,897.44	49,417,597.11	190,916,355.57
— Purchase	—	27,070.12	—	3,759,254.98	3,786,325.10
— Transfer from construction in progress	2,563,579.72	138,438,211.18	—	45,550,353.61	186,552,144.51
— Business combination increase	—	—	469,897.44	107,988.52	577,885.96
(3) Decrease in the current period	3,395,705.02	—	321,798.00	775,207.26	4,492,710.28
— Disposal and write-off	3,395,705.02	—	321,798.00	442,714.96	4,160,217.98
— Disposal of subsidiary	—	—	—	332,492.30	332,492.30
(4) Closing balance at the end of the period	141,181,350.51	312,078,206.39	5,546,160.71	113,265,328.44	572,071,046.05
2. Accumulated depreciation					
(1) Closing balance of previous year	20,824,726.55	83,826,286.20	4,712,478.92	46,406,817.41	155,770,309.08
(2) Increase in the current period	6,660,899.22	23,610,878.11	265,454.83	7,318,413.78	37,855,645.94
— Provision	6,660,899.22	23,610,878.11	188,458.02	7,267,158.56	37,727,393.91
— Business combination increase	—	—	76,996.81	51,255.22	128,252.03
(3) Decrease in the current period	414,314.30	—	295,002.72	495,232.56	1,204,549.58
— Disposal and write-off	414,314.30	—	295,002.72	383,823.29	1,093,140.31
— Disposal of subsidiary	—	—	—	111,409.27	111,409.27
(4) Closing balance at the end of the period	27,071,311.47	107,437,164.31	4,682,931.03	53,229,998.63	192,421,405.44

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For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XIV) Fixed assets (Continued)

2. Particulars of fixed assets (Continued)

Items	Property and buildings	Machinery and equipment	Transportation equipment	Electronic equipment and others	Total
3. Impairment provision					
(1) Closing balance of previous year	-	-	-	-	-
(2) Increase in the current period	-	1,886,783.44	-	798,549.18	2,685,332.62
— Provision	-	1,886,783.44	-	798,549.18	2,685,332.62
(3) Decrease in the current period	-	-	-	-	-
(4) Closing balance at the end of the period	-	1,886,783.44	-	798,549.18	2,685,332.62
4. Book value					
(1) Book value at the end of the period	114,110,039.04	202,754,258.64	863,229.68	59,236,780.63	376,964,307.99
(2) Book value at the beginning of the year	121,188,749.26	89,786,638.89	685,582.35	18,216,121.18	229,877,091.68

3. Particulars of fixed assets leased out under operating lease at the end of the year

Item	Book value at the end of the period
Vehicle intelligent terminal	44,093,937.65
Total	44,093,937.65

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XIV) Fixed assets (Continued)

4. There were no fixed assets which is temporarily idle, leased under finance lease, held for sale at the end of the year.
5. There were no fixed assets without certificates of ownership as the end of the year.
6. Pledge of fixed assets at the end of the year shall be referred to Note V(LV).

(XV) Construction in progress

1. Construction in progress and materials

Item	Closing balance at the end of the period	Closing balance of previous year
Construction in progress	6,534,672.42	874,604.36
Total	6,534,672.42	874,604.36

2. Particulars of construction in progress

Items	Closing balance at the end of the period			Closing balance of previous year		
	Closing balance	Impairment provision	Carrying amount	Closing balance	Impairment provision	Carrying amount
Sporadic projects	6,534,672.42	-	6,534,672.42	874,604.36	-	874,604.36
Total	6,534,672.42	-	6,534,672.42	874,604.36	-	874,604.36

Notes to the Financial Statements

For the year ended 31 December 2018

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V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XVI) Intangible assets

1. Particulars of intangible assets

Items	Land use right	Software	Patented technology	Total
1. Original book value				
(1) Closing balance of previous year	10,636,583. 49	4,663,099. 93	44,447,283. 81	59,746,967. 23
(2) Increase in the current period	–	191,998. 62	–	191,998. 62
– Purchase	–	191,998. 62	–	191,998. 62
(3) Decrease in the current period	–	–	23,113,207. 59	23,113,207. 59
– Disposal of subsidiary	–	–	23,113,207. 59	23,113,207. 59
(4) Closing balance at the end of the period	10,636,583. 49	4,855,098. 55	21,334,076. 22	36,825,758. 26
2. Accumulated amortization				
(1) Closing balance of previous year	2,215,022. 78	3,181,997. 66	21,465,508. 21	26,862,528. 65
(2) Increase in the current period	242,939. 54	759,106. 46	1,750,329. 05	2,752,375. 05
– Provision	242,939. 54	759,106. 46	1,750,329. 05	2,752,375. 05
(3) Decrease in the current period	–	–	4,494,234. 80	4,494,234. 80
– Disposal of subsidiary	–	–	4,494,234. 80	4,494,234. 80
(4) Closing balance at the end of the period	2,457,962. 32	3,941,104. 12	18,721,602. 46	25,120,668. 90
3. Impairment provision				
(1) Closing balance of previous year	–	–	–	–
(2) Increase in the current period	–	862,531. 75	–	862,531. 75
– Provision	–	862,531. 75	–	862,531. 75
(3) Decrease in the current period	–	–	–	–
(4) Closing balance at the end of the period	–	862,531. 75	–	862,531. 75
4. Book value				
(1) Book value at the end of the period	8,178,621. 17	51,462. 68	2,612,473. 76	10,842,557. 61
(2) Book value at the beginning of the year	8,421,560.71	1,481,102.27	22,981,775.60	32,884,438.58

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XVI) Intangible assets (Continued)

2. Pledge of intangible assets at the end of the year can be referred to Note V(LV).
3. The land use right is mid-term lease (leased land in PRC).

(XVII) Long-term deferred expenses

Items	Closing balance of previous year	Increase in the period	Amortized in the period	Other decrease	Closing balance at the end of the period
Renovation costs	3,359.33	-	3,359.33	-	-
e-card fee	6,921,505.20	-	2,726,341.74	-	4,195,163.46
Consultation fee	1,199,986.00	-	1,199,986.00	-	-
Insurance fee	27,312.84	-	27,312.84	-	-
Total	8,152,163.37	-	3,956,999.91	-	4,195,163.46

(XVIII) Deferred income tax assets and deferred income tax liabilities

1. Deferred income tax assets before offsetting

Items	Closing balance at the end of the period		Closing balance of previous year	
	Deductible temporary difference	Deferred income tax assets	Deductible temporary difference	Deferred income tax assets
Bad debts provision	166,427,365.40	24,716,431.13	124,410,365.14	18,330,729.98
Inventory impairment	1,286,121.91	97,858.23	2,721,507.05	316,931.75
Impairment provision for contract assets	49,031,565.83	7,354,734.88	-	-
Accrued construction costs	102,687,444.01	15,403,116.61	92,757,764.60	13,913,664.69
Offsetting unrealized internal profit	7,160,301.84	1,074,045.28	9,952,341.39	1,492,851.21
Total	326,592,798.99	48,646,186.13	229,841,978.18	34,054,177.63

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XVIII) Deferred income tax assets and deferred income tax liabilities (Continued)

2. Deferred income tax liabilities before offsetting

Items	Closing balance at the end of the period		Closing balance of previous year	
	Taxable temporary difference	Deferred income tax liabilities	Taxable temporary difference	Deferred income tax liabilities
Asset gains from business combinations involving entities not under common control	1,571,231.25	235,684.69	2,244,118.30	336,617.74
Investment property (difference between fair value and the book cost)	67,393,754.26	10,109,063.14	59,280,754.26	8,892,113.14
Other non-current financial assets (difference between fair value and the book cost)	8,532,848.90	1,453,731.02	—	—
Total	77,497,834.41	11,798,478.85	61,524,872.56	9,228,730.88

(XIX) Other non-current assets

Items	Closing balance at the end of the period			Closing balance of previous year		
	Closing balance	Impairment provision	Carrying amount	Closing balance	Impairment provision	Carrying amount
Equity investment	62,900,000.00	—	62,900,000.00	—	—	—
Engineering equipment and land etc.	11,602,539.68	—	11,602,539.68	1,707,300.00	—	1,707,300.00
Software development cost	323,353.93	—	323,353.93	—	—	—
Total	74,825,893.61	—	74,825,893.61	1,707,300.00	—	1,707,300.00

Notes to the Financial Statements

For the year ended 31 December 2018

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V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XX) Short-term borrowings

1. Classification of short-term borrowings

Items	Closing balance at the end of the period	Closing balance of previous year
Guaranteed loan	636,300,000.00	345,300,000.00
Credit loan	3,000,000.00	—
Total	639,300,000.00	345,300,000.00

2. There were no due short-term borrowings outstanding at the end of the year.

3. All borrowings at the end of year are due within one year.

(XXI) Notes payable and accounts payable

Items	Closing balance at the end of the period	Closing balance of previous year
Notes payable	28,756,738.41	30,056,123.84
Accounts payable	1,068,563,578.78	884,708,041.68
Total	1,097,320,317.19	914,764,165.52

1. Notes payable

Type	Closing balance at the end of the period	Closing balance of previous year
Bank acceptance bills	28,756,738.41	30,056,123.84
Commercial acceptance bills	—	—
Total	28,756,738.41	30,056,123.84

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XXI) Notes payable and accounts payable (Continued)

2. Accounts payable

(1) Accounts payable

Items	Closing balance at the end of the period	Closing balance of previous year
Engineering material and expenses payable	1,068,563,578.78	883,638,230.34
Payable to related party outside the scope of consolidation	—	1,069,811.34
Total	1,068,563,578.78	884,708,041.68

- (2) There were no major accounts payable aged over 1 year included in the closing balance at the end of the year.

(XXII) Advances from customers

Item	Closing balance of previous year
Advance sales	117,243,847.70
Total	117,243,847.70

Notes to the Financial Statements

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V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XXIII) Payroll payables

1. Payroll payables disclosed as follow

Items	Closing balance of previous year	Increase in the current period	Decrease in the current period	Closing balance at the end of the period
Short-term salaries payable	6,375,803.09	63,052,631.49	59,205,154.10	10,223,280.48
Post-employment benefits – defined contribution plan	20,821.90	6,386,212.30	6,406,821.59	212.61
Termination benefits	19,485.00	2,012,767.26	2,012,767.26	19,485.00
Total	6,416,109.99	71,451,611.05	67,624,742.95	10,242,978.09

2. Short-term salaries payable disclosed as follow

Items	Closing balance of previous year	Increase in the current period	Decrease in the current period	Closing balance at the end of the period
(1) Wages or salaries, bonuses, allowances and subsidies	5,939,259.35	53,922,837.35	49,934,274.58	9,927,822.12
(2) Employee welfare	–	1,334,795.60	1,334,795.60	–
(3) Social insurance	9,838.82	3,446,569.33	3,456,358.13	50.02
Including: Medical insurance	8,613.23	3,126,696.98	3,135,260.19	50.02
Work injury insurance	468.03	63,291.05	63,759.08	–
Maternity insurance	757.56	256,581.30	257,338.86	–
(4) Housing funds	140,707.00	3,449,351.96	3,472,481.90	117,577.06
(5) Union funds and staff education costs	285,997.92	899,077.25	1,007,243.89	177,831.28
Total	6,375,803.09	63,052,631.49	59,205,154.10	10,223,280.48

Notes to the Financial Statements

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V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XXIII) Payroll payables (Continued)

3. Defined contribution plan disclosed as follow

Items	Closing balance of previous year	Increase in the current period	Decrease in the current period	Closing balance at the end of the period
Basic pension contribution	19,446.82	6,193,717.77	6,212,964.49	200.10
Unemployment insurance	1,375.08	192,494.53	193,857.10	12.51
Total	20,821.90	6,386,212.30	6,406,821.59	212.61

(XXIV) Taxes payable

Tax items	Closing balance at the end of the period	Closing balance of previous year
VAT	7,030,101.77	9,044,177.46
Enterprise income tax	26,502,438.63	34,281,514.09
Individual income tax	144,890.21	172,404.95
Property tax	1,115,983.64	581,019.05
Land use tax	98,413.75	98,413.75
City maintenance and construction tax	1,052,530.71	1,271,309.21
Education surcharge	730,810.43	883,851.00
Others	145,277.14	245,084.71
Total	36,820,446.28	46,577,774.22

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XXV) Other payables

Items	Closing balance at the end of the period	Closing balance of previous year
Interest payable	2,411,771.11	675,962.63
Dividend payables	–	6,688,575.00
Other payables	63,775,516.04	31,500,358.26
Total	66,187,287.15	38,864,895.89

1. Interest payable

Item	Closing balance at the end of the period	Closing balance of previous year
Interest payable for borrowing	2,411,771.11	675,962.63
Total	2,411,771.11	675,962.63

2. Dividend payables

Item	Closing balance at the end of the period	Closing balance of previous year
Dividend of ordinary shares	–	6,688,575.00
Total	–	6,688,575.00

Notes to the Financial Statements

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(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XXV) Other payables (Continued)

3. Other payables

(1) Other payables disclosed by nature

Items	Closing balance at the end of the period	Closing balance of previous year
Retention monies	15,836,753.35	17,562,958.36
Equity transfer payment	36,449,662.67	—
Collection and payment	1,425,610.11	1,446,804.30
Other	10,063,489.91	12,490,595.60
Total	63,775,516.04	31,500,358.26

(2) Major other payables aged over 1 year at the end of the period

Items	Closing balance at the end of the period	Reasons for outstanding or not carried forward
Yinjiang Co., Ltd. (銀江股份有限公司)	2,295,374.00	Payment has not due
Jiangsu Yinjiang Transportation Technology Co., Ltd. (江蘇銀江交通 技術有限公司)	1,760,000.00	Payment has not due
Total	4,055,374.00	Payment has not due

(XXVI) Non-current liabilities due within 1 year

Item	Closing balance at the end of the period	Closing balance of previous year
Long-term borrowing due within 1 year	182,670,000.00	11,250,000.00
Total	182,670,000.00	11,250,000.00

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XXVII) Other current liabilities

Items	Closing balance at the end of the period	Closing balance of previous year
Output value-added tax to be recognised	4,001,691.75	6,147,751.60
Endorsed commercial acceptance bills but risks have not been transferred	71,693,487.00	—
Advance tax	11,596,386.38	—
Total	87,291,565.13	6,147,751.60

(XXVIII) Long-term borrowing

Items	Closing balance at the end of the period	Closing balance of previous year
Pledged loan	153,762,000.00	67,850,000.00
Guaranteed loan	318,488,000.00	—
Total	472,250,000.00	67,850,000.00

(XXIX) Deferred income

Item	Closing balance of previous year	Increase in the current period	Decrease in the current period	Closing balance at the end of the period	Reason of formation
Government subsidies	37,991,374.17	175,000.00	3,847,545.08	34,318,829.09	Government funding
Total	37,991,374.17	175,000.00	3,847,545.08	34,318,829.09	

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XXIX) Deferred income (Continued)

Projects involving government subsidies:

Liabilities items	Closing balance of previous year	Subsidies increased in the current period	Included in the profit and loss of the current period	Other movements	Closing balance at the end of the period	Related to asset/related to income
Government subsidies for construction project of Radio Frequency Identification (RFID) System Technology Research Center	366,765.82	–	183,382.90	–	183,382.92	related to asset
Financial assistance for national scientific and technological support projects	3,434,608.43	–	914,162.18	–	2,520,446.25	related to asset
City-level vehicle emissions regulation and enforcement platform	1,000,000.00	–	1,000,000.00	–	–	related to asset and income
Provincial grants for international cooperation	524,999.92	–	250,000.00	–	274,999.92	related to asset and income
Year 2016 provincial special funds for provincial-level industrial and information industry restructuring	1,500,000.00	–	1,500,000.00	–	–	related to income
Cooperation fee for co-operation with National Natural Science Foundation	725,000.00	175,000.00	–	–	900,000.00	related to asset and income
Demonstration project of application of comprehensive supervision system based on Internet of things technology for urban intelligent traffic	30,000,000.00	–	–	–	30,000,000.00	related to asset
Ministry of Industry and Information Technology Special Funding Agreement for Year 2014 Internet of Things Project	440,000.00	–	–	–	440,000.00	related to asset
Total	<u>37,991,374.17</u>	<u>175,000.00</u>	<u>3,847,545.08</u>	<u>–</u>	<u>34,318,829.09</u>	

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XXX) Share capital

Items	Closing balance of previous year		Increase in the current period	Decrease in the current period	Closing balance at the end of the period	
	Amount	Percentage (%)			Amount	Percentage (%)
Nanjing Sample Technology Group Company Limited (南京三寶科技集團有限公司)	159,128,400.00	50.23	238,692,600.00	–	397,821,000.00	50.23
Active Gold Holding Limited	49,545,000.00	15.64	74,317,500.00	–	123,862,500.00	15.64
Sha Min (沙敏)	1,350,000.00	0.42	2,025,000.00	–	3,375,000.00	0.42
Jiangsu Ruihua Investment Holding Group Co., Ltd. (江蘇瑞華投資控股集團 有限公司)	13,750,000.00	4.34	20,625,000.00	–	34,375,000.00	4.34
Shandong Runbang Agricultural Development Co., Ltd. (山東潤邦農業開發有限公司)	1,250,000.00	0.39	1,875,000.00	–	3,125,000.00	0.39
Overseas public shareholders (H Shares)	91,800,000.00	28.98	137,700,000.00	–	229,500,000.00	28.98
Total	316,823,400.00	100.00	475,235,100.00	–	792,058,500.00	100.00

Note: According to the resolution of 2017 Annual General Meeting of the Company, based on the total share capital of 316,823,400 shares at the end of 2017, the Company increased 316,823,400 shares by way of capitalization of capital reserve on the basis of 10 capitalization shares for every 10 shares and issued 158,411,700 shares from the undistributed profits on the basis of 5 bonus shares for every 10 shares. The total share capital of the Company changed to 792,058,500 shares and registered share capital is 792,058,500 yuan.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XXXI) Capital reserve

Item	Closing balance of previous year	Changes in accounting standards	Opening balance at the beginning of the year	Increase in the period	Decrease in the period	Closing balance at the end of the year
Share capital premium (Equity premium)	444,930,544.69	75,500.85	445,006,045.54	–	348,212,296.04	96,793,749.50
Total	444,930,544.69	75,500.85	445,006,045.54	–	348,212,296.04	96,793,749.50

Explanation for the movement:

- (1) According to the resolution of 2017 Annual General Meeting of the Company, the Company distributed to all shareholders by way of capitalization of capital reserve by 10 shares for every 10 shares, which increased by 316,823,400 shares, and the capital reserve was reduced by 316,823,400.00 yuan.
- (2) Sample HK acquired minority shareholders' equity interest of Federal International. The investment cost for the increased shareholding by Sample HK was greater than the share of identifiable net assets of Federal International, which is 31,388,896.04 yuan, and the capital reserve was reduced by 31,388,896.04 yuan.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XXXII) Other comprehensive income

Items	Closing balance of previous year	Changes in accounting standards	Amounts incurred before income tax in the current period	Amounts incurred in the current period				Closing balance at the end of the year
				Less: Previously recognized in other comprehensive income and transferred to profit or loss in the current period	Less: income tax expenses	Attributable to the parent company after tax	Attributable to minority shareholder after tax	
1. Other comprehensive income that can not be reclassified to profit or loss	-	-486,237.15	-66,957.75	-	-10,104.51	-56,853.24	-	-543,090.39
Including: Changes arising from the re-measurement of defined benefit plans	-	-	-	-	-	-	-	-
Other comprehensive income at equity method that cannot be reclassified into profit and loss	-	-486,237.15	-66,957.75	-	-10,104.51	-56,853.24	-	-543,090.39
Changes in fair value of other equity instruments investment	-	-	-	-	-	-	-	-
Changes in fair value of the company's own credit risk	-	-	-	-	-	-	-	-

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XXXII) Other comprehensive income (Continued)

Items	Closing balance of previous year	Changes in accounting standards	Amounts incurred before income tax in the current period	Amounts incurred in the current period		Less: income tax expenses	Attributable to the parent company after tax	Attributable to minority shareholder after tax	Closing balance at the end of the year
				Amounts incurred in the current period	Less: Previously recognized in other comprehensive income and transferred to profit or loss in the current period				
2. Other comprehensive incomes that can be reclassified to profit and loss	27,277,917.91	-	2,766,259.97	-	-	-	2,766,259.97	-	30,044,177.88
Including: Other comprehensive income at equity method that cant be reclassified into profit and loss	-	-	-	-	-	-	-	-	-
Changes in fair value of other debt investments	-	-	-	-	-	-	-	-	-
Profit and loss from changes in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	-	-
Financial assets reclassified into other comprehensive income	-	-	-	-	-	-	-	-	-
Profit or loss from held-to-maturity investment reclassified as available-for-sale financial assets	-	-	-	-	-	-	-	-	-
Other debt investment credit impairment provisions	-	-	-	-	-	-	-	-	-
Cash flow hedges reserve (Effective portion of profit or loss from cash flows hedges)	-	-	-	-	-	-	-	-	-
Converted difference in foreign currency statements	-8,064,533.21	-	2,766,259.97	-	-	-	2,766,259.97	-	-5,298,273.24
The difference between the fair value of the investment property and the book value on the conversion date	35,342,451.12	-	-	-	-	-	-	-	35,342,451.12
Total other comprehensive income	27,277,917.91	-486,237.15	2,699,302.22	-	-10,104.51	-	2,709,406.73	-	29,501,087.49

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XXXIII) Surplus reserve

Items	Closing balance of previous year	Changes in accounting standards	Opening balance at the beginning of the year	Increase in the period	Decrease in the period	Closing balance at the end of the period
Statutory surplus reserve	84,701,819.19	515,500.77	85,217,319.96	11,409,119.05	-	96,626,439.01
Total	84,701,819.19	515,500.77	85,217,319.96	11,409,119.05	-	96,626,439.01

Note: The increase in the amount for the Period was statutory surplus reserve provided based on 10% of net profits of the Company.

(XXXIV) Undistributed profits

Items	Current year	Previous year
Undistributed profit before adjustment at the end of the previous period	1,076,559,118.85	908,730,871.98
Adjustment of total undistributed profit at the beginning of the year (with "+" for increase and with "-" for decrease)	-32,766,303.85	-
Undistributed profit after adjustment at the beginning of the year	1,043,792,815.00	908,730,871.98
Add: Current net profit attributable to owners' equity of the parent company	195,992,114.49	222,099,125.50
Less: Provision of statutory surplus reserves	11,409,119.05	6,747,368.63
Provision of other surplus reserves	-	-
Provision for general credit risk	-	-
Ordinary shares dividends payable	79,205,850.00	47,523,510.00
Ordinary shares dividends transferred to the share capital of ordinary shares	158,411,700.00	-
Undistributed profit at the end of the period	990,758,260.44	1,076,559,118.85

Note: The distribution of dividend on ordinary shares to shareholders of the Company was made according to the profit distribution plan for 2017 approved at the annual general meeting of the Company held on 29 June 2018, namely a cash dividend of RMB0.25 per share to each shareholder, totaling RMB79,205,850 for 2017, as calculated based on the Company's total issued share of 316,823,400 at the record date. The actual distributed cash amounted to RMB85,894,425 (including the amount payable this year and the those not distributed for the previous year).

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For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XXXV) Operating income and operating cost

1. Particulars of operating income and operating cost

Items	Current year		Previous year	
	Income	Cost	Income	Cost
Principal operation	1,816,062,084.24	1,316,616,718.94	1,694,521,795.59	1,252,512,225.85
Other operation	18,425,517.71	1,822,655.81	22,340,954.02	2,317,681.12
Total	1,834,487,601.95	1,318,439,374.75	1,716,862,749.61	1,254,829,906.97

2. Principal operations (by product)

Name of Products	Current year		Previous year	
	Operating income	Operating cost	Operating income	Operating cost
System integration	952,694,796.64	692,242,932.99	1,056,025,469.87	777,066,339.83
Intelligent terminal sales	672,386,173.60	568,724,504.26	332,185,003.77	261,136,667.25
Service business	190,981,114.00	55,649,281.69	146,985,107.19	67,456,585.41
Cross-border trade and service	—	—	159,326,214.76	146,852,633.36
Total	1,816,062,084.24	1,316,616,718.94	1,694,521,795.59	1,252,512,225.85

3. Performance obligations

The system integration business is generally constructed in accordance with the contracted construction period, but there has been delay due to the impact of the previous basic engineering;

The sales business of the intelligent terminal is generally delivered according to the delivery time specified in the contract, and the performance obligation is fulfilled after the customer signs or accepts the goods;

The service business generally completes the technology development business according to the time agreed in the contract, and fulfills the performance obligation after the customers' acceptance.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XXXV) Operating income and operating cost (Continued)

4. Particulars of operating income from the top five customers of the Group of the year

Name of customer	Current year	
	Total operating income	Percentage of the total operating income of the Group (%)
Zhongji Guoneng Engineering Co., Ltd. (中機國能工程有限公司)	203,623,620.45	11.10
Sichuan Mindong City Construction Development Co., Ltd. (四川岷東城市建設開發有限公司)	201,278,675.06	10.97
China Energy Engineering Group Co., Ltd. (中國能源工程集團有限公司)	154,978,448.32	8.45
Changzhou Haide Real Estate Co., Ltd. (常州海德置業有限公司)	127,267,901.80	6.94
China Coal Construction Engineering Group Co., Ltd (中煤建工集團有限公司)	100,675,654.23	5.49
Total	787,824,299.86	42.95

5. Operating income represents the Group's principal operating income, including revenue received and receivable from system integration, intelligent terminal sales, service businesses.

6. During the year, information regarding the Company's reportable operating segments as provided to the Company's chief operating decision makers for the purposes of resources allocation and assessment of segment performance for the year is only derived from system integration, intelligent terminal sales, service businesses.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XXXVI) Taxes and surcharges

Items	Current year	Previous year
City maintenance and construction tax	1,846,932.10	2,030,163.84
Education surcharge tax	1,366,901.02	1,561,666.36
Other taxes and fees	4,420,665.31	4,219,490.62
Total	7,634,498.43	7,811,320.82

(XXXVII) Selling and distribution expenses

Items	Current year	Previous year
Salary and surcharge	16,354,698.35	16,414,058.35
Entertainment expenses	8,265,080.37	8,149,191.82
Travelling expenses	4,704,303.82	5,016,804.52
Composite fees for construction	4,438,101.40	6,983,034.39
Bidding fees	1,477,199.29	1,454,055.56
Advertisement and promotion expenses	1,460,263.09	448,755.26
Others	1,139,550.70	1,137,854.90
Office expenses	957,064.47	566,933.77
Consultation fees	878,189.46	2,018,121.66
Motor vehicle expenses	577,945.42	446,809.74
Rental and property charges	552,537.82	366,921.16
Depreciation charges	528,982.58	370,087.95
Telephone charges	212,602.28	215,256.55
Postage	170,542.42	192,002.39
Water and electricity charges	169,624.20	209,799.40
Total	41,886,685.67	43,989,687.42

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XXXVIII) General and administrative expenses

Items	Current year	Previous year
Salary and surcharge	24,473,429.90	19,191,070.63
Depreciation charges	12,153,310.47	11,773,957.85
Agency and consultation fees	7,147,614.01	8,964,380.12
Renovation costs	5,216,968.62	1,428,981.25
Others	4,337,463.16	2,930,998.44
Entertainment expenses	2,948,797.55	3,280,932.31
Amortization of intangible assets	2,518,868.47	4,477,575.43
Technical service fees	1,300,198.81	1,337,499.56
Motor vehicle expenses	857,724.74	884,871.03
Travelling expenses	769,769.98	1,181,771.41
Promotion expenses	626,941.72	323,864.80
Rental and property charges	553,798.31	601,247.86
Water and electricity charges	396,817.00	613,620.50
Board's fee	368,750.00	206,250.00
Total	63,670,452.74	57,197,021.19

(XXXIX) Research & development expenses

Items	Current year	Previous year
Research and development materials fees	55,867,840.24	40,230,165.76
Salary and surcharge	18,621,493.35	19,956,138.86
Technical service fees	4,613,115.58	2,255,924.68
Others	1,244,888.54	1,775,364.56
Rental and property charges	790,001.16	1,348,195.23
Entertainment expenses	728,196.29	768,699.14
Depreciation charges	531,740.37	2,162,520.01
Travelling expenses	523,506.38	911,547.39
Amortization of intangible assets	229,868.13	226,251.25
Agency and consultation fees	192,355.96	1,155,804.43
Water and electricity charges	88,080.95	115,409.79
Motor vehicle expenses	82,513.49	268,908.17
Promotion expenses	5,778.00	77,358.49
Total	83,519,378.44	71,252,287.76

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For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XL) Financial expenses

Items	Current year	Previous year
Interest expenses	56,776,087.83	30,003,744.20
Discounted expenditure	1,991,533.33	—
Less: interest income	8,097,068.42	6,114,866.26
Exchange gain and loss	1,142,886.01	-1,499,415.30
Handling fee	6,178,057.46	1,237,972.32
Total	57,991,496.21	23,627,434.96

(XLI) Asset impairment losses

Items	Current year	Previous year
Loss from bad debts	—	29,050,639.13
Fixed asset impairment loss	2,685,332.62	—
Impairment loss of intangible assets	862,531.75	—
Loss from declines in values of inventories	257,980.29	1,108,055.53
Total	3,805,844.66	30,158,694.66

(XLII) Credit impairment loss

Items	Current year
Loss from bad debts	37,786,279.72
Contract asset impairment loss	8,576,283.71
Total	46,362,563.43

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XLIII) Other income

	Current year	Previous year	Related to asset/related to income
Subsidized items			
VAT Software Tax Refund	1,375,751.64	3,301,780.34	Related to to income
Other government subsidies income	7,091,588.66	3,897,771.35	Related to asset/related to income
Total	8,467,340.30	7,199,551.69	

For the government subsidies included in other income, please refer to the Note XII. "Government subsidies".

(XLIV) Investment income

Items	Current year	Previous year
Income from long-term equity investments under equity method	-4,420,731.52	-1,413,423.92
Investment income from disposal of long-term equity investments	-2,496,443.77	15,182,518.40
Income from disposal of held-for-trading financial assets	66,928.34	-1,263,595.04
Investment income of debt investment during the holding period	4,798,390.22	—
Gains from the remaining equity re-measured at fair value after losing control	1,380,468.88	—
Gains from the previous equity re-measured at fair value after gaining control	1,632,694.76	—
Investment income of asset management plan	—	4,506,466.97
Investment income of wealth management products	—	760,452.65
Total	961,306.91	17,772,419.06

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XLV) Income from change in fair value

Source of income from change in fair value	Current year	Previous year
Other non-current financial assets measured at fair value	654,392.27	—
Investment property measured at fair value	8,113,000.00	4,139,700.00
Total	8,767,392.27	4,139,700.00

(XLVI) Income from assets disposal

Item	Current year	Previous year	Included in the non-recurring profits and losses of the current period
Gains from disposal of fixed assets	62,859.80	16,793.21	62,859.80
Total	62,859.80	16,793.21	62,859.80

(XLVII) Non-operating income

Items	Current year	Previous year	Included in the non-recurring profits and losses of the current period
Accounts payable as expected to be unpayable	276,595.58	—	276,595.58
government subsidy	6,700.00	5,376,010.00	6,700.00
Insurance compensation	2,930,000.00	—	2,930,000.00
Other income	23,929.37	67,928.85	23,929.37
Total	3,237,224.95	5,443,938.85	3,237,224.95

For the government subsidies included in non-operating income, please refer to the Note XII. "Government subsidies".

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V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XLVIII) Non-operating expenses

	Current year	Previous year	Included in the non-recurring profits and losses of the current period
Losses on written-off of non current assets	3,002,405.19	32,648.99	3,002,405.19
Others	32,567.67	194,954.75	32,567.67
Total	3,034,972.86	227,603.74	3,034,972.86

(XLIX) Auditor's remuneration

Auditor's remuneration for the current year was RMB1,000,000.00 (2017: RMB750,000.00).

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(L) Directors, supervisors and employees' emoluments

1. Directors and supervisors' emoluments

Items	Current year	Previous year
Directors and supervisors' fees:		
Executive directors	93,750.00	56,250.00
Non-executive director and independent non-executive directors	175,000.00	90,000.00
Supervisors	100,000.00	60,000.00
Sub-total	368,750.00	206,250.00
Executive directors' other emoluments:		
Basic salaries and allowance	1,365,080.00	905,256.00
Contributions to retirement benefits/pensions schemes	448,514.64	262,874.01
Sub-total	1,813,594.64	1,168,130.01
Supervisors' other emoluments:		
Basic salaries and allowance	245,972.50	178,324.50
Contributions to retirement benefits/pensions schemes	83,642.94	54,787.60
Sub-total	329,615.44	233,112.10
Senior Management:		
Basic salaries and allowance	1,185,686.00	628,584.50
Contributions to retirement benefits/pensions schemes	401,201.68	225,747.64
Sub-total	1,586,887.68	854,332.14
Total	4,098,847.76	2,461,824.25

None of the directors or supervisors waived any emoluments during the year.

No emoluments were paid by the Group to the directors or supervisors of the Company as an inducement to join or as incentive upon joining the Group or as compensation for loss of office during the year.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(L) Directors, supervisors and employees' emoluments (Continued)

2. Particulars of Directors and supervisors' emoluments were as follows:

Name	Current year			Total
	Directors and supervisors' fees	Other emoluments		
		Basic salaries and allowance	Contributions to retirement benefits/pensions schemes	
Executive Directors:				
Mr. Sha Min	31,250.00	452,072.00	149,504.88	632,826.88
Mr. Chang Yong	31,250.00	456,504.00	149,504.88	637,258.88
Mr. Zhu Xiang	31,250.00	456,504.00	149,504.88	637,258.88
Sub-total	93,750.00	1,365,080.00	448,514.64	1,907,344.64
Non-executive Director:				
Mr. Ma Jun	37,500.00	-	-	37,500.00
Sub-total	37,500.00	-	-	37,500.00
Independent Non-Executive Directors:				
Mr. Shum Shing Kei	62,500.00	-	-	62,500.00
Mr. Hu Hanhui	37,500.00	-	-	37,500.00
Mr. Gao Lihui	37,500.00	-	-	37,500.00
Sub-total	137,500.00	-	-	137,500.00

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(L) Directors, supervisors and employees' emoluments (Continued)

2. Particulars of Directors and supervisors' emoluments were as follows: (Continued)

Name	Current year			Total
	Directors and supervisors' fees	Other emoluments		
		Basic salaries and allowance	Contributions to retirement benefits/ pensions schemes	
Supervisors:				
Mr. Dai Jian Jun	37,500.00	–	–	37,500.00
Mr. Zou Tao	12,500.00	245,972.50	83,642.94	342,115.44
Independent supervisor:				
Mr. Qiu Xiang Yang	37,500.00	–	–	37,500.00
Sub-total	87,500.00	245,972.50	83,642.94	417,115.44
Senior management:				
Ms. Miao Yun	–	376,720.00	147,298.76	524,018.76
Ms. Yu Hui	–	511,260.00	149,504.88	660,764.88
Mr. Xie Jinliang	12,500.00	297,706.00	104,398.04	414,604.04
Sub-total	12,500.00	1,185,686.00	401,201.68	1,599,387.68
Total	368,750.00	2,796,738.50	933,359.26	4,098,847.76

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(L) Directors, supervisors and employees' emoluments (Continued)

2. Particulars of Directors and supervisors' emoluments were as follows: (Continued)

Name	Directors and supervisors' fees	Previous year		Total
		Other emoluments		
		Basic salaries and allowance	Contributions to retirement benefits/pensions schemes	
Executive Directors:				
Mr. Sha Min	18,750.00	347,104.00	87,624.67	453,478.67
Mr. Chang Yong	18,750.00	279,076.00	87,624.67	385,450.67
Mr. Zhu Xiang	18,750.00	279,076.00	87,624.67	385,450.67
Sub-total	56,250.00	905,256.00	262,874.01	1,224,380.01
Non-executive Director:				
Mr. Ma Jun	22,500.00	–	–	22,500.00
Sub-total	22,500.00	–	–	22,500.00
Independent Non-Executive Directors:				
Mr. Shum Shing Kei	37,500.00	–	–	37,500.00
Mr. Hu Hanhui	22,500.00	–	–	22,500.00
Mr. Gao Lihui	7,500.00	–	–	7,500.00
Sub-total	67,500.00	–	–	67,500.00
Supervisors:				
Mr. Dai Jian Jun	22,500.00	–	–	22,500.00
Mr. Zou Tao	7,500.00	178,324.50	54,787.60	240,612.10
Independent supervisor:				
Mr. Qiu Xiang Yang	22,500.00	–	–	22,500.00
Sub-total	52,500.00	178,324.50	54,787.60	285,612.10

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(L) Directors, supervisors and employees' emoluments (Continued)

2. Particulars of Directors and supervisors' emoluments were as follows: (Continued)

Name	Previous year			Total
	Directors and supervisors' fees	Other emoluments		
		Basic salaries and allowance	Contributions to retirement benefits/pensions schemes	
Senior management:				
Ms. Miao Yun	–	237,730.00	83,385.47	321,115.47
Ms. Yu Hui	–	215,110.50	80,318.17	295,428.67
Mr. Xie Jinliang	7,500.00	175,744.00	62,044.00	245,288.00
Sub-total	7,500.00	628,584.50	225,747.64	861,832.14
Total	206,250.00	1,712,165.00	543,409.25	2,461,824.25

3. Five highest paid individuals

During the year, of the five individuals with the highest emoluments, three (2017: three) were directors. The emoluments of them were disclosed in the notes above. The emoluments of the remaining two (2017: two) individuals were as follows:

Items	2018	2017
Basic salaries and allowance	887,980.00	452,840.50
Contributions to retirement benefits schemes	296,803.64	163,703.64
Total	1,184,783.64	616,544.14

During the year, no emoluments were paid by the Company to the five highest paid individuals as an inducement to join or as incentive upon joining the Group or as compensation for loss of office.

4. The emoluments of highest paid individuals were within the following bands

Item	2018	2017
Nil to HK\$800,000 (nil to RMB700,955.06)	2	2

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(LI) Income tax expenses

1. Table of income tax expenses

Items	Current year	Previous year
Income tax for the current period	43,154,259.99	48,775,170.28
Deferred income tax	-6,212,019.69	-3,526,206.83
Total	36,942,240.30	45,248,963.45

2. Reconciliation between total profit and income tax expenses is as follows

Items	Current year
Total profit	229,638,458.99
Income tax expenses calculated at statutory tax rates (or applicable tax rates)	34,445,768.85
Effect of different tax rates applicable to subsidiaries	-2,367,293.06
Income tax adjustments on prior periods	688,921.51
Expenses, costs and losses not deductible for tax purposes	1,794,240.50
Additional deduction for qualified research and development expenses	-662,697.45
Effect of deductible loss of the deferred income tax assets unrecognized in the previous period	-800,162.05
Impact of deductible temporary differences or deductible loss for which deferred tax assets not recognized in the current period	3,843,462.00
Income tax expenses	36,942,240.30

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(LII) Dividend

Items	Current year	Previous year
Final dividend proposed of RMB0.1 per share	79,205,850.00	—
Final dividend proposed of RMB0.25 per share	—	79,205,850.00

The final dividend proposed after the end of reporting period has not been recognized as a liability at the end of reporting period and is subject to approval by the shareholders at the annual general meeting.

Items	Current year	Previous year
Final dividend in respect of the previous year approved during the year	79,205,850.00	47,523,510.00
Final dividend in respect of the previous year paid during the year	85,894,425.00	40,834,935.00
Final dividend in respect of the previous year remain unpaid during the year	—	6,688,575.00

(LIII) Items of cash flow statement

1. Cash received relating to other operating activities

Items	Current year	Previous year
Interest income on bank deposits received	8,086,569.05	12,595,559.29
Amounts of current accounts received	1,484,618.17	6,998,519.24
Export tax rebate received	—	62,485,740.35
Non-operating income received	2,953,929.37	14,576.33
Retention monies received	160,502,741.96	18,125,039.11
Income-related government subsidies received	3,615,539.05	5,902,998.69
Total	176,643,397.60	106,122,433.01

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(LIII) Items of cash flow statement (Continued)

2. Cash paid relating to other operating activities

Items	Current year	Previous year
Administrative expenses paid	27,306,388.10	26,991,571.79
Selling expenses paid	26,012,050.63	27,711,930.47
Non-operating expenses paid	82,567.67	194,954.75
Amounts of current accounts paid	35,577,005.39	3,408,533.63
Handling charges paid to banks	1,119,932.83	1,233,293.12
Retention monies paid	7,796,204.16	346,987,790.86
Advance for export tax rebate	—	204,183,526.26
Total	97,894,148.78	610,711,600.88

3. Cash received relating to other investing activities

Items	Current year	Previous year
Recovery of wealth management products	—	31,200,000.00
Recovery of assets management plan	—	120,000,000.00
Asset-related government subsidies received	—	30,965,000.00
Net cash received for purchase of subsidiaries	725,781.50	—
Total	725,781.50	182,165,000.00

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(LIII) Items of cash flow statement (Continued)

4. Cash paid relating to other investing activities

Item	Current year	Previous year
Net cash paid for disposal of subsidiaries and other business units	870,895.03	44,465,187.89
Total	870,895.03	44,465,187.89

5. Cash received relating to other financing activities

Item	Current year	Previous year
Cash received from the sale of a minority share interests in a subsidiary	—	34,885,482.69
Total	—	34,885,482.69

6. Cash paid relating to other financing activities

Items	Current year	Previous year
Guarantee deposits for bank loans etc.	5,286,592.60	—
Fundraising advisory fee paid	4,030,000.00	—
Total	9,316,592.60	—

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(LIV) Supplementary information of cash flow statements

1. Supplementary information of cash flow statements

Supplementary information	Current period	Previous period
1. Reconciliation of net profit to cash flow of operating activities		
Net profit	192,696,218.69	217,092,231.45
Add: Provision for assets impairment	3,805,844.66	30,158,694.66
Credit impairment loss	46,362,563.43	
Depreciation of fixed assets	37,727,393.91	32,050,602.53
Depreciation of productive biological assets	—	—
Depletion of oil and gas assets	—	—
Amortisation of intangible assets	2,752,375.05	4,703,826.58
Amortisation of long-term deferred expenses	3,956,999.91	4,128,112.12
Losses from disposal of fixed assets, intangible assets and other long-term assets (with "-" for gains)	-62,859.80	-16,793.21
Losses from write-off fixed assets (with "-" for gains)	3,002,405.19	32,648.99
Losses on change in fair value (with "-" for gains)	-8,767,392.27	-4,139,700.00
Financial expenses (with "-" for gains)	64,526,002.23	29,929,878.90
Investment Loss (with "-" for gains)	-961,306.91	-17,772,419.06
Decrease in deferred tax assets (with "-" for increases)	-7,516,195.48	-3,785,789.73
Increase in deferred tax liabilities (with "-" for decreases)	1,294,071.28	259,582.90
Decrease in inventories (with "-" for increases)	-85,604,399.97	-589,962,863.73
Decrease of operating receivables (with "-" for increases)	-999,505,086.20	-564,909,427.58
Increase of operating payables (with "-" for decreases)	261,955,533.58	392,641,609.18
Others	—	-6,844.18
Net cash flows from operating activities	-484,337,832.70	-469,596,650.18
2. Significant investing and financing activities that do not involve cash receipts and payments		
Conversion of debt into capital	—	—
Convertible company bonds due within one year	—	—
Fixed assets held under finance leases	—	—
3. Net movement in cash and cash equivalents		
Cash at the end of the period	496,544,201.65	726,084,254.20
Less: cash at the beginning of period	726,084,254.20	1,181,577,965.99
Add: cash equivalents at end of the period	—	—
Less: cash equivalents at beginning of the period	—	—
Net increase in cash and cash equivalents	-229,540,052.55	-455,493,711.79

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(LIV) Supplementary information of cash flow statements (Continued)

2. Net cash paid for the acquisition of the subsidiary in the current period

On 11 April 2018, other shareholders of Chain Information reduced their amount of subscribed capital, its shareholding held by the Company changed from 30% to 60%, which led to the Company gaining control over Chain Information and cash balance of 725,781.50 yuan held by Chain Information at the control day.

3. Net cash received from the disposal of the subsidiary in the current period

On 28 April 2018, Wu Lian Wang reduced the amount of subscribed capital of Nanjing Sample Hongzheng Visual Technology Co., Ltd. (hereinafter referred to as "Hongzheng Vision") and its shareholding changed from 51% to 41%, causing the Wu Liang Wang losing its control in Hongzheng vision. The cash balance of 870,895.03 yuan was held by Hongzheng vision at the date of control is lost.

4. The composition of cash and cash equivalents

Items	Closing balance at the end of the period	Closing balance of previous year
1. Cash	496,544,201.65	726,084,254.20
Including: Cash on hand	138,218.04	84,818.64
Bank deposit available for payment at any time	496,350,458.75	725,956,004.00
Other monetary funds available for payment at any time	55,524.86	43,431.56
Central bank deposits available for payment	—	—
Deposit at interbank market	—	—
Lending to interbank market	—	—
2. Cash equivalents		
Including: Bond investment due in three months	—	—
3. Cash and cash equivalents at the end of the period	496,544,201.65	726,084,254.20
Including: the restricted cash and cash equivalents that can be used by the parent company or subsidiaries within the group	—	—

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(LV) Assets with restricted ownership or right of use

Items	Book value at the end of the period	Reasons of restriction
Cash	36,413,835.27	Retention monies
Investment property	227,503,300.00	Pledge for borrowing
Fixed assets	114,110,039.04	Pledge for borrowing
Intangible assets	8,178,621.17	Pledge for borrowing
Total	386,205,795.48	

(LVI) Foreign currency monetary items

1. Foreign currency monetary items

Items	Balance of foreign currency at the end of the period	Exchange rate	Converted into RMB at the end of the period
Cash on hand			
Including: Hong Kong dollars	3,361,189.15	0.8762	2,945,053.14
Sub-total	3,361,189.15	0.8762	2,945,053.14
Other receivables			
Including: Hong Kong dollars	5,300,470.20	0.8762	4,644,239.20
Sub-total	5,300,470.20	0.8762	4,644,239.20
Accounts payables			
Including: Hong Kong dollars	57,102.00	0.8762	50,032.42
Sub-total	57,102.00	0.8762	50,032.42

2. The major overseas companies of the Group are Sample HK, Federal and Sun Supreme which operate in Hong Kong. The three companies operate and finance in Hong Kong dollars for pricing and settlement. Therefore, all three companies use Hong Kong dollars as the reporting currency. The reporting currency of the three companies has no change during the reporting period.

Notes to the Financial Statements

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(All amounts in Renminbi yuan unless otherwise stated)

VI. CHANGE OF THE SCOPE OF CONSOLIDATION

(II) Business combinations involving entities not under common control

1. Business combinations involving entities not under common control happened in the current period

The name of acquiree	Time of acquisition of the shares	Cost of acquisition of the shares	Percentage of acquisition of the shares (%)	Method of acquisition of the shares	Acquisition date	Determination basis at the acquisition date	Income of acquiree from the date of acquisition to the end of the period	Net profit of acquiree from the date of acquisition to the end of the period
Nanjing Sample Chain Information Technology Co., Ltd. (南京三寶鏈式數據技術有限公司)	2018.4.11	-	60%	Reduced the amount of subscribed capital by other shareholders	2018.4.11	Actual control changed	13,673,407.67	701,995.16
Total							13,673,407.67	701,995.16

Note: On 11 April 2018, other shareholders of Chain Information reduced their amount of subscribed capital, its shareholding held by the Company changed from 30% to 60%, which led to the Company gaining control over Chain Information.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

VI. CHANGE OF THE SCOPE OF CONSOLIDATION *(Continued)*

(I) Business combinations involving entities not under common control *(Continued)*

2. Combination cost and goodwill

**Nanjing
Sample Chain
Information
Technology
Co., Ltd.**
(南京三寶鏈式數據
技術有限公司)

Combination cost	
— the fair value of the equity held prior to the acquisition date on the date of acquisition	4,258,241.58
Total combination cost	4,258,241.58
Less: Fair value of the share of identifiable net assets acquired	4,258,241.58
Goodwill/combination cost less than the amount of fair value of the share of identifiable net assets acquired	—

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

VI. CHANGE OF THE SCOPE OF CONSOLIDATION (Continued)

(I) Business combinations involving entities not under common control (Continued)

3. Identifiable assets, liabilities of the acquiree at the date of acquisition

	Nanjing Sample Chain Information Technology Co., Ltd. (南京三寶鏈式數據技術有限公司)	
	Fair value at the date of acquisition	Book value at the date of acquisition
Assets:		
Cash at bank and on hand	6,975,778.40	6,975,778.40
Accounts receivable	4,801,948.00	4,801,948.00
Other receivables	396,457.16	396,457.16
Other assets	5,953,956.84	5,953,956.84
	<hr/>	<hr/>
Total assets	18,128,140.40	18,128,140.40
	<hr/>	<hr/>
Liabilities:		
Accounts payable	5,682,417.92	5,682,417.92
Other payables	124,463.20	124,463.20
Other liabilities	5,224,189.99	5,224,189.99
	<hr/>	<hr/>
Total liabilities	11,031,071.11	11,031,071.11
	<hr/>	<hr/>
Net assets	7,097,069.29	7,097,069.29
Less: Minority interests	2,838,827.72	2,838,827.72
Net assets acquired	4,258,241.57	4,258,241.57
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Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

VI. CHANGE OF THE SCOPE OF CONSOLIDATION (Continued)

(II) Disposal of subsidiaries

1. Particulars of single disposal of investments in subsidiaries and losing control

Name of subsidiary	Consideration of the equity disposal	Equity disposal percentage (%)	Method of equity disposal	Time of losing control	Determination basis at the time of losing control	The difference between the disposal consideration and the share of the net assets corresponding to the disposal of the investment at the level of the consolidated financial statement	Percentage of residual equity interests at the date of losing control	Carrying amount of the residual equity interests at the date of losing control	Fair value of the residual equity interests at the date of losing control	Gains or losses arising from remeasurement of the fair value of the residual equity interests	Determination method and major assumption for fair value of the residual equity interests at the date of losing control	The amount of other comprehensive income related to the investment of the original subsidiary transferred to investment gains and losses
Nanjing Sample Hongzheng Vision Technology Co., Ltd. (南京三弘正视觉科技有限公司)	-	10.00	Reduced the proportion of subscribed capital contributions	2018.4.28	Change of control	-	41.00	5,500,000.00	5,500,000.00	1,380,468.88	-	-

Note: On 28 April 2018, Wu Lian Wang reduced the amount of subscribed capital contribution to Nanjing Sample Hongzheng Visual Technology Co., Ltd. and its shareholding changed from 51% to 41%, causing Wu Lian Wang losing its control in Hongzheng vision.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

VI. CHANGE OF THE SCOPE OF CONSOLIDATION (Continued)

(III) Newly established subsidiary

Sun Supreme Enterprises Limited was established in January 2018 with a registered capital of US\$1. Sample Technology (H.K.) Co., Ltd., a subsidiary of the Company, subscribed 100% of its registered capital and the paid up capital is US\$1. The company is incorporated in British Virgin Islands, China with the business scope: consulting and investment.

VII. INTERESTS IN OTHER ENTITIES

(I) Interests in subsidiaries

1. Structure of the Group

Name of subsidiaries	Principal place of business	Place of registration	Business nature	Percentage of shareholdings (%)		Way of procurement
				Direct	Indirect	
Jiangsu Intellitrans Company Limited (江蘇智運科技發展有限公司)	Nanjing, PRC	Nanjing, PRC	Intelligent transportation	100	–	business combination of enterprises not under common control
Jiangsu Ruifu Intelligent Tech. Co., Ltd. (江蘇瑞福智能科技發展有限公司)	Nanjing, PRC	Nanjing, PRC	Electronic products	–	100	business combination of enterprises not under common control
Nanjing Sample Logistic Company Limited (南京三寶物流科技發展有限公司)	Nanjing, PRC	Nanjing, PRC	Computer software	60	–	Established by investment
Nanjing Wu Lian Wang Yan Jiu Yuan Development Co., Limited (南京物聯網研究院發展有限公司)	Nanjing, PRC	Nanjing, PRC	IOT technology	100	–	Established by investment
Sample Technology (H.K.) Co., Limited (三寶科技(香港)有限公司)	Hong Kong, PRC	Hong Kong, PRC	Consultation and investment	100	–	Established by investment
Federal International Enterprise Limited (永鴻國際企業有限公司)	Hong Kong, PRC	Hong Kong, PRC	Electronic products	–	100	business combination of enterprises not under common control

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For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

VII. INTERESTS IN OTHER ENTITIES (Continued)

(I) Interests in subsidiaries (Continued)

1. Structure of the Group (Continued)

Name of subsidiaries	Principal place of business	Place of registration	Business nature	Percentage of shareholdings (%)		Way of procurement
				Direct	Indirect	
Sun Supreme Enterprises Limited (新興企業有限公司)	Hong Kong, PRC	BVI	Consultation and investment	–	100	Established by investment
Nanjing City Intelligent Transportation Co., Ltd. (南京城市智能交通股份有限公司)	Nanjing, PRC	Nanjing, PRC	Information technology	–	65	business combination of enterprises not under common control
Xuzhou Sample Intelligent Technology Development Co., Ltd. (徐州三寶智能科技發展有限公司)	Xuzhou, PRC	Xuzhou, PRC	Intelligent transportation	100	–	Established by investment
Jiangsu Siruide IOT Technology Co., Ltd. (江蘇思瑞德物聯科技有限公司)	Wuxi, PRC	Wuxi, PRC	IOT technology	–	60	business combination of enterprises not under common control
Nanjing Sample Chain Information Technology Co., Ltd. (南京三寶鏈式數據技術有限公司)	Nanjing, PRC	Nanjing, PRC	Information technology	75	–	business combination of enterprises not under common control
Nanjing Intelligent Urban Constructive Investment Co., Ltd. (南京數字城市投資建設有限公司)	Nanjing, PRC	Nanjing, PRC	Municipal investment	70	–	business combination of enterprises not under common control
Nanjing Senyuansheng Business Information Consulting Partnership (limited partnership) (南京森遠商務信息諮詢合夥企業(有限合夥))	Nanjing, PRC	Nanjing, PRC	Consultation	–	75	Established by investment

Notes to the Financial Statements

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(All amounts in Renminbi yuan unless otherwise stated)

VII. INTERESTS IN OTHER ENTITIES (Continued)

(I) Interests in subsidiaries (Continued)

2. Significant non-wholly-owned subsidiaries

Name of subsidiary	Percentage of minority shareholdings	Total profit or loss attributable to minority interests in the current period	Dividends declared to minority shareholders in the current period	Balance of minority interests at the end of period
Nanjing City Intelligent Transportation Co., Ltd. (南京市智能交通股份有限公司)	35%	2,577,004.18	—	54,542,687.49

3. Key financial information of significant non-wholly-owned subsidiaries

Name of subsidiary	Closing balance at the end of the period						Closing balance at the end of the previous year					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Nanjing City Intelligent Transportation Co., Ltd. (南京市智能交通股份有限公司)	90,309,740.87	90,581,222.78	180,890,963.65	23,247,430.92	3,695,446.17	26,942,877.09	61,418,470.69	108,468,742.80	169,887,213.49	17,336,673.12	5,684,608.35	23,021,281.47

Name of subsidiary	Current year				Previous year			
	Operating income	Net profit	Total comprehensive income	Cash flows from operating activities	Operating income	Net profit	Total comprehensive income	Cash flows from operating activities
Nanjing City Intelligent Transportation Co., Ltd. (南京市智能交通股份有限公司)	125,635,874.27	7,362,869.08	7,362,869.08	-12,034,245.00	63,548,379.46	9,503,135.52	9,503,135.52	53,337,577.52

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VII. INTERESTS IN OTHER ENTITIES (Continued)

(II) Interests in joint arrangement or associates

1. Major Joint ventures or associates

Name of joint ventures or associates	Principal place of business	Place of registration	Business nature	Percentage of shareholdings (%)		Accounting treatment for investment in joint ventures or associates
				Direct	Indirect	
Nanjing Sample Hongzheng Visual Technology Co., Ltd. (南京三寶弘正視覺科技有限公司)	Nanjing, PRC	Nanjing, PRC	Information technology	–	41.00	Equity method
Xuzhou Jiuli Bus Terminal Station Project Management Co., Ltd. (徐州市九里公交首末站項目管理有限公司)	Xuzhou, PRC	Xuzhou, PRC	Project management	–	24.65	Equity method

2. Key financial information of major associates

	Current year	Previous year
Associates:		
Nanjing Sample Hongzheng Visual Technology Co., Ltd. (南京三寶弘正視覺科技有限公司)		
Total book value of investment	20,500,000.00	–
Followings were calculated by the percentage of shareholding		
– Net profit	2,862,543.34	–
– Other comprehensive income	–	–
– Total comprehensive income	2,862,543.34	–
Associates:		
Xuzhou Jiuli Bus Terminal Station Project Management Co., Ltd. (徐州市九里公交首末站項目管理有限公司)		
Total book value of investment	22,564,500.00	22,564,500.00
Followings were calculated by the percentage of shareholding		
– Net profit	-2,972.75	-17,000.27
– Other comprehensive income	–	–
– Total comprehensive income	-2,972.75	-17,000.27

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VIII. RELEVANT RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Group faces various financial risks in its business operations: credit risk, market risk and liquidity risk. The board of directors of the Company is fully responsible for the determination of risk management objectives and policies and assumes ultimate responsibility for risk management objectives and policies. However, the board of directors has authorized the Company's financial department to design and implement procedures that ensure the effective implementation of risk management objectives and policies. The board of directors, through the reports submitted by the head of the financial department, reviewed the effectiveness of the implemented procedures and the rationality of risk management objectives and policies. The Company's internal auditors also audit the risk management policies and procedures and report the findings to the audit committee of the board.

The Group's overall risk management goal is to formulate a risk management policy that minimizes risks without excessively affecting the company's competitiveness and resilience.

(I) Credit risk

Credit risk refers to the risk that one party to a financial instrument fails to perform its obligations and causes financial losses to the other. The Group's credit risk primarily relates to the Group's accounts receivable, other receivables and wealth management plan etc.. In order to minimise the risk, the management of the Group closely monitors overdue debts. Normally, the Group does not obtain collateral from customers. The recoverable amount of each individual debt is reviewed at the end of each reporting period and adequate impairment for bad debts has been made for irrecoverable amounts. In this regard, the directors of the Group consider that credit risk associated with the Group's accounts receivables is significantly reduced.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The industry and national policy in which customers operate also has an influence on credit risk but to a lesser extent. At the reporting date, the Group has a certain concentration of credit risk as 18.25% (2017: 9.28%) and 34.50% (2017: 32.28%) of the total accounts receivable was due from the Group's largest customer and the five largest customers respectively. The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at end of the reporting period in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the statement of financial position. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from accounts receivable are set out in Note.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

VIII. RELEVANT RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS *(Continued)*

(II) Market risk

Market risk of the financial instruments refers to the risk of fluctuation in fair value or future cash flow of financial instruments due to changes in market prices, including interest rate risk, exchange rate risk and other prices risks.

(1) Interest rate risk

Interest rate risk refers to the risk that the fluctuation of fair value or future cash flow of a financial instrument due to changes in market interest rates. Financial liabilities with floating interest rates expose the Group to cash flow interest rate risk. Financial liabilities with fixed interest rates expose the Group to fair value interest rate risk.

Interest-bearing financial assets of the Group are mainly bank balances which are all short-term in nature. Interest-bearing financial liabilities of the Group are mainly short-term and long-term bank borrowings with fixed interest rates which expose the Group to fair value interest rate risk. Currently, the Group's borrowings with fixed interest rate account for 100% of external borrowings.

As of 31 December 2018, the Group's interest-bearing debts are all RMB fixed-rate loan contracts, with a total amount of RMB1,294,220,000 (31 December 2017: RMB424,400,000).

As of 31 December 2018, with all other variables remaining unchanged, if the RMB benchmark interest rate rose by 1% or decreased by 1%, the Company's net profit would reduce or increase by RMB11,000,900 (31 December 2017: RMB3,607,400). The management considers that the increase or decrease of the benchmark interest rate by 1% reasonably reflects the reasonable range in which the borrowing interest rate may change in the next year.

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(All amounts in Renminbi yuan unless otherwise stated)

VIII. RELEVANT RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

(II) Market risk (Continued)

(2) Foreign exchange risk

Foreign exchange risk is the risk of fluctuation in the fair value of financial instruments or future cash flows arising from the movements in foreign exchange rates. The Group will try to match the income in foreign currency with the expenditure in foreign currency in order to reduce foreign exchange risk. The Group's financial assets and liabilities in foreign currency shared a very small proportion of total assets. The foreign exchange risk faced by the Group is mainly from financial assets and financial liabilities denominated in Hong Kong dollars, foreign currency financial assets and financial liabilities are disclosed as follows:

Items	Closing balance at the end of the period		Closing balance at the end of the previous year	
	HK Dollar	Total	HK Dollar	Total
Cash on hand	3,361,189.15	3,361,189.15	65,737,654.86	65,737,654.86
Other Receivables	5,300,470.20	5,300,470.20	39,520,000.00	39,520,000.00
Accounts Payable	57,102.00	57,102.00	54,486.00	54,486.00
Total	8,718,761.35	8,718,761.35	105,312,140.86	105,312,140.86

As of 31 December 2018, with all other variables remaining unchanged, if the Renminbi appreciates or depreciates by 5% against the Hong Kong dollar, the Company's net profit will decrease or increase by RMB370,500 (31 December 2017: RMB4,397,000). The management considers that the appreciation or depreciation of the Hong Kong dollar by 5% reasonably reflects the reasonable range of possible changes in the RMB against the Hong Kong dollar in the next year.

(3) Other price risk

The Group is not exposed to any equity securities price risk or commodity price risk.

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VIII. RELEVANT RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

(III) Liquidity risk

Liquidity risk refers to the risk of shortage of funds when an enterprise fulfills its obligations to settle cash or other financial assets. The Company's policy is to ensure that it has sufficient cash to repay the debts fall due. Liquidity risk is centrally controlled by the Company's financial department. The Group is exposed to minimal liquidity risk as the Group closely monitors its cash flow position. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the end of reporting period) and the earliest date the Group can be required to pay:

Items	2018 Carrying amount	Closing balance at the end of the period			
		Total contractual discounted cash flow	Less than 3 months	More than 3 months but less than 6 months	More than 6 months but less than 1 year
Notes payable	28,756,738.41	28,756,738.41	12,269,286.85	16,487,451.56	-
Accounts payable	1,068,563,578.78	1,068,563,578.78	697,944,932.50	338,354,366.45	32,264,279.83
Other payables	63,775,516.04	63,775,516.04	45,672,298.31	1,655,344.08	16,447,873.65
Staff remuneration payables	10,242,978.09	10,242,978.09	10,242,978.09	-	-
Short-term borrowings	639,300,000.00	653,607,125.31	96,987,787.67	377,059,402.08	179,559,935.56
Non-current liabilities due within 1 year	182,670,000.00	189,375,972.47	32,609,540.83	8,142,060.53	148,624,371.11
Total	1,993,308,811.32	2,014,321,909.10	895,726,824.25	741,698,624.70	376,896,460.15

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VIII. RELEVANT RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

(III) Liquidity risk (Continued)

Items	2017 Carrying amount	Closing balance at the end of the previous year			
		Total contractual discounted cash flow	Less than 3 months	More than 3 months but less than 6 months	More than 6 months but less than 1 year
Notes payable	30,056,123.84	30,056,123.84	14,581,636.00	15,474,487.84	–
Accounts payable	884,708,041.68	884,708,041.68	606,893,608.32	218,883,134.49	58,931,298.87
Other payables	31,500,358.26	31,500,358.26	12,508,331.36	5,912,662.48	13,079,364.42
Staff remuneration payables	6,416,109.99	6,416,109.99	6,416,109.99	–	–
Short-term borrowings	345,300,000.00	354,855,738.47	80,427,110.44	91,986,437.17	182,442,190.86
Non-current liabilities due within 1 year	11,250,000.00	11,704,096.43	–	5,312,832.24	6,391,264.19
Total	1,309,230,633.77	1,319,240,468.67	720,826,796.11	337,569,554.22	260,844,118.34

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IX. FAIR VALUE DISCLOSURE

Inputs for the fair value measurements are categorized into three levels:

- Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that can be accessed at the measurement date.
- Level 2 inputs are an inputs that is directly or indirectly observable for related assets or liabilities other than the Level 1 inputs.
- Level 3 inputs are unobservable inputs for the related assets or liabilities.

The level to which the results of measurement of fair value belong is subject to the lowest level to which the inputs having great significance to the measurement of fair value as whole.

(I) Fair value of assets and liabilities measured at fair value at the end of the period

Items	Fair value at the end of the period			Total
	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	
— 、 Continuing fair value measurement				
(I) Other equity investment	–	–	227,319,415.64	227,319,415.64
(II) Other non-current financial assets				
1. Financial assets measured at fair value and its change included into current profit or loss				
(1) Debt instrument investment	–	–	–	–
(2) Equity instrument investment	–	–	134,623,072.37	134,623,072.37
(3) Derivative financial assets	–	–	–	–
(III) Investment property				
1. Leased property (including the value of apportioned land use right)	–	–	227,503,300.00	227,503,300.00
Total assets measured at fair value continuously	–	–	227,503,300.00	227,503,300.00

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IX. FAIR VALUE DISCLOSURE (Continued)

(II) Continuing and non-continuing level 3 fair value measurement items, the use of valuation techniques and important parameters of qualitative and quantitative information

Items	Fair value at the end of the period	Evaluation method	Unobservable inputs	Range (weighted average)
Equity instrument investment	361,942,488.01	Cost method		
Leased property	227,503,300.00	Discounted cash flow method	Long-term net operating profit margin Interest rate used to calculate the residual value of the assets	7%

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(I) General information of the parent company of the Group

Name of parent company	Registration place	Nature of business	Registered capital ('000)	Equity interest held in the Company (%)	Voting right in the Company (%)
Nanjing Sample Technology Group Company Limited (南京三寶科技集團有限公司) (hereinafter referred to as "Sample Group")	Nanjing, PRC	Investment and development of high-tech industry, investment advisory services, asset management etc	1,633,000	50.23	50.23

(II) Information of subsidiaries of the Group

For details of the subsidiaries of the Group, please refer to Note (I) of VII "Interests in Other Entities".

(III) Particulars of associates of the Group

Name of other related party	Relationship with the Group
Nanjing Sample Hongzheng Vision Technology Co., Ltd. (南京三寶弘正視覺科技有限公司)	Associates of the Company
Xuzhou Jiuli Bus Terminal Station Project Management Co., Ltd. (徐州市九里公交首末站項目管理有限公司)	Associates of the Company
Jiangsu Yudao Data Technology Co., Ltd. (江蘇馮道數據科技有限公司)	Associates of the Company
Nanjing Sample Intelligent Technology Co., Ltd. (南京三寶智能科技有限公司)	Associates of the Company

Note: The Company subscribed to 10% of the capital contribution of Nanjing Sample Intelligent Technology Co., Ltd., and has not yet contributed as of 31 December 2018.

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X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(IV) Particulars of other related party

Name of other related party	Relationship with the Group
Nanjing Nanda Sample Capital Management Co., Ltd. (南京南大三寶資本管理有限公司)	Enterprise controlled by the same parent company
Sample Supply Chain Management (Nanjing) Co., Ltd. (三寶供應鏈管理(南京)有限公司)	Enterprise controlled by the same parent company
Jiangsu Cross-border e-Commerce Services Co., Ltd. (江蘇跨境電子商務服務有限公司)	Enterprise controlled by the same parent company

(V) Related party transactions

1. Related party transactions for sale and purchase of goods, providing and receiving labor services

For the subsidiaries which are controlled and consolidated into the consolidated financial statements, the sale and purchase transactions amongst them have been eliminated.

2. Particulars of leasing with related party

The Group acts as a lessor:

Name of the lessee	Current year		Previous year	
	Area	Amount	Area	Amount
Nanjing Sample Investment Development Company Limited (南京三寶投資發展有限公司)	-	-	638.28	326,161.08
Nanjing Intelligent Urban Constructive Investment Co., Ltd. (南京數字城市投資建設有限公司)	-	-	853.70	130,274.62
Nanjing Nanda Sample Capital Management Co., Ltd. (南京南大三寶資本管理有限公司)	531.90	258,858.00	-	-
Sample Supply Chain Management (Nanjing) Co., Ltd. (三寶供應鏈管理(南京)有限公司)	5.00	2,085.71	-	-
Nanjing Sample Hongzheng Vision Technology Co., Ltd. (南京三寶弘正視覺科技有限公司)	429.29	139,280.75	-	-
Nanjing Sample Technology Group Company Limited (南京三寶科技集團有限公司)	600.00	292,000.00	-	-
Jiangsu Cross-border e-Commerce Services Co., Ltd. (江蘇跨境電子商務服務有限公司)	1,762.00	857,506.67	-	-
Jiangsu Yudao Data Technology Co., Ltd. (江蘇馮道數據科技有限公司)	853.70	415,467.33	-	-
Nanjing Sample Intelligent Technology Co., Ltd. (南京三寶智能科技有限公司)	110.00	112,977.33	110.00	56,210.00
Total	-	2,078,175.79	-	512,645.70

Note: The rental amount of Nanjing Sample Hongzheng Vision Technology Co., Ltd. (南京三寶弘正視覺科技有限公司) covered the period from May to December.

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X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(V) Related party transactions (Continued)

3. Providing guarantees to related party

(1) Particulars of the Company providing guarantees for subsidiaries

A. Particulars of guarantees provided for loans

Guarantor	Guarantee for	Agreed guarantee amount	Loan amount	Beginning date of loan	Maturity date of loan	Guarantee due or not
The Company	Jiangsu Intellitrans	40,000,000.00	40,000,000.00	2018/2/7	2019/2/6	No
The Company	Jiangsu Intellitrans	20,000,000.00	20,000,000.00	2018/6/1	2019/6/1	No
The Company	Jiangsu Intellitrans	22,000,000.00	22,000,000.00	2018/8/15	2019/8/14	No
Total		<u>82,000,000.00</u>	<u>82,000,000.00</u>			

B. Particulars of guarantees provided for letter of guarantee and bills

As at 31 December 2018, the Company provided guarantee to Jiangsu Intellitrans Company Limited, a subsidiary of the Company, for their issuance of letter of guarantee for a total of RMB110,888,007.82 to the bank.

As at 31 December 2018, the Company provided guarantee for Jiangsu Intellitrans Company Limited, a subsidiary of the Company, to secure the bank accepted bills of exchange in the Hunan Road Branch of CITIC Bank and the amount of the bank accepted bills of exchange issued was RMB13,192,277.25 of which RMB6,596,138.63 was paid and deposited by that company as retention monies for bills of exchange with open position of RMB6,596,138.63.

As at 31 December 2018, the Company provided guarantee for Jiangsu Intellitrans Company Limited, a subsidiary of the Company, to secure the bank accepted bills of exchange in Xinjiekou branch of Jiangsu Bank. Jiangsu Intellitrans Company Limited through Xinjiekou branch of Jiangsu Bank issued the bank accepted bills of exchange of RMB78,065 and the company has paid and deposited retention monies of RMB78,065 for bank acceptance bills.

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X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(V) Related party transactions (Continued)

3. Providing guarantees to related party (Continued)

(2) Particulars of related party providing guarantees for the Company and its subsidiaries

A. Particulars of guarantees provided for loans

Guarantor	Guarantee for	Agreed guarantee amount	Loan amount	Beginning date of loan	Maturity date of loan	Guarantee due or not
Sample Group	The Company	5,300,000.00	5,300,000.00	2018/3/9	2019/3/8	No
Sample Group	The Company	100,000,000.00	100,000,000.00	2018/4/3	2019/4/2	No
Sample Group	The Company	30,000,000.00	30,000,000.00	2018/4/10	2019/4/9	No
Sample Group	The Company	18,000,000.00	18,000,000.00	2018/6/13	2019/6/13	No
Sample Group	The Company	32,000,000.00	32,000,000.00	2018/6/22	2019/6/22	No
Sample Group	The Company	100,000,000.00	100,000,000.00	2018/6/20	2019/6/20	No
Sample Group	The Company	12,000,000.00	12,000,000.00	2018/6/29	2019/4/29	No
Sample Group	The Company	35,000,000.00	35,000,000.00	2018/8/8	2019/8/7	No
Sample Group	The Company	20,000,000.00	20,000,000.00	2018/10/12	2019/10/9	No
Sample Group	The Company	100,000,000.00	100,000,000.00	2018/10/22	2019/10/22	No
Sample Group	The Company	40,000,000.00	40,000,000.00	2018/10/30	2019/1/29	No
Sample Group	The Company	30,000,000.00	30,000,000.00	2018/12/3	2019/5/23	No
Sample Group	The Company	150,000,000.00	150,000,000.00	2018/3/30	2021/3/30	No
Sample Group	The Company	240,000,000.00	240,000,000.00	2018/9/17	2020/9/17	No
Sample Group	The Company	200,000,000.00	200,000,000.00	2018/10/12	2020/10/12	No
Total		<u>1,112,300,000.00</u>	<u>1,112,300,000.00</u>			

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X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(V) Related party transactions (Continued)

3. Providing guarantees to related party (Continued)

- (2) Particulars of related party providing guarantees for the Company and its subsidiaries (Continued)

B. Particulars of guarantees provided for letter of guarantee and bills

As at 31 December 2018, Sample Group provided guarantee to the Company for its issuance of letter of guarantee for a total of RMB 26,049,146.70 in the bank.

As at 31 December 2018, Sample Group provided guarantee for the Company to secure the bank accepted bills of exchange in Nanjing West Branch of Ping An Bank and the amount of the bank accepted bills of exchange issued was RMB15,486,396.16 of which RMB7,796,204.16 was paid and deposited by that Company as retention monies for bills of exchange.

(VI) Receivables and payables of related party

Items	Related party	Closing balance at the end of the period		Closing balance at the end of the previous year	
		Closing balance	Provision for bad debts	Closing balance	Provision for bad debts
Accounts receivable	Nanjing Sample Hongzheng Vision Technology Co., Ltd. (南京三寶弘正視覺科技有限公司)	16,750,518.43	837,525.92	-	-

XI. SHARE-BASED PAYMENT

The Group had no share-based payment during the period.

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XII. GOVERNMENT SUBSIDIES

(I) Government subsidies related to assets

Items	Amount	Presented item at balance sheet	Amount included in the current profit and loss or offset related loss of cost		Item included in the current profit and loss or for offset related loss of cost
			Current year	Previous year	
Government subsidies for construction project of Radio Frequency Identification (RFID) System Technology Research Center	916,914.52	Deferred income	183,382.90	183,382.90	Other income
Financial assistance for national scientific and technological support projects	10,230,000.00	Deferred income	914,162.18	1,449,899.72	Other income
City-level vehicle emissions regulation and enforcement platform	1,000,000.00	Deferred income	1,000,000.00	–	Other income
Provincial grants for international cooperation	1,000,000.00	Deferred income	250,000.00	237,500.04	Other income
Year 2016 provincial special funds for provincial-level industrial and information industry restructuring	4,500,000.00	Deferred income	1,500,000.00	1,500,000.00	Other income
Cooperation fee for co-operation with National Natural Science Foundation	900,000.00	Deferred income	–	–	
Demonstration project of application of comprehensive supervision system based on Internet of things technology for urban intelligent traffic	30,000,000.00	Deferred income	–	–	
Ministry of Industry and Information Technology Special Funding Agreement for Year 2014 Internet of Things Project	440,000.00	Deferred income	–	–	
Total	48,986,914.52		3,847,545.08	3,370,782.66	

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XII. GOVERNMENT SUBSIDIES (Continued)

(II) Government subsidies related to income

Items	Amount included in the current profit and loss or offset related loss of cost		Item included in the current profit and loss or for offset related loss of cost
	Current year	Previous year	
"Notice issued in relation to 2018 Science and Technology Development Plan and Science and Technology Funding Indicators of Nanjing city" (Second Batch)	1,000,000.00	—	Other income
"Notice issued on the Special Fund for the Innovation and Use of Intellectual Property of Jiangsu Province of 2018"	200,000.00	—	Other income
High-value Patent Cultivation Project of Jiangsu Province jointly undertaken the cooperation agreement of "IoT Core Component High-value Patent Cultivation Demonstration Center"	266,600.00	—	Other income
"Notice on the General Subsidy and Evaluation Award Scheme Project and Fund Plan for the Special Fund for the Development of Software and Information Services in Nanjing in 2018"	50,000.00	—	Other income
"Notice on the Special Funds for 2018 Science Project in Qixia District"	10,000.00	—	Other income
"Notice on Organizing the Application for the Grant of Special Funds for 2018 Patent in Qixia District"	1,000.00	—	Other income
Job stabilization subsidy	52,995.64	170,988.69	Other income
"Notice of the State Council on Printing and Issuing Certain Policies to Further Encourage the Development of the Software Industry and the Integrated Circuit Industry" (Guo Fa [2011] No. 4)	1,189,247.94	—	Other income
"The Fifth Batch of Notice on the Transfer of the Province 2018 Science and Technology Development Plan and Science and Technology Funding Indicators" Ningke (2018) No. 88/Ningcaijiao (2018) No. 91	261,700.00	—	Other income

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XII. GOVERNMENT SUBSIDIES (Continued)

(II) Government subsidies related to income (Continued)

Items	Amount included in the current profit and loss or offset related loss of cost		Item included in the current profit and loss or for offset related loss of cost
	Current year	Previous year	
"Notice issuing on the 2017 Provincial Science and Technology Awards Fund" Sucaijiao (2018) No. 67	100,000.00	—	Other income
Software enterprise subsidy	12,500.00	—	Other income
Special support rewards for introduction of and being large and strong enterprises	100,000.00	—	Other income
Subsidy of high pollution vehicle elimination of Nanjing city	6,700.00	—	Non-operating income
2016 Brand rewards	—	1,476,010.00	Non-operating income
Subsidy of New Third Board from Finance Office of Maqun Office of People's Government Office of Qixia District of Nanjing City	—	1,650,000.00	Non-operating income
Subsidy of construction of self-innovation demonstration zone of Maqun Subdistrict Office	—	150,000.00	Non-operating income
Introducing large-scale corporate rewards	—	100,000.00	Non-operating income
Cross-border e-commerce one-off rewards	—	2,000,000.00	Non-operating income
Subsidy to exhibitor of the First World Smart Manufacturing Conference	—	36,000.00	Other income
2017 Provincial Enterprise Intellectual Property Strategy Promotion Plan	—	180,000.00	Other income
Intellectual property standards award	—	24,000.00	Other income
Subsidy of patent special fund of Qixia District	—	52,000.00	Other income
R & D management system standards awards	—	64,000.00	Other income
Total	3,250,743.58	5,902,998.69	

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

XIII. COMMITMENTS AND CONTINGENCIES

(I) Significant commitments

1. Pledged assets

As at 31 December 2018, pledged assets of the Group can be referred to Note V (LV).

2. Guarantee provided

As at 31 December 2018, the Group provided guarantee of a total of RMB17,932,927.48.

3. Save as the commitment disclosed above, as at 31 December 2018, there is no significant commitment which needs to be disclosed.

(II) CONTINGENCIES

1. Guarantee provided to the debts of related parties (subsidiary)

For the particulars of the guarantees provided to the related parties, Jiangsu Intellitrans Company Limited, by the Company as at 31 December 2018, can be referred to Note X(V).3.

2. As at 31 December 2018, the Group has endorsed undue bank accepted bills (was derecognized) with a total of RMB59,525,056.20.

3. Save as the above contingent matter, as at 31 December 2018, there is no other significant contingent matter which needs to be disclosed.

XIV. EVENTS AFTER BALANCE SHEET DATE

1. Profit distribution plan

On 29 March 2019, the Board proposed to distribute a final dividend of RMB79,205,850.00 for the year ended 31 December 2018, i.e. RMB 0.1 per share (2017: RMB0.25 per share).

2. Save as the above-mentioned post balance sheet events, as of the financial reporting date, there is no other significant post balance sheet event which needs to be disclosed.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

XV. OTHER IMPORTANT MATTERS

(I) Discontinued operation

1. Net profit from continuing operations and net profit from discontinued operations attributable to the owners of the parent company

Items	Current year	Previous year
Net profit from continuing operations attributable to the owners of the parent company	195,992,114.49	214,346,178.48
Net profit from discontinued operations attributable to the owners of the parent company	-	7,752,947.02

2. Net profit from discontinued operations

Items	Current year	Previous year
Profit and loss from discontinued operations:		
Income	-	159,274,830.61
Cost and expenses	-	165,992,872.24
Total profit	-	-4,391,696.44
Income tax expenses (gains)	-	1,505,250.56
Net profit	-	-5,896,947.00
Including: Net profit attributable to the owners of parent company	-	-4,864,571.38
Profit and loss of minority shareholders	-	-1,032,375.62
Gains and losses on disposal of discontinued operation:		
Total gains and losses on disposal	-	15,182,518.40
Income tax expenses (gains)	-	2,565,000.00
Net gains or losses on disposal	-	12,617,518.40
Including: Net profit attributable to the owners of parent company	-	12,617,518.40
Profit and loss of minority shareholders	-	-
Total gains and losses on disposal of discontinued operation	-	6,720,571.40
Including: Net profit attributable to the owners of parent company	-	7,752,947.02
Profit and loss of minority shareholders	-	-1,032,375.62

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

XV. OTHER IMPORTANT MATTERS (Continued)

(I) Discontinued operation (Continued)

3. Cash flow of discontinued operations

Items	Current year	Previous year
Net cash flows from operating activities	-	-148,325,728.34
Net cash flows from investing activities	-	-1,467,764.38
Net cash flows from financing activities	-	183,252,953.55

(II) Segments Information

Information regarding the Company's reportable operating segments as provided to the Company's chief operating decision makers for the purposes of resources allocation and assessment of segment performance for the year is only derived from system integration, intelligent terminal sales, service businesses. In addition, the Company's operations are situated in the PRC in which its revenue was derived principally therefrom. Accordingly, no separate segments are presented.

The Group's revenue from principal business is analysed as follows which was derived from the different sectors of the system integration, intelligent terminal sales, service businesses.

Name of business	Current year		Previous year	
	Operating income	Operating cost	Operating income	Operating cost
System integration	952,694,796.64	692,242,932.99	1,056,025,469.87	777,066,339.83
Intelligent terminal sales	672,386,173.60	568,724,504.26	332,185,003.77	261,136,667.25
Service business	190,981,114.00	55,649,281.69	146,985,107.19	67,456,585.41
Cross-border trade and service	-	-	159,326,214.76	146,852,633.36
Total	1,816,062,084.24	1,316,616,718.94	1,694,521,795.59	1,252,512,225.85

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For the year ended 31 December 2018

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XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

(I) Notes receivable and accounts receivable

Items	Closing balance at the end of the period	Closing balance of previous year
Notes receivable	258,750,275.36	15,172,032.70
Accounts receivable	421,629,685.74	178,762,466.20
Total	680,379,961.10	193,934,498.90

1. Notes receivable

(1) Classification of notes receivable

Items	Closing balance at the end of the period	Closing balance of previous year
Bank acceptance bills	835,180.00	15,172,032.70
Commercial acceptance bills	269,369,891.00	—
Sub-total of book value	270,205,071.00	15,172,032.70
Bank acceptance bills	—	—
Commercial acceptance bills	11,454,795.64	—
Sub-total of bad debts provision	11,454,795.64	—
Total	258,750,275.36	15,172,032.70

(2) The Company has no pledged notes receivable at the end of the year.

(3) Notes receivable endorsed or discounted at the end of the year and not yet due as at the balance sheet date

Item	Derecognized amount at the end of the period	Amount not yet derecognize at the end of the period
Bank acceptance bills	39,525,056.20	—
Total	39,525,056.20	—

(4) The Company has no notes receivable which were converted to account receivables due to the drawer's inability to settle the note for the year.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(I) Notes receivable and accounts receivable (Continued)

2. Accounts receivable

- (1) Disclosure of accounts receivable based on the bad debt provision classification method

Items	Closing balance at the end of the period	Closing balance of previous year
Within 1 year	401,101,400.22	148,967,242.01
1 to 2 years	30,895,541.17	22,932,989.00
2 to 3 years	11,465,878.55	18,087,418.43
Over 3 years	29,183,066.30	25,740,205.36
Sub-total	472,645,886.24	215,727,854.80
Less: Bad debts provision	51,016,200.50	36,965,388.60
Total	421,629,685.74	178,762,466.20

- (2) The situation of provision, recovery or reversal of accounts receivable of the period

Items	Closing balance of previous year	Changes in accounting standards	Opening balance at the beginning of the year	Provision in the current period	Reversal or write-off of the current period	Closing balance at the end of the period
Provision of bad debts	36,965,388.60	967,790.65	37,933,179.25	13,083,021.25	-	51,016,200.50
Total	36,965,388.60	967,790.65	37,933,179.25	13,083,021.25	-	51,016,200.50

- (3) There were no actual write-off of accounts receivable of this period.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(I) Notes receivable and accounts receivable (Continued)

2. Accounts receivable (Continued)

(4) Particulars of the top five of accounts receivable at the end of the year

Name of Unit	Closing balance at the end of the period		
	Accounts receivable	Percentage of the total accounts receivables (%)	Provision of bad debts
Zhongji Guoneng Engineering Co., Ltd. (中機國能工程有限公司)	174,526,996.14	36.93	6,981,079.85
Nanjing Golden Sunshine Photovoltaic Power Co., Ltd. (南京金陽光光伏發電有限公司)	53,469,217.33	11.31	2,138,768.69
Jiangsu Tongyong Road and Bridge Engineering Co., Ltd. (江蘇通用路橋工程有限公司)	20,000,000.00	4.23	800,000.00
Nanjing Sample Hongzheng Vision Technology Co., Ltd. (南京三寶弘正視覺科技有限公司)	16,750,518.43	3.54	670,020.74
Cangzhou Huanghua Port Bonded and Construction Co., Ltd. (滄州黃驊港綜保建設有限公司)	16,348,254.80	3.46	1,307,860.38
Total	281,094,986.70	59.47	11,897,729.66

(5) There were no accounts receivable derecognised due to transfer of financial assets in the current period.

(6) There were no accounts receivable not completely derecognised but transferred at the end of the period.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(II) Other receivables

Items	Closing balance at the end of the period	Closing balance of previous year
Other receivables	156,654,737.12	191,658,737.83
Total	156,654,737.12	191,658,737.83

1. Other receivables

(1) Disclosure of other receivables by categories

Aging	Closing balance at the end of the period	Closing balance of previous year
Within 1 year	37,522,233.04	62,234,381.53
1 to 2 years	59,150,781.11	1,534,052.96
2 to 3 years	2,138,977.88	2,154,840.37
Over 3 years	70,871,296.41	133,068,401.30
Sub-total	169,683,288.44	198,991,676.16
Less: Bad debts provision	13,028,551.32	7,332,938.33
Total	156,654,737.12	191,658,737.83

(2) Other receivables are classified by nature of the payment

Nature	Book value at the end of the period	Book value at the previous year
Related parties within the consolidation	65,328,751.78	128,597,099.65
Equity transfer	58,155,312.00	58,155,312.00
Retention monies	12,337,677.86	10,667,852.42
Refund for contract terminated	30,927,837.00	—
Petty cash	—	1,022,108.65
Other	2,933,709.80	549,303.44
Total	169,683,288.44	198,991,676.16

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(II) Other receivables (Continued)

1. Other receivables (Continued)

(2) Other receivables are classified by nature of the payment (Continued)

Particulars of provision for bad debts:

	Stage I	Stage II	Stage III	
	Expected credit loss in the next 12 months	Expected credit loss for the entire lifetime (no credit impairment)	Expected credit loss for the entire lifetime (credit impairment has occurred)	Total
Provision for bad debts				
Closing balance of previous year	–	7,332,938.33	–	7,332,938.33
Changes in accounting standards	150,583.46	–	–	150,583.46
Opening balance at the beginning of the year	150,583.46	7,332,938.33	–	7,483,521.79
In the current period, the book value of other receivables at the beginning of the year has				
– transferred to stage II	–	–	–	–
– transferred to stage III	–	–	–	–
– reversed to stage II	–	–	–	–
– reversed to stage I	–	–	–	–
Provision in the current period	47,273.62	5,497,755.91	–	5,545,029.53
Reversal in the current period	–	–	–	–
Charge-off in the current period	–	–	–	–
Write-off in the current period	–	–	–	–
Other changes (business combination)	–	–	–	–
Closing balance at the end of the period	197,857.08	12,830,694.24	–	13,028,551.32

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(All amounts in Renminbi yuan unless otherwise stated)

XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(II) Other receivables (Continued)

1. Other receivables (Continued)

- (3) The situation of provision, recovery or reversal of provision of bad debts of the current period

Items	Closing balance of previous year	Changes in accounting standards	Opening balance at the beginning of the year	Provision	Reversal or write-off in the current period	Closing balance at the end of the period
Provision for bad debts	7,332,938.33	150,583.46	7,483,521.79	5,545,029.53	–	13,028,551.32
Total	7,332,938.33	150,583.46	7,483,521.79	5,545,029.53	–	13,028,551.32

- (4) There were no actual write-off of other receivables in the current period.

- (5) Particulars of the top five of other receivables at the end of the year

Name of units	Nature	Closing balance at the end of the period	Aging	Percentage of the total other receivables (%)	Closing balance of provision of bad debts
Sample Technology (H.K.) Co., Ltd. (三寶科技(香港)有限公司)	Related party within consolidation	63,942,751.78	Over 3 years	37.68	–
Nanjing Construction Engineering Group Co., Ltd. (南京建工集團有限公司)	Equity transfer	58,155,312.00	1-2 years	34.27	5,815,531.20
China Overseas Jiangsu Trade Development Co., Ltd. (中海外江蘇貿易發展有限公司)	Refund for contract terminated	30,927,837.00	Within 1 year	18.23	1,546,391.85
Binzhou Port Group Co., Ltd. (濱州港務集團有限責任公司)	Guarantee deposits	2,326,094.14	Within 1 year	1.37	116,304.71
Xinhua Trust Co., Ltd. (新華信託股份有限公司)	Retention monies	1,500,000.00	Within 1 year	0.88	75,000.00
Total		156,851,994.92	–	92.44	7,553,227.76

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XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(II) Other receivables (Continued)

1. Other receivables (Continued)

- (6) Amount due from related parties of the Company included in balance of other receivables at the end of the year

Name of related party	Closing balance at the end of the period	Closing balance of previous year
Sample Technology (H.K.) Co., Ltd. (三寶科技(香港)有限公司)	63,942,751.78	63,942,751.78
Jiangsu Intellitrans Company Limited (江蘇智運科技發展有限公司)	—	60,017,347.87
Nanjing Sample Logistic Company Ltd. (南京三寶物流科技有限公司)	1,386,000.00	4,637,000.00
Total	65,328,751.78	128,597,099.65

- (7) There were no other receivables derecognised due to transfer of financial assets in the current period.

- (8) There were no other receivable not completely derecognised but transferred at the end of the period.

(III) Long-term equity investments

Items	Closing balance at the end of the period			Closing balance of previous year		
	Closing balance	Provision of bad debts	Book value	Closing balance	Provision of bad debts	Book value
Investment in subsidiaries	418,933,234.82	—	418,933,234.82	464,307,688.00	—	464,307,688.00
Investment in associates and joint ventures	21,116,348.75	—	21,116,348.75	27,574,710.36	—	27,574,710.36
Total	440,049,583.57	—	440,049,583.57	491,882,398.36	—	491,882,398.36

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XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(III) Long-term equity investments (Continued)

1. Particulars of investment in subsidiaries

Investee	Closing balance of previous year	Increase in the period	Decrease in the period	Closing balance at the end of the period	Impairment provision in the period	Closing balance of impairment provision
Jiangsu Intellitrans Company Limited (江蘇智運科技發展 有限公司)	250,000,000.00	-	-	250,000,000.00	-	-
Nanjing Sample Chain Information Technology Co., Ltd. (南京三寶 鏈式數據技術有限公司)	-	14,625,546.82	-	14,625,546.82	-	-
Nanjing Intelligent Urban Constructive Investment Co., Ltd. (南京數字城市投資 建設有限公司)	35,830,000.00	-	-	35,830,000.00	-	-
Nanjing Wu Lian Wang Yan Jiu Yuan Development Co., Ltd. (南京物聯網研究院發展 有限公司)	100,000,000.00	-	-	100,000,000.00	-	-
Nanjing Sample Logistic Company Ltd. (南京三寶物流科技有限公司)	8,400,000.00	-	-	8,400,000.00	-	-
Xuzhou Sample Intelligent Technology Development Co., Ltd. (徐州三寶智能科技 發展有限公司)	70,000,000.00	-	60,000,000.00	10,000,000.00	-	-
Sample Technology (H.K.) Co., Limited (三寶科技(香港)有限公司)	77,688.00	-	-	77,688.00	-	-
Total	464,307,688.00	14,625,546.82	60,000,000.00	418,933,234.82	-	-

XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(III) Long-term equity investments (Continued)

2. Particulars of investment in associates and joint ventures

Investee	Increase and decrease in the current period									
	Closing balance of previous year	Increase in investment	Decrease in investment	Investment gains and losses recognized under the equity method	Adjustment of other comprehensive income	Other changes in equity	Cash dividend or profit declared	Closing balance at the end of the period	Impairment provision in the period	Closing balance of impairment provision
Associates										
Zhongrong Century Sunshine Sports Technology (Nanjing) Co., Ltd. (中青世紀陽光體育科技(南京)有限公司)	3,075,412.45	-	3,075,412.45	-	-	-	-	-	-	-
Jiangsu Yudao Data Technology Co., Ltd. (江蘇驛道數據科技有限公司)	2,493,500.30	3,000,000.00	-	-3,512,378.63	-	-	-	1,921,121.77	-	-
Nanjing Sample Chain Information Technology Co., Ltd. (南京三寶鏈式數據技術有限公司)	2,867,597.88	-	-	-242,051.06	-	-	-	-2,625,546.82	-	-
Xuzhou Jili Bus Terminal Station Project Management Co., Ltd. (徐州市九里公交站項目管理有限公司)	19,198,199.73	-	-	-2,972.75	-	-	-	19,195,226.98	-	-
Total	27,574,710.36	3,000,000.00	3,075,412.45	-3,757,402.34	-	-	-	21,116,348.75	-	-

Note: On 11 April 2018, other shareholders of the Chain Information reduced the amount of capital contribution and its shareholding in the company changed from 30% to 60%, which led to the Company owns control over Chain Information. It is accounted for under cost method instead of equity method and shall be included in the scope of the consolidated statement.

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XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(IV) Operating income and operating cost

1. Particulars of operating income and operating cost

Items	Current year		Previous year	
	Income	Cost	Income	Cost
Principal operation	762,382,750.91	597,336,794.09	379,168,243.83	271,835,808.78
Other operation	20,219,802.26	1,822,655.81	20,205,103.12	2,317,681.12
Total	782,602,553.17	599,159,449.90	399,373,346.95	274,153,489.90

2. Principal operations (by product)

Items	Current year		Previous year	
	Income	Cost	Income	Cost
System integration	123,991,507.25	86,078,572.84	88,334,900.30	61,597,422.51
Intelligent terminal sales	556,813,280.57	506,746,216.09	262,463,768.60	208,057,855.17
Service business	81,577,963.09	4,512,005.16	28,369,574.93	2,180,531.10
Total	762,382,750.91	597,336,794.09	379,168,243.83	271,835,808.78

3. Performance obligations

The system integration business is generally constructed in accordance with the contracted construction period, but there may be delay due to the impact of the previous basic engineering;

The sales business of the intelligent terminal is generally delivered according to the delivery time specified in the contract, and the performance obligation is fulfilled after the customer signs or accepts the goods;

The service business generally completes the technology development business according to the time agreed in the contract, and fulfills the performance obligation after the customers' acceptance.

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XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(IV) Operating income and operating cost (Continued)

4. Operating income from the top five customers of the Company for this period

Name of the customers	Current year	
	Total operating income	Percentage of the total operating income of the Company (%)
Zhongji Guoneng Engineering Co., Ltd. (中機國能工程有限公司)	203,623,620.45	26.02
China Energy Engineering Group Co., Ltd. (中國能源工程集團有限公司)	154,978,448.32	19.80
Nanjing Golden Sunshine Photovoltaic Power Co., Ltd. (南京金陽光光伏發電有限公司)	94,004,166.70	12.01
Xuyi Provine Sizhou Port Co., Ltd. (盱眙縣泗州港務有限公司)	20,314,905.65	2.60
Zhongye Construction High-tech Engineering Technology Co., Ltd. (中冶建設高新工程技術有限責任公司)	19,418,586.98	2.48
Total	492,339,728.10	62.91

(V) Investment income

Items	Current year	Previous year
Investment income from long-term equity investments under cost method	100,000,000.00	20,000,000.00
Investment income from long-term equity investment under equity method	-3,757,402.34	-896,066.14
Investment income from disposal of long-term equity investments	-3,075,411.45	12,597,296.60
Investment income of held-for-trading financial assets during the holding period	68,200.00	—
Investment income of other debt investment during the holding period	—	—
Investment income of entrusted loan	—	1,562,438.42
Investment income of asset management plan	—	2,112,978.08
Investment income of wealth management products	—	622,077.65
Total	93,235,386.21	35,998,724.61

Notes to the Financial Statements

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XVII. SUPPLEMENTAL INFORMATION

(I) Summary of non-recurring profit or loss of the period

Items	Closing balance at the end of the period	Closing balance of previous year
Profits or losses on disposal of non-current assets	-2,939,545.39	-15,855.78
Government subsidies recognised in profits or losses of the current period	7,098,288.66	9,273,781.35
Investment income from disposal of held-for-trading financial assets	—	-1,263,595.04
The fund possession fee charged to non-financial enterprises and included in the current profit and loss	3,590,146.75	—
Investment income of bond investment during the holding period	4,798,390.22	—
Anticipated unpayable accounts payable	276,595.58	—
Investment income from disposal of long-term equity investments	-2,496,443.77	15,182,518.40
Gain or loss from changes in fair value of investment property arising from subsequent measurement using the fair value model	8,113,000.00	4,139,700.00
Investment income of equity investment during the holding period	68,200.00	—
Profits derived from re-measurement of equity investments at fair value	3,013,163.64	—
Investment income from the purchase of wealth management products	—	760,452.65
Gains and losses arising from changes in fair value of held-for-trading financial assets	654,392.27	—
Investment income from the purchase of asset management plan	—	4,506,466.97
Other non-operating income and expenses other than the aforementioned items	2,921,393.57	-133,870.08
Impact on income tax	-1,909,076.36	-4,368,764.86
Impact on minority interests (after-tax)	-2,017,941.94	-1,300,576.85
Total	21,170,563.23	26,780,256.76

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in Renminbi yuan unless otherwise stated)

XVII. SUPPLEMENTAL INFORMATION

(II) Return on net assets and earnings per share

Profit during the reporting period	Weighted average return on net assets (%)	Earnings per share (yuan)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	0.10	0.25	0.25
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	0.09	0.22	0.22

Note: During the reporting period, based on the total share capital of 316,823,400 shares at the end of 2017, the Company increased 316,823,400 shares by way of capitalization of capital reserve on the basis of 10 capitalization shares for every 10 shares and issued 158,411,700 shares from the undistributed profits on the basis of 5 bonus shares for every 10 shares. The total share capital of the Company upon completion of such increase was 792,058,500 shares. The Company's basic earnings per share (I) and diluted earnings per share (I) for 2017 calculated based on the number of shares in the previous period were RMB0.70 and RMB0.70, respectively which were recalculated for the current period based on the number of shares upon changes were RMB0.28 and RMB0.28, respectively. The Company's basic earnings per share (II) and diluted earnings per share (II) calculated based on the number of shares in the previous period were RMB0.62 and RMB0.62, respectively which were recalculated for the current period based on the number of shares upon changes were RMB0.25 and RMB0.25, respectively.

Five-Year Financial Summary

RESULTS

	2018 RMB'000	Year ended 31 December			
		2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Total operating income	1,834,488	1,716,863	1,483,379	1,226,308	907,226
Total profit	229,638	262,341	212,052	188,392	167,671
Net profit	192,696	217,092	178,818	167,178	139,961
Net profit attributable to shareholders of the parent Company	195,992	222,099	175,826	164,469	137,953
Minority interests	-3,296	-5,007	2,992	2,709	2,008
Basic earnings per share (Renminbi Yuan)	0.25	0.28	0.23	0.532	0.616

ASSETS AND LIABILITIES

	2018 RMB'000	At 31 December			
		2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Current assets	3,656,893	3,003,436	2,855,062	2,483,585	1,839,182
Non-current assets	1,154,799	682,545	581,146	702,203	586,115
Current liabilities	2,212,333	1,486,565	1,490,990	1,305,962	1,171,929
Net current assets	1,444,560	1,516,871	1,364,072	1,177,624	667,253
Total owners' equity attributable to the parent Company	2,005,738	1,950,293	1,753,956	1,669,546	1,123,762
Total owners' equity	2,080,992	2,084,346	1,816,752	1,723,376	1,173,109

Note: The Company's accounting policy was changed in 2018, hence, the figures in the consolidated statements for 2016 and 2017 was retrospectively adjusted in accordance with the changes of major accounting policy.