

**SAURER.**

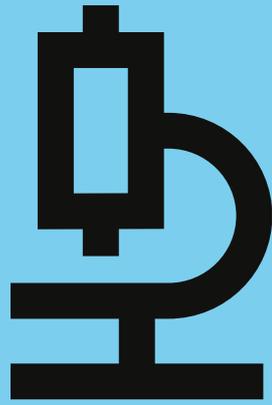


**2018**

**Annual report**

# Key figures

## R&D investments



**+53%**

YoY



**1 498**

Patents



**965**

Applications

## Group highlights

- Revenue increased by 5.8% to RMB 9220 million
- Net profit grew by 14.3%
- Strong sales performance in Bangladesh (64.5%), Germany (34.7%), Switzerland (34.7%) and the USA (33.5%)
- Launch of new technology centre to support R&D

## Dividend policy: payout ratio



2018

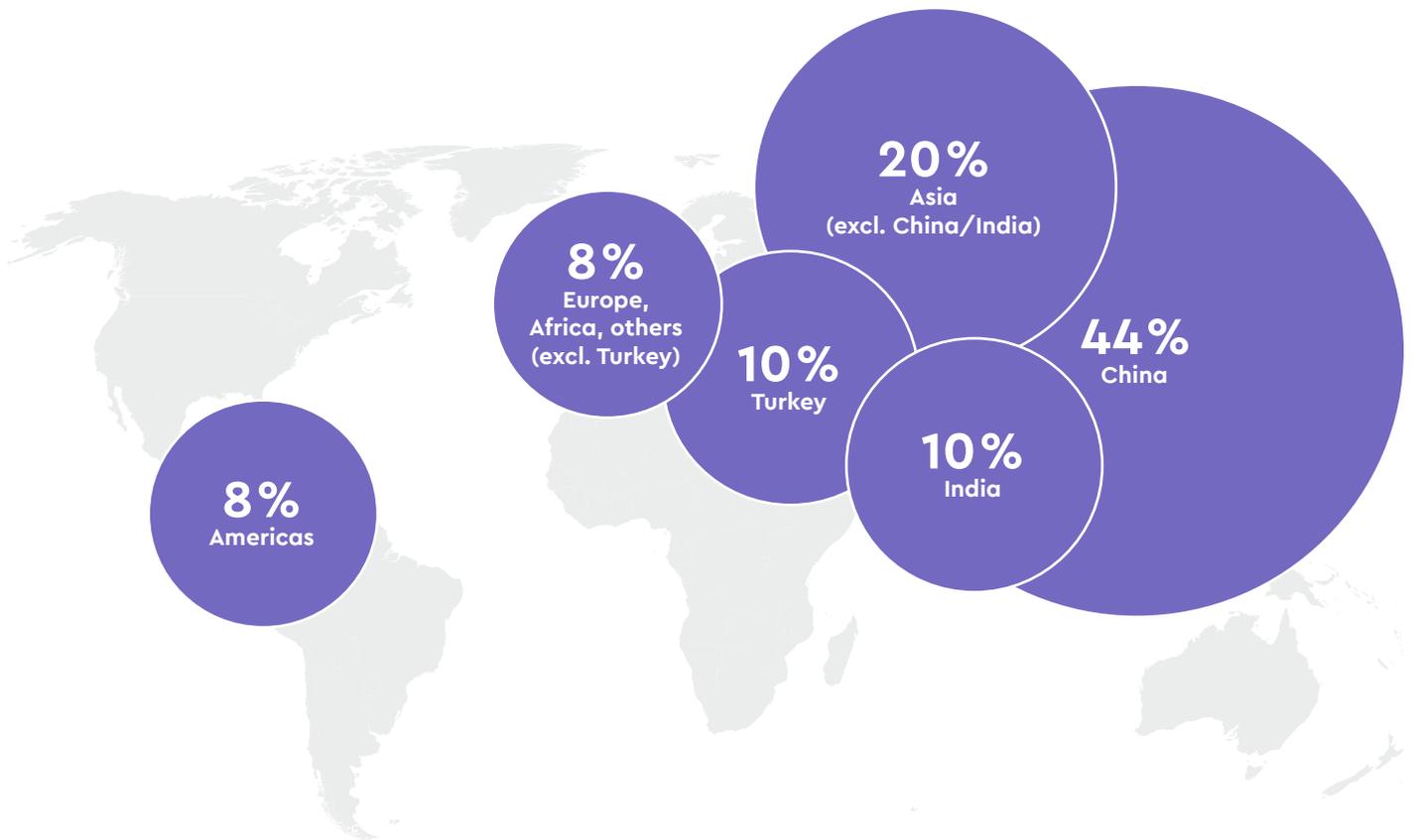
30.2%

2017

31%

## Revenue by region

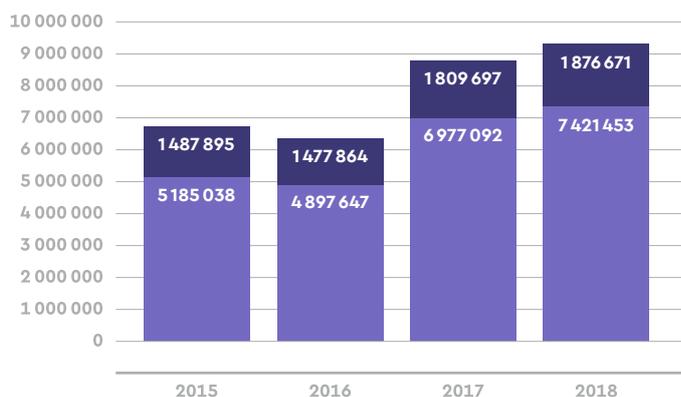
in %



Revenue by region in thousand RMB	2018
China	4 087 878
India	926 397
Turkey	880 848
Asia (excl. China/India)	1 840 587
Americas	746 377
Europe, Africa, others (excl. Turkey)	738 671

## Revenue by segment

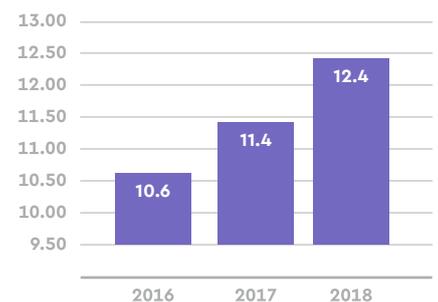
in thousand RMB



- Saurer Spinning Solutions
- Saurer Technologies

## Operating margin

in %



# Letter from the Chairman and CEO



**Pan Xueping**  
Chairman



**Clement Woon**  
CEO

**Dear shareholders,**  
This past year we at Saurer have intensified our efforts to put customers at the centre of our decision-making process and strengthen our outside-in strategy, which repositions the Group as a solutions provider. Our results from 2018 show that we are heading in the right direction.

**Forging ahead in challenging conditions**

Saurer posted revenue growth amounting to RMB 9.22 billion, a year-on-year (YoY) increase of 5.8 % (2017: RMB 8.713 billion). Net profit attributable to shareholders rose by 23.1% to RMB 810 million (2017: RMB 658 million). The Group's sales in its biggest market, China, went up by 11.2 %. This was despite the uncertainty across the globe in the second half of 2018, which saw this economy growing at its slowest rate in almost three decades – 6.6 %. In Europe, Group revenue experienced a boost of 9.3 %. Germany and Switzerland were the best performers in the region with growth of almost 35 % each.

**New developments**

Saurer is committed to expanding its R&D efforts and therefore increased spend in this regard by approximately 50 % YoY. In line with this, the Group launched the Saurer Technology Centre (STC) and introduced focused activities related to automation and sensor technology. With these projects, the STC will support the Group as it integrates smart technology into its offering, optimising customers' operations.

The Group's plant in Urumqi in China's Xinjiang Province serves as a beacon for other Saurer locations as it is the first to produce both pre-spinning and spinning machines. This modern site, which started production in the third quarter of 2018, demonstrates how Saurer uses intelligent concepts related to Industry 4.0 within its own operations.

Last year also saw a significant reorganisation of our sales and service department. This change has already proved fruitful in the Americas, Europe, Middle East and Africa (AEMEA) region as Saurer aims further to improve its proximity to customers in all the regions it serves.

**A reinvigorated Saurer**

As the Group makes the final arrangements for ITMA Barcelona, we are confident that our innovations will win over new customers. This important exhibition will play a major role in anchoring the new Saurer for the future.

**Acknowledgements**

On behalf of the Board of Directors and management, we would like to express our thanks to our employees, whose efforts make our endeavours possible. We are grateful for the unstinting support of our customers, suppliers and business partners – we look forward to forging even stronger bonds in the coming years. Lastly, we acknowledge the vital role that you, our shareholders, play – thank you for putting your trust in us.

Wattwil/Shanghai, 25 April 2019

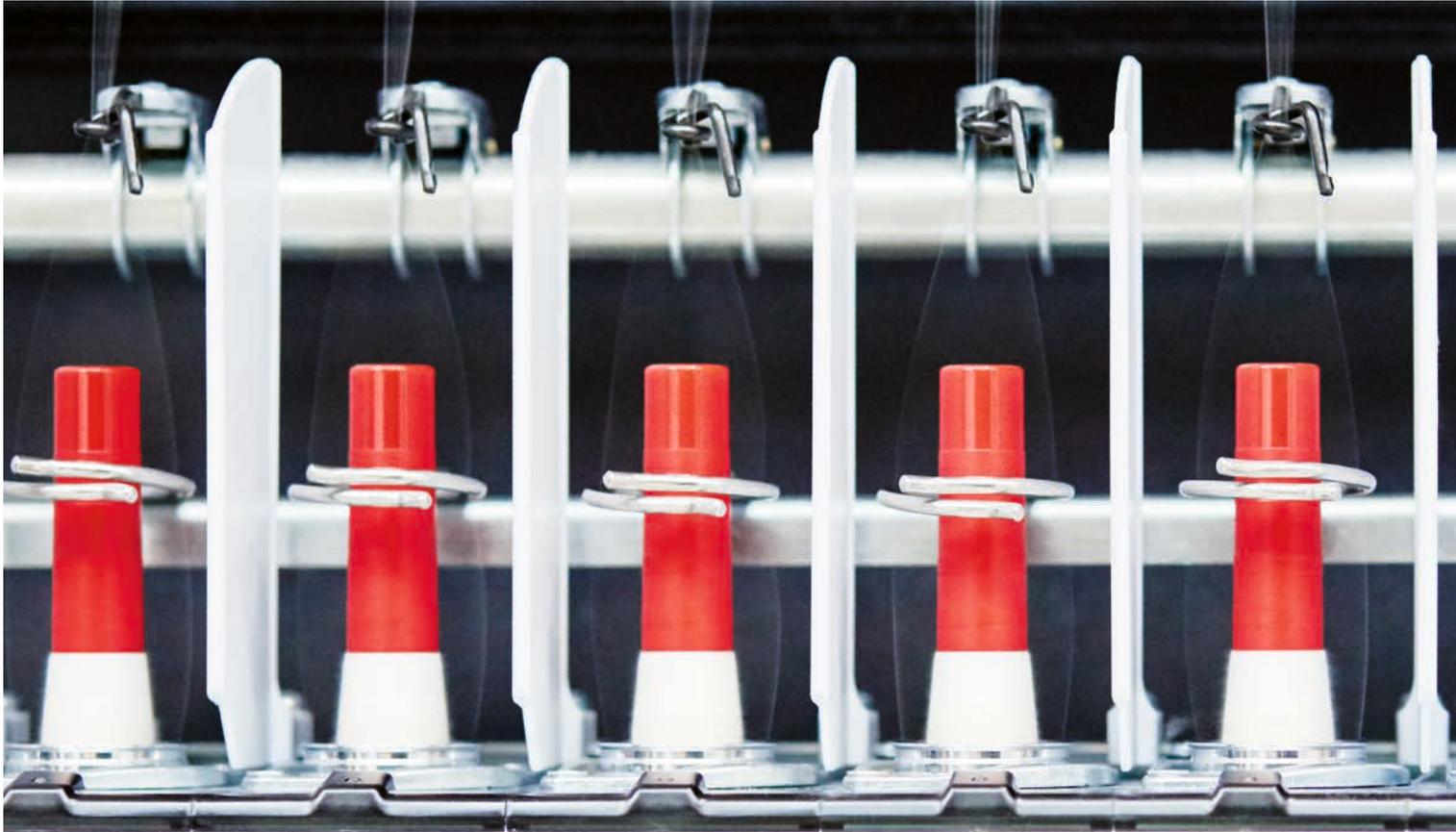


**Pan Xueping**  
Chairman



**Clement Woon**  
CEO

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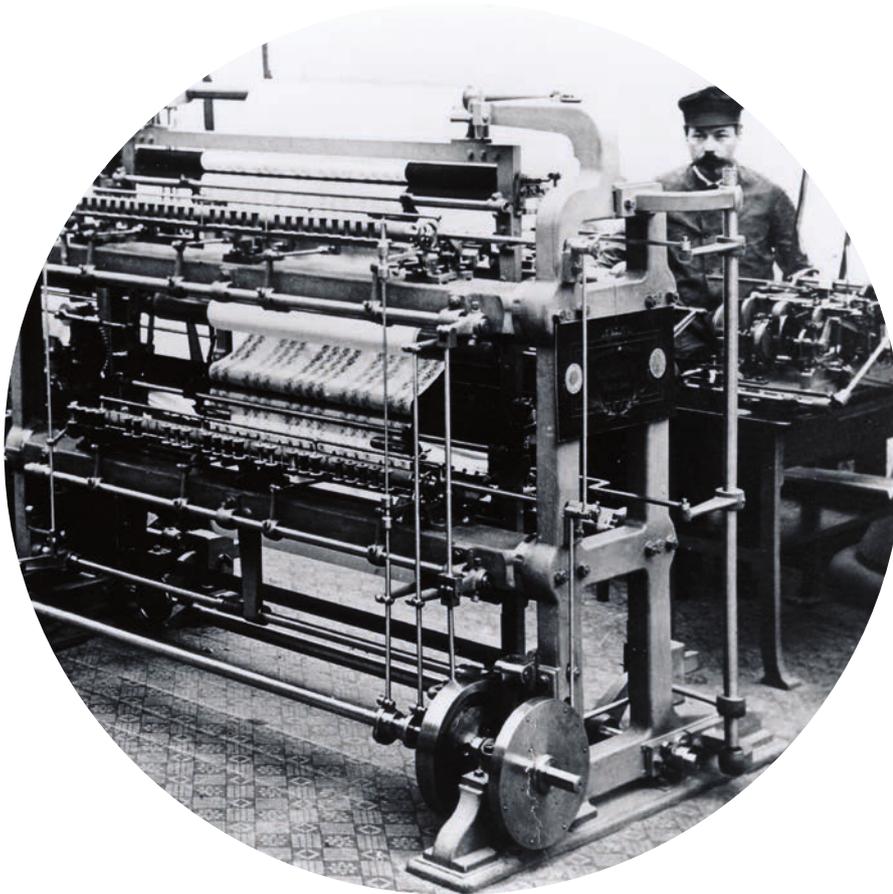
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## Introduction

**Our customers produce a large variety of yarns and garments with the help of Saurer machines and services. End products range from tire cord to delicate embroideries for the high fashion industry. At Saurer we take great pride in being involved at the start of many of these creations.**

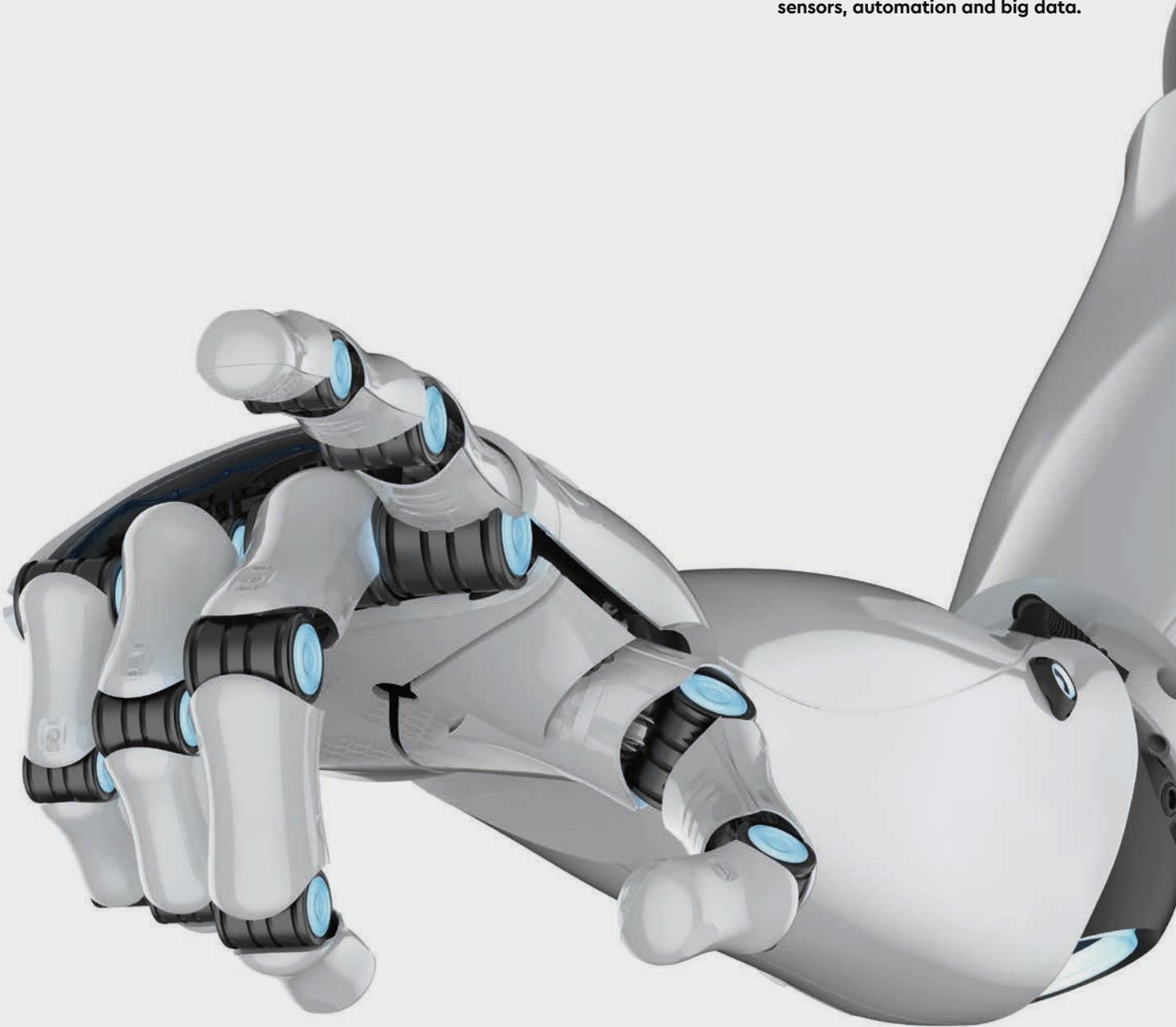
From

# our inception



In our 165-year history, we moved from being an iron foundry to becoming a pioneering technology company offering textile machines and commercial vehicles. Today, we are known for our quality excellence in the textile industry.

History shows that we have always been able to adapt and drive innovation. We are convinced that we can further grow by differentiating our product offering and business model. Moreover, we see opportunities with new technologies in the fields of sensors, automation and big data.



to the  
**future**

# From quality



**We are known to offer technologically advanced and customer-specific solutions for processing staple fibre from bale to yarn. Our dedication goes towards further improving the quality of our products as well as the range of services we offer.**

In order to explore new opportunities and foster our drive for innovation, we have established a new Sensors Business Line. Automation is also a key focus area. These efforts will aid us in providing state-of-the-art technology in and outside of textile. In addition, our new Technology Centre in Arbon, Switzerland, works closely with engineers across the Group to integrate smart technology into our products.



to  
innovation

From

# manpower



**Our aim is to move beyond supplying our customers with textile machinery to partnering with them. We want to analyse their needs and turn these into smart, fit-for-purpose solutions and services for their operations in order to help them achieve their business aspirations.**

Automation, sensor technology and big data are becoming increasingly important in manufacturing. Intelligent processes and technologies, such as data analysis, enable an unprecedented level of productivity and quality management. By using our E<sup>3</sup> approach, which focuses on optimising energy, economics, ergonomics and adding more and more intelligence, we ensure that we can deliver on these developments.

to

**automation**

From

**cosy**



Through our segment Saurer Spinning Solutions, we offer our clients high-quality, technologically advanced and customer-specific solutions for processing staple fibre from bale to yarn.

Our segment Saurer Technologies specialises in twisting and embroidery as well as engineered and polymer solutions. Our aim is to constantly develop innovative and economically interesting products for the benefit of our customers.



to  
**functional**

# Important notes

1. **The Board of Directors, the Board of Supervisors, Directors, Supervisors and Senior Executives of Saurer Intelligent Technology Co. Ltd ("the Company"), hereby confirm that the content set out in this Annual Report is true, accurate and complete, and free from any false representations, misleading statements or material omissions, and are individually and collectively responsible for the content therein.**
2. **All members of the Board of Directors attended the board meeting to review this Annual Report.**
3. **PwC Mainland China (special general partnership) presented a standard, unqualified Auditor's Report for the Company.**
4. **Pan Xueping, Chairman of the Board of Directors, and Lu Yimin, Chief Financial Officer and accountant in charge, confirm the truthfulness, accuracy and completeness of the financial statements in this Annual Report.**
5. **Proposed profit distribution and capital reserve plan for the reporting period, as reviewed by the Board of Directors.**

According to the Articles of Association and the relevant laws and regulations, and considering factors such as shareholders' returns and the Company's business development, the Board of Directors reviewed and approved the profit distribution plan for 2018 as follows:

the audit by PwC Mainland China (special general partnership) confirmed that the net profit in the consolidated statements attributable to the shareholders of the parent company in 2018 was RMB 810 294 000. The parent company realised a net profit of RMB -114 346 000 in 2018. According to the Articles of Association, 10 % of the net profit attributable to the parent company, RMB 0, was set aside as the statutory surplus reserve.

After the reserves were set aside, the net profit attributable to the parent company in 2018 was RMB -114 346 000. Including the undistributed profit of RMB 631 302 000 at the beginning of the year, the residual profit of the parent company distributable to the shareholders was RMB 498 002 000. According to the relevant laws and regulations and the Articles of Association, and considering the interests of the shareholders and the long-term development of the Company, the Company's profit distribution plan for 2018 was that, based on the total number of shares of 1 895 412 995, cash dividends of RMB 1.293 (before tax) for every 10 shares (a total of RMB 245 000 000 (before tax)) were distributed to all shareholders from the undistributed profit. No other forms of profit distribution or capital reserve plan were implemented.

6. **Disclaimer with respect to forward-looking statements**  
None of the forward-looking statements contained in this Report, such as the development strategies or future business plans, constitute a commitment by the Company to investors. Investors are advised to be aware that investments involve risks.
7. **Important risk warning**  
The risks faced by the Company are detailed in "Company's Future Development" under Section 4, "Discussion and Analysis of Operations". Investors are advised that investments involve risks.

# 1. Definitions

## 1 Definitions

The following terms in this report shall have the meanings as shown below unless indicated otherwise:

### Definitions of regularly used terms

Saurer Intelligent, the Company, this Company and the Listed Company	Refer to	Saurer Intelligent Technology Co. Ltd
Jinsheng Group	Refers to	Jiangsu Jinsheng Industry Co. Ltd
State-owned company	Refers to	Urumqi State-owned Assets Operation (Group) Co. Ltd
China Development Bank Finance	Refers to	China Development Bank Finance Co. Ltd
Kimble	Refers to	Changzhou Kimble Investment Partnership Firm (limited partnership)
Jiangsu Huatai	Refers to	Jiangsu Huatai Strategic Emerging Industry Investment Fund (limited partnership)
Hehe Investment	Refers to	Changzhou Hehe Investment Partnership Firm (limited partnership)
Shenzhen Longding	Refers to	Shenzhen Longding Shuming Equity Investment Partnership Firm (limited partnership)
China Advanced Manufacturing Fund	Refers to	China Advanced Manufacturing Industry Investment Fund (limited partnership)
Huashan Investment	Refers to	Huashan Investment Co. Ltd
Shanghai Yongjun	Refers to	Shanghai Yongjun Equity Investment Partnership Firm (limited partnership)
Ningbo Yukang	Refers to	Ningbo Yukang Equity Investment Centre (limited partnership)
Tibet Jiaze	Refers to	Tibet Jiaze Venture Investment Firm
Hezhong Investment	Refers to	Changzhou Hezhong Investment Partnership (limited partnership)
Shanghai Jinye	Refers to	Shanghai Jinye Equity Investment Partnership Firm (limited partnership)
Shanghai Hongcheng	Refers to	Shanghai Hongcheng Equity Investment Partnership Firm (limited liability)
Beijing Zhongtai	Refers to	Beijing Zhongtai Financial Investment Co. Ltd
Nanjing Daofeng	Refers to	Nanjing Daofeng Investment Management Centre (general partnership)
Saurer Intelligent Machinery	Refers to	Saurer Intelligent Machinery Co. Ltd
Saurer Germany	Refers to	Saurer Spinning Solutions GmbH & Co. KG, formerly known as Saurer Germany GmbH & Co. KG
Saurer Technologies	Refers to	Saurer Technologies GmbH & Co. KG
Saurer Switzerland	Refers to	SAURER AG
Saurer Jiangsu	Refers to	Saurer (Jiangsu) Textile Machinery Co. Ltd
Saurer Changzhou	Refers to	Saurer (Changzhou) Textile Machinery Co. Ltd
E <sup>3</sup>	Refers to	Energy, Economics, Ergonomics
PwC	Refers to	PwC Mainland China (special general partnership)
CSRC	Refers to	China Securities Regulatory Commission
AGM / EGM	Refer to	Annual General Meeting / Extraordinary General Meeting of Shareholders

# 2. Company profile and financial summary

## 1 Company information

Chinese name	卓郎智能技术股份有限公司
Chinese abbreviation	卓郎智能
English name	Saurer Intelligent Technology Co. Ltd
English abbreviation	Saurer Intelligent
Legal representative	Pan Xueping

## 2 Contact information

Secretary to the Board of Directors	
Name	Zeng Zhengping
Address	100 Zunyi Road, Hongqiao The Place, Changning District, Shanghai
Tel	021-22262549
Fax	021-22262586
Email	dlu-china-ir@saurer.com

## 3 Basic profile

Registered address	Room 1505, Weitai Building, 1 Weitai South Road, Urumqi Economic and Technological Development Zone, Xinjiang
Zip code	830026
Office address	1 Bainiaohu, Toutunhe District, Urumqi, Xinjiang
Zip code	830022
Company website	www.saurer.com
Email	dlu-china-ir@saurer.com

## 4 Information disclosure and place of collection

Designated newspapers for disclosure of the Company's information	Securities Times, Securities Daily and Shanghai Securities News
Website designated by the CSRC for publishing the Annual Report	http://www.sse.com.cn/
Place of collection of Annual Report	Office of the Board of Directors
Zip code	830022
Company website	www.saurer.com
Email	dlu-china-ir@saurer.com

## 5 Information on the Company's shares

Shares of the Company

Type of shares	Place of listing	Stock abbreviation	Stock code	Stock abbreviation before change
A shares	Shanghai Stock Exchange	Saurer Intelligent	600545	Xinjiang Urban Construction

## 6 Other relevant information

Accounting firm (Mainland China)	Name	PwC Mainland China (special general partnership)
	Office address	202 Hubin Road, Corporate Avenue 2nd Bldg., PwC Centre 11th Floor, Huangpu District, Shanghai
	Signing accountants	Jiang Songyi, Rao Shenghua
Sponsor performing continuous supervision duties in the reporting period	Name	ZTF Securities Co. Ltd (formerly Haiji Securities Co. Ltd)
	Office address	China Chuneng Building 50th Floor, Nanshan District, Shenzhen
	Authorized sponsor representatives	Chang Jiang, Chen Huawei
	Continuous supervision period	28 July 2017 – 31 December 2020

## 7 Major accounting data and financial indicators of the Company for the last three years

### (1) Major accounting data

Major accounting data	2018	2017	Change (%) YoY	2016
Revenue	9 220 759	8 713 412	5.8	6 352 754
Net profit attributable to shareholders of the Listed Company	810 294	658 327	23.1	474 917
Net profit attributable to shareholders of the Listed Company less non-recurring gains and losses	767 381	649 046	18.2	332 392
Net cash flow from operating activities	-1 042 763	676 157	-254.2	2 204 738
	<b>Year end 2018</b>	<b>Year end 2017</b>	<b>Change (%) YoY</b>	<b>Year end 2016</b>
Net assets attributable to shareholders of the Listed Company	4 653 156	2 207 034	110.8	2 530 033
Total assets	14 415 706	14 531 772	-0.8	13 225 243

Unit: thousand RMB

**(2) Major financial indicators**

<b>Major financial indicators</b>	<b>2018</b>	<b>2017</b>	<b>Change (%) YoY</b>	<b>2016</b>
Basic earnings per share (yuan/share)	0.4275	0.4556	-6.2	0.3894
Diluted earnings per share (yuan/share)	0.4275	0.4556	-6.2	0.3894
Basic earnings per share less non-recurring gains and losses (yuan/share)	0.4049	0.4492	-9.9	0.2725
Weighted average return on equity (%)	30.58	23.67	+6.91 pts	20.95
Weighted average return on equity less non-recurring gains and losses (%)	28.96	23.34	+5.62 pts	14.66

Unit: thousand RMB

Notes on major accounting data and financial indicators of the Company for the last three years in the reporting period.

The intermittent favourable economic situation and promotion of the "One Belt, One Road" initiative has helped drive demand for textile machinery. In 2018, the Company's revenue grew by 5.8 % YoY, and net profit attributable to the shareholders of the Listed Company increased by 23.1%.

Net cash flow from operating activities in 2018 decreased by 254.2 % YoY, mainly due to fluctuations in the balance of operating receivables and payables.

Net assets attributable to shareholders of the Listed Company for 2018 increased by 110.8 % YoY, mainly resulting from the introduction of equity investors in subsidiaries of the Listed Company, of which the capital increase was included in the capital reserve.

At the end of 2018, earnings per share was calculated by the number of shares at the end of the period. In 2017, the Company issued shares to acquire the assets of Saurer Intelligent Machinery to facilitate the indirect listing. This constituted a reverse purchase. The weighted average number of common shares for 2017 was used to calculate earnings per share according to "Rule 9 for Information Disclosure and Reporting for Companies Offering Securities to the Public – Calculation and Disclosure of Net Return-on-Equity and Earnings Per Share" of the China Securities Regulatory Commission (CSRC).

## 8 Major financial data for each quarter in 2018

	First quarter (Jan. – Mar.)	Second quarter (Apr. – June)	Third quarter (July – Sep.)	Fourth quarter (Oct. – Dec.)
Revenue	2 286 276	2 340 810	2 075 965	2 517 708
Net profit attributable to shareholders of the Listed Company	141 448	221 618	173 276	273 952
Net profit attributable to shareholders of the Listed Company less non-recurring gains and losses	140 098	208 875	173 043	245 365
Net cash flow from operating activities	-1 278 777	-610 634	99 363	747 285

Unit: thousand RMB

## 9 Items and amounts of non-recurring gains and losses

Non-recurring gains and losses	2018	Note (if applicable)	2017	2016
Gains and losses arising from disposal of non-current assets	148	Gains and losses generated from disposals of fixed assets	-1 318	1 282
Government subsidies calculated in current gains and losses, except those that are closely related to normal operating activities and in compliance with national policies, which are based on a certain standard quota or amount	46 305	Including government subsidies confirmed in this period that are closely related to Xinjiang Factory	2 511	31 816
Paid or received payment for use of state funds recorded in current gains and losses	5 353	Interest income generated from temporary supplier loans provided to third-party companies	23 775	71 851
Earnings from currency swap agreements and interest rate swap agreements	0		0	9 588
Expected employee severance expenses and other costs resulting from shutdowns of overseas operations	0		-8 539	0
Other net non-operating income and expenditure other than the above	-640		-21 068	58 622
Other items of gains and losses that fall within the definition of non-recurring gains and losses	0		12 082	0
Amounts attributable to minority shareholders	0		-92	-132
Income tax effects	-8 253		1 930	-30 502
Total	42 913		9 281	142 525

Unit: thousand RMB

## 10 Items using fair value measurement

Item	Beginning balance	Ending balance	Change during the reporting period	Impact on current profit
Financial assets at fair value with changes factored into current gains/losses	6 178	4 966	-1 212	0
Financial liabilities at fair value with changes factored into gains/losses of the current period	7 532	5 416	-2 116	0
Total	13 710	10 382	-3 328	0

Unit: thousand RMB

# 3. Business overview

## 1 Main business, operating model and core competencies

Saurer is a global leader in high-end textile equipment and solutions with more than one hundred and fifty years of history. Its business focuses mainly on the R&D, production and sales of intelligent textile equipment and their key components. The company has a history of creating innovation: its strategic partnerships with other textile machinery companies have made it able to deliver a suite of solutions. Through market insight, innovation and partnership, Saurer has become one of the few suppliers in the staple fibre processing industry that offers blowing machines, cotton carding machines, roving frames, ring spinning and fully automated rotor spinning machines, winding machines, twisting machines as well as two-for-one twisting machines. Saurer has production sites and sales organisations in 12 countries and regions, including China, Germany, Switzerland and India, and its customers are spread across 130 countries. All its key products have significant competitive advantages and are in leading positions in the global textile market.

### (1) Main business

Saurer is divided into two business segments: Spinning Solutions and Technologies.

#### (a) Spinning Solutions

Saurer Spinning Solutions provides customers with a suite of solutions required for processing fibre from bale to yarn, including pre-spinning, ring spinning and rotor spinning machines as well as winding machines and their key components. Its flagship products include the carding machine JSC 328A, the Autocoro 9 automatic rotor, the BD7 semiautomatic rotor spinning machine, the Autoconer X6 automatic winder and the Zinser 72XL.

#### (b) Technologies

With its Twisting Solutions, Embroidery, Elastomer Components and Engineered Bearing Solutions business units, the Technologies Segment concentrates on high-value-added technologies, components and solutions in the textile manufacturing process for staple as well as man-made fibres. It also specialises in technological innovations that go beyond textile. Flagship products include the GlassTwister VGT 9/11, the CableCorder CC4 tire cord twister and the Epoca 7 shuttle embroidery machine.

## (2) Business model

Throughout its long history, Saurer has established a unique pattern of adapting to market developments by repositioning its R&D, production and procurement, product portfolio and sales and service organisation according to customer needs.

### (a) R&D model

Saurer has a specialised product R&D department that undertakes both standard and customised projects, and has set up R&D centres in China, Germany and Switzerland. Saurer's R&D follows a specific workflow, adhering to its "E<sup>3</sup> – Triple Added Value" philosophy, which focuses on improving product performance in terms of Energy, Economy, and Ergonomics. In 2018, Saurer added intelligence to its philosophy. First, product management together with the sales and after-sales service departments gather and sort information on customer needs. Product management then defines the product requirements according to the customer's needs. Interdisciplinary development teams, led by professional project managers, are responsible for setting up product development projects. A prototype for the new product is created which takes technical requirements and E<sup>3</sup> parameters as well as the required customer features into account. After the departments have confirmed the feasibility of the new product, tests are performed on the most up-to-date product prototype. Once the technology has taken shape, the product enters production and market testing stages. The entire product development process is a closed-loop, iterative process aimed at continuous improvement.

### (b) Production and procurement model

Saurer implements order-based (Make to Order) production. The offering is designed according to customer-specific requirements.

The procurement process required for the key parts, and the control and information systems for each modular assembly, is performed independently within the Company. Standard parts are acquired by the procurement department from qualified suppliers.

### (c) Assembly model

Once the key components have been procured or produced, Saurer completes the assembly of stand-alone machines and entire production lines for final testing. Specialised stand-alone machines are assembled at Saurer, while the assembly of complete production lines for final testing is completed at the customer's site. Final acceptance testing is then performed in strict compliance with the design specifications. Final acceptance indicates that Saurer's product meets the requirements of the technical specifications, the agreement and tender documents.

### (d) Sales

Saurer employs two sales models, depending on the size of the market. In larger markets, Saurer uses a direct sales model for market development. In relatively small-scale markets or those with a low concentration of customers, Saurer generally chooses to work with a distributor.

### (3) State of the industry

In 2018, the textile industry in China adhered to the concept of "New Development", conscientiously implementing high-tech requirements and actively responding to changes in domestic and international markets. Focused on supply-side structural reform, the industry has taken advantage of opportunities presented by the "One Belt, One Road" initiative to accelerate the adjustment and upgrading of industrial structures, promote sustainable development, step up energy conservation and emission reduction and create competitive advantages by focusing on environmental protection. Overall, China's textile industry has generally continued its smooth progress.

## 2 Significant changes in major assets

Saurer's balance of projects under construction increased by RMB 260 million during the reporting period and added RMB 330 million this year, including RMB 210 million resulting from Saurer Xinjian's newly built plant, which is intended to further expand production capacity. At the end of the reporting period, the Company held overseas assets of RMB 5 661 886 000, which account for 39.3 % of total assets (at RMB 14 415 706 000).

## 3 Core competencies

A company steeped in tradition, Saurer has always been a pioneer in the textile machinery industry. Passion for its products lies at the heart of the Company's history of innovation. With approximately 1500 registered patents, and currently more than 440 R&D employees worldwide, Saurer's R&D teams are a driving force for development in the textile industry. Today, Saurer is one of the few suppliers in the staple fibre processing industry able to deliver a suite of solutions, covering the spinning process from bale to yarn.

### (1) Competing with E<sup>3</sup> – Triple Added Value

Saurer's R&D departments use their resources and capabilities to design solutions that are compatible with customers' requirements for energy savings, economical production and ergonomics, as expressed in the Company's E<sup>3</sup>–Triple Added Value philosophy. With the progress in digitalisation across all industries, more and more intelligence is being added to the Saurer philosophy.

### (2) Competing through technological innovation

#### (a) Fully automated intelligent winding solutions

Saurer is the inventor of the Autoconer automatic package-winding machine. For more than half a century, the Company has defined the course of development of technologies and processes in the package-winding sector. Its revolutionary splicing technology, innovative sensor technology and control systems, unique "FX" technologies and intelligent automation systems have all become state of the art.

The PreciFX is a case in point. This drumless yarn-laying system not only enhances package unwinding performance, but also enables spinning mills to create a large variety of customised package formats depending on downstream requirements.

The E<sup>3</sup>–Triple Added Value-certified Autoconer X6 automated winding machine offers maximum energy savings, greater productivity and minimal personnel requirements in a single system. Unique features, including an eco-drum-drive system, "power-on-demand" vacuum control and MultiJet cleaning, reduce energy consumption by up to 20 %. In addition, the SmartCycle, SmartJet and slip-free acceleration LaunchControl features ensure improved productivity by up to 6 %.

#### (b) High-performance twisting and cabling machines

Saurer's twisting and cabling machines may be used for a wide range of industrial yarns, tire cords, staple fibre yarns, carpet yarns and glass filament yarns. The Allma direct cabling machine for tire cord, for example, uses an innovative outer yarn delivery system that effectively controls ballooning of the yarn. This reduces energy consumption by up to 50 % and yarn breakage by up to 50 %, compared with conventional equipment. Machine operators benefit from a significant decrease in noise pollution. The highly accurate yarn tensioner inside the machine maximises reliability, while precise online monitoring of yarn tension at each spindle ensures product quality. In the combined version, the machine can be used for direct cabling as well as for two-for-one twisting.

#### (c) Automatic and semi-automatic rotor spinning machines

Setting the standard for intelligent solutions, Saurer's R&D departments are responsible for the design of automatic and semi-automatic rotor spinning machines, such as the Autocoro and BD series. With integrated quality control and high-productivity components and automation features, these machines are the most advanced on the market.

The Autocoro 9 fully automated rotor spinning machine features the world's fastest rotor spinning technology. It offers yarn take-off at a speed of up to 300 metres per minute and rotor speeds of up to 180 000 rpm. The package diameter reaches up to 350 mm. In addition, the machine offers a new individual drive, and can accommodate as many as 720 spinning positions. The Autocoro 9 is equipped with several doffing and cleaning units, and can reduce energy costs by up to 25 % and maintenance costs by 60 %.

### **(3) Competing on the strength of the Saurer brand**

For over 160 years, Saurer's engineering experience has been a driving force for innovation in the textile industry. The continuous development of the Company's core competencies provides customers with optimal solutions to meet their needs. Saurer plays a key role at many stages along the textile value chain. Through insight, innovation and partnerships, Saurer solutions lead the industry in spinning technology as well as high-quality threading and cabling systems for tire cords, carpet yarns and glass-filament yarns. Saurer is a technology leader in embroidery machines and textile machine components for spinning and twisting, including drafting systems, spindles and spindle drives, and spinning rings and travellers. Beyond textile, the Saurer reputation for expertise extends to glass-forming aprons and special bearings.

Saurer's strong standing and reputation are the Company's backbone for growth in both domestic and overseas markets.

### **(4) Competing through combined local know-how and global reach**

In 2013, Jinsheng Group acquired Saurer. As a Chinese business, Saurer has a significant advantage in regional development. China's vision for the textile industry is having a profound impact on the Company's growth strategy. Saurer is well-positioned to reap the rewards of investments along the reinvigorated trade route from east to west at the heart of the "One Belt, One Road" initiative.

Saurer is strengthened further by its global reach in all major markets. Because a short response time is a key factor for success, Saurer has production sites as well as sales and service organisations in 12 countries, including China, Germany, Switzerland, India, Turkey and the US. It provides excellent service to its customers in over 130 countries worldwide.

# 4. Discussion and analysis of operations

## 1 Overview of operations

Faced with the complex global economic situation and many uncertainties at home and abroad, China has overcome many risks and challenges and continued to boost its economic development in a highly efficient manner. Its gross domestic product (GDP) is still growing steadily and in 2018 exceeded RMB 90 trillion, up 6.6% YoY. Overall faltering confidence in investment and fiercer competition in the production industry have put pressure on the Chinese textile industry to intensify its reform and restructuring.

According to China's National Bureau of Statistics, the operations of the textile industry are basically sound, and investment in transformation and upgrades continues to increase. In 2018, the cumulative business revenues of 37 000 textile companies above a certain size reached RMB 5 370.3 billion. Total profits amounted to RMB 276.6 billion. Profit margin for this group reached 5.2%, 0.3% higher than last year.

The productivity rate in the Chinese textile industry was 79.8%, which is higher than the average level (76.5%) for national industrial enterprises. With solid operations and good quality and performance, textile companies in China enjoyed stable overall investment confidence in 2018. The upgrading of the textile machinery industry continued its advance with good overall quality and efficiency, but industry growth has slowed. The cumulative textile machinery sales of textile companies above a certain size reached RMB 91.2 billion, while total profits amounted to RMB 6.8 billion.

In 2018, Saurer achieved robust growth overall, with particular success in emerging markets such as Uzbekistan and Vietnam, with growth rates of 47.6% and 20.4% respectively. The Company's vision of becoming the preferred supplier of intelligent solutions and services in fibre and yarn processing equipment focuses on three main strategic themes: customer orientation, leading innovation and operational excellence. Saurer attaches great importance to customer growing demand for more intelligent and energy-saving products, and concentrates on providing customers with high-quality, reliable and cost-effective products and services.

The Company proceeded in 2018 with its plans to integrate the supply chain. Selecting high-quality suppliers in China, India and other lower-cost regions has helped to reduce purchasing costs and improve gross profit margins. The sales department of the Company implemented the 'Key Account Management' principles in order to create long-lasting business relationships with key customers, thus ensuring performance stability and growth. At the same time, the Company defined a more precise marketing strategy to improve its market position and competitiveness. The "Special Audit Report with Explanations about the Differences between the Actual Net Profits and Committed Net Profits of Saurer Intelligent Machinery" (PwC Special Audit No. 2162 [2019]) shows that Saurer's net profit attributable to the owners of the parent company less non-recurring gains and losses in 2018 was RMB 867 million, which exceeds the committed net profit of RMB 766 million by 13.2%.

In addition, the Company successfully completed a RMB 3 billion capital increase of Saurer Intelligent Machinery Co. Ltd during the reporting period, which greatly reduced the Company's debt ratio and laid a solid foundation for steady growth in the coming year (see ad hoc announcements 2018-053, 2018-060 and 2019-005 for details).

### (1) Spinning Solutions Segment

During the reporting period, the Spinning Solutions Segment generated revenues of RMB 7.42 billion, an increase of 6.4 % YoY.

To increase proximity to its customers and better understand their needs, Saurer reorganised sales and services in 2018 and redefined its processes. Positive results have already been seen in the US, Europe, the Middle East and Africa through increased business revenues and sales. The Company will further advance this initiative within the Group with training sessions and workshops.

With a view to better promoting business development, the Company has proactively supported customers in their project financing efforts by organising Customer Days and participating in important exhibitions and seminars. In September 2018, Saurer sponsored the International Textile Manufacturers Federation (ITMF) conference held in Nairobi, Kenya. In November 2018, Saurer presented itself in the Intelligent and High-end Equipment area at the China International Import Expo, further expanding the reach of the Saurer brand.

In 2018, the Company launched a series of new products, such as the Zinser 72XL, the world's longest ring spinning machine; the Autoconer X6 with substantially improved process automation features; and the high-speed JSC 328A carding machine with efficient impurity removal.

Saurer's pre-spinning products are increasingly recognised by the global market for their excellent product and service quality. The Company started to sell these products successfully into overseas markets including Indonesia, Turkey and South America. In 2018, Saurer's pre-spinning products accounted for 13.6 % of the global market and 31.5 % of the domestic market of medium- and high-end carding machines.

### (2) Saurer Technologies Segment

In 2018, the Technologies Segment realised revenue of RMB 1.88 billion, representing an increase of 3.7 % YoY.

With its embroidery machines, Saurer still holds half of the global market and successfully won over some significant customers from competitors. In its twisting solutions, the Company has maintained its strong growth in the carpet and fibreglass application market. Affected by the low sales price strategy of its competitors, the Company has seen a slight decline in its market share for staple fibre twisting machines and twisting and cabling machines for tire cord.

The business unit Elastomer Components has become market leader in Bangladesh and India, and has also been expanding in neighbouring markets, while it still has huge growth potential in the Chinese market. As for the business unit Engineered Bearing Solutions, customer acceptance of high-quality, cost-effective bearings is increasing, leading to a better business performance than the previous year. This is especially noticeable in the Chinese market.

In July 2018, the Company established the Saurer Technology Centre (STC) in Arbon, Switzerland. As the central R&D department within the Company, STC works with other R&D departments of the Company to further advance core technologies in accordance with industry trends.

The Company plans to launch a series of new products at the International Textile Machinery Exhibition (ITMA) in Barcelona in June 2019. In addition to the air-spinning machine, which will open up new markets for Saurer, and the fully automatic mid-end rotor-spinning machine, the Company will also launch the SC6, a new-generation intelligent, high-yield carding machine. This machine can reduce energy consumption by more than 20 % per tonne of yarn, increase output by more than 18 %, reduce maintenance costs by 30 %, etc.

## 2 Results of main operations during the reporting period

During the reporting period, the Company achieved revenue of RMB 9.22 billion, which represents an increase of 5.8 % YoY. Net profit attributable to the shareholders of the Listed Company reached RMB 810 million, representing an increase of 23.1% YoY. Net cash flow from operating activities was RMB -1.04 billion, which represents a decrease of 254.2% YoY. As of 31 December 2018, the total assets of the Company amounted to RMB 14.42 billion, and net assets attributable to the shareholders of the Listed Company were RMB 4.65 billion.

### (1) Analysis of main business

#### (a) Changes in income and cash flow

Item	2018	2017	Change (%)
Revenue	9 220 759	8 713 412	5.8
Operating expenses	6 571 207	6 389 179	2.8
Cost of sales	5 686 699	5 956 694	-4.5
Administrative expenses	382 922	375 608	1.9
R&D expenses	475 204	310 817	52.9
Financial expenses	139 160	96 253	44.6
Net cash flow from operating activities	-1 042 763	676 157	-254.2
Net cash flow from investing activities	2 304 714	329 608	599.2
Net cash flow from financing activities	-484 060	-1 095 337	N/A

Unit: thousand RMB

#### (b) Revenue and expenses

During the reporting period, the Company achieved revenue of RMB 9.22 billion, an increase of 5.8 % YoY. The Spinning Solutions Segment was a significant contributor to this growth. Operating expenses were RMB 6.57 billion, an increase of 2.8 % YoY, a result from business expansion. The optimisation of product structure and cost-reduction measures resulted in an improvement of gross margin by 2.1% compared to last year.

#### (i) Operating activities by industry, segment and region

##### Primary business by industry

Industry	Revenue	Operating expenses	Gross margin (%)	Change in revenue YoY (%)	Change in expenses YoY (%)	Change in gross margin YoY (%)
Textile machinery	9 220 759	6 571 207	28.7	5.8	2.8	+2.0 pts

Unit: thousand RMB

##### Primary business by segment

Segment	Revenue	Operating expenses	Gross margin (%)	Change in revenue YoY (%)	Change in expenses YoY (%)	Change in gross margin YoY (%)
Spinning Solutions Segment	7 421 453	5 243 452	29.3	6.4	1.8	+3.2 pts
Technologies Segment	1 876 671	1 402 354	25.3	3.7	7.1	-2.3 pts

Unit: thousand RMB

Note: the revenue and operating costs by segment include internal revenue and expenses

##### Primary business by region

Revenue by region	2018	2017	Change YoY (%)
China	4 087 878	3 674 611	11.2
India	926 397	973 602	-4.8
Turkey	880 848	904 084	-2.6
Asia (excl. China/India)	1 840 587	1 744 952	5.5
Americas	746 377	740 555	0.8
Europe/Africa/others (excl. Turkey)	738 671	675 608	9.3
Total	9 220 759	8 713 412	5.8

Unit: thousand RMB

##### Notes on operating activities by industry, segment and region

Saurer is divided into a Spinning Solutions Segment and a Technologies Segment based on its product structure. The Company is recognised in the global textile industry for its efficient, stable, intelligent and customised products. The textile machinery industry enjoyed steady growth in 2018. Promotion of the "One Belt, One Road" initiative helped to drive development of the textile industry in Xinjiang Province (China), Turkey and Central Asia, stimulating demand for textile machinery products in these regions. Affected by this, revenues from China and other Asian regions during the reporting period have increased by 11.2% and 5.5% respectively. Tax and financial reforms in India continue to affect the local investment and sales environment, resulting in a decline in revenue. Sales in Turkey declined slightly, mainly due to its unclear political situation.

## (ii) Production and sales analysis

As the "One Belt, One Road" initiative helped drive demand for spinning machines, the manufacture and sales of the Company's main products continued to increase in 2018. Production and sales of winders declined, mainly due to a rise in average unit price and a decline in customer demand. The overall sales revenue for twisting machines increased in 2018. The decline in its output and sales, however, was mainly due to the Company's sale of a small-scale joint venture in 2017.

## (iii) Cost analysis

Industry	Cost breakdown	2018	% of total costs in 2018	2017	% of total costs in 2017	Change YoY (%)
Textile machinery	Raw material costs	4 979 415	75.8	4 798 205	75.1	3.8
	Other	1 591 792	24.2	1 590 974	24.9	0.1
	Total	6 571 207	100.0	6 389 179	100.0	2.8

Unit: thousand RMB

Note: sales growth in the reporting period increased raw material costs

## (iv) Major customers and suppliers

Sales to the top five customers amounted to RMB 3 310 731 000, accounting for 35.9% of total annual sales, including sales to related parties amounting to RMB 2 539 675 000, which represent 27.5% of total annual sales.

Purchases from the top five suppliers amounted to RMB 824 904 000, accounting for 13.1% of total annual purchases. As in the previous year, there were no purchases from related parties.

## (c) Expenses

Item	2018	2017	Change YoY (%)
Cost of sales	568 699	595 694	-4.5
Administrative expenses	382 922	375 608	1.9
R&D expenses	475 204	310 817	52.9
Financial expenses	139 160	96 253	44.6

Unit: thousand RMB

In 2018, R&D expenditure increased 52.9% YoY as the Company continued to invest heavily in the research and development of intelligent textile equipment and core components. It announced the establishment of the Saurer Technology Centre (STC) in Arbon, Switzerland, which will combine Saurer's expertise in sensor technology and automation with the latest innovations of Industry 4.0., and invested in preparations for product launches at the International Textile and Technology Machinery Exhibition (ITMA) in Barcelona in 2019.

The increase in financial expenses is mainly due to a reduction in interest income and foreign exchange gains.

## (d) Expenditures on R&amp;D

Expenditures on R&D	411 198
Capitalisation of R&D expenditures	55 017
Total R&D expenditures	466 215
Total R&D expenditures as % of revenue	4.4
Number of R&D employees	445
R&D employees as % of total employees	9.4
Capitalisation of R&D expenditures (%)	13.5

Unit: thousand RMB

## (e) Cash flow

Item	2018	2017	Change (%)
Net cash flow from operating activities	-1 042 763	676 157	-254.2
Net cash flow from investing activities	2 304 714	329 608	599.2
Net cash flow from financing activities	-484 060	-1 095 337	N/A

Unit: thousand RMB

Cash flow generated in the reporting period decreased by RMB 1.72 billion over the previous year, primarily for the following reasons:

- operating payables in 2018 decreased by RMB 780 million, (2017: an increase of RMB 1.4 billion), a decrease of RMB 2.18 billion YoY.
- inventory in 2018 increased by RMB 230 million (2017: RMB 430 million), an increase of RMB 200 million YoY.
- net profit in 2018 was RMB 860 million (2017: RMB 750 million), an increase of RMB 110 million YoY.

Cash flow generated from investing activities increased by RMB 1.98 billion over the previous year, primarily for the following reasons:

- cash flow was affected by the net cash change from the acquisition and redemption of financial products. Net cash inflow from other investment-related activities in 2018 was RMB 3.4 billion, (2017: net cash inflow being RMB 70 million), a change of RMB 3.33 billion YoY.
- net cash outflow resulting from cash received from and cash paid for restricted cash and deposits in 2018 was RMB 470 million (2017: net cash inflow being RMB 560 million), a decrease of RMB 1.03 billion YoY.
- cash outflow from acquisitions of fixed assets and intangible assets as well as other long-term assets in 2018 reached RMB 680 million (2017: RMB 400 million), a change of RMB 280 million YoY.

Cash flow from financing activities in the reporting period increased by RMB 610 million over the last year, primarily for the following reasons:

- cash inflow generated from investment in minority shares by subsidiary was RMB 3.0 billion in the current year, and cash outflow from payment of minority shareholders' equity due to subsidiaries liquidation was RMB 4.2 billion, a net decrease of RMB 1.2 billion YoY.
- net cash inflow due to repayment of and receipts from bank borrowings in 2018 was RMB 1.06 billion (2017 net cash outflow: RMB 270 million), an increase of RMB 1.33 billion YoY.
- cash outflow from acquisitions of minority shareholders' equity in 2018 was RMB 0 (2017: RMB 720 million), a change of RMB 720 million YoY.
- cash outflow from payment of other financing-related activities in 2018 was RMB 60 million (2017: cash inflow being 180 million), a decrease of RMB 240 million YoY.

## (2) Gains and losses from non-operating business

Item	2018	2017	Change YoY (%)	Note
Other gains	1 017	-	N/A	The current value incurred in the reporting period is mainly the receipt of operation-related tax rebate subsidies
Investment gains	88 249	160 584	-45.0	Mainly due to the decrease of financial management income in the current period compared with the previous year
Gains on changes in fair value	390	-	N/A	Mainly due to the changes in the fair value of financial assets in the current period
(Losses)/income of assets disposal	148	-1 318	N/A	Mainly due to losses of asset disposal caused by the closure of small-scale factories in Germany in the previous year as no expenditure was incurred in the current year
Non-operating income	46 560	4 192	1 010.7	Mainly due to the increase of confirmed subsidy income in the current period
Non-operating expenses	895	31 290	-97.1	Mainly due to donations made in the previous year
Non-controlling interests	46 756	91 190	-48.7	Mainly due to the cancellation of non-wholly owned subsidiaries in the current year

Unit: thousand RMB

**(3) Assets and liabilities**

## (a) Assets and liabilities

Item	31 December 2018	As % of total assets	31 December 2017	As % of total assets	Change YoY (%)	Note
Cash and cash equivalents	3 720 401	25.8	2 473 431	17.0	50.4	Mainly due to the receipt of funds from subsidiaries
Notes receivable and accounts receivable	3 348 304	23.2	2 170 304	14.9	58.4	Mainly due to an increase in business volume
Payments in advance	132 958	0.9	76 265	0.5	74.3	Mainly due to the increase of advances to suppliers
Other accounts receivable	255 962	1.8	166 020	1.1	54.2	Mainly due to an increase of third-party supplier loans
Other current assets	1 301 055	9.0	4 726 641	32.5	-72.5	Mainly due to the redemption of large-sum wealth management products
Long-term equity investments	-	-	350	0.0	-100.0	Mainly due to losses from joint ventures
Construction in progress	465 036	3.2	208 767	1.4	122.8	Mainly due to continued investment in the construction of Xinjiang plant and equipment
R&D expenditures	90 417	0.6	51 655	0.4	75.0	Mainly due to continued investment in existing R&D projects
Other non-current assets	427 584	3.0	205 308	1.4	108.3	Mainly due to the increase in advance payments for real estate and equipment
Short-term borrowings	1 499 334	10.4	267 001	1.8	461.5	Mainly due to the increase of short-term borrowings required for operation
Advances from customers	586 799	4.1	1 374 279	9.5	-57.3	Mainly due to the large amount of advance payments from customers in the previous reporting period
Accrued liabilities	10 338	0.1	7 770	0.1	33.1	Mainly due to the increase in the balance of warranty
Deferred gains	29 586	0.2	69 290	0.5	-57.3	Mainly due to confirmation of part of the government subsidies
Capital reserves	1 579 834	11.0	-	-	N/A	Mainly due to the capital increase of the new investors
Other comprehensive income	-48 440	-0.3	-123 388	-0.8	N/A	Mainly due to fluctuations of foreign exchange rates, leading to changes of foreign exchange translation differences
Retained earnings	1 177 607	8.2	386 267	2.7	204.9	Mainly due to the increase in net profit
Minority interests	1 334 619	9.3	4 298 330	29.6	-69.0	Mainly due to the withdrawal and the introduction of minority shareholders in some subsidiaries

Unit: thousand RMB

## (b) Restriction on assets at the end of the reporting period

Item	Carrying value at year end	Reason for restriction
Cash and cash equivalents	485 184	Security deposit put aside for letters of guarantee and letters of credit issued

Unit: thousand RMB

**(4) Investments****(a) External equity investments**

Please refer to "Major equity investments" and "Major non-equity investments".

**(i) Major equity investments**

There were no major equity investments in 2018.

**(ii) Major non-equity investments**

In 2018, the net balance of fixed assets of the Company increased by RMB 60 million. The balance of construction in progress increased by RMB 260 million in 2018, including RMB 210 million from the Xinjiang Intelligent plant under construction for the purpose of further expanding production capacity.

**(iii) Financial assets at fair value**

Item	Beginning balance	Ending balance	Change during the reporting period	Impact on current profit
Financial assets at fair value with changes factored into current gains/losses	6 178	4 966	-1 212	0

Unit: thousand RMB

During 2018, Saurer Intelligent Machinery Co. Ltd, a subsidiary of the Company, carried out a capital increase and share issuance programme to attract new, high-quality investors, and the Company gave up its priority to subscribe for investment. The above-mentioned matters have been examined and approved by the Board of Directors and the third EGM of shareholders in 2018 (see ad hoc announcements 2019-052, 2019-053 and 2019-056).

**(iv) Major controlling subsidiaries and shareholding companies**

## - Saurer Germany

As of the end of 2018, Saurer Intelligent Machinery owned 100 % of its equities. Its registered capital is EUR 40.0 million. It is mainly engaged in the manufacture, sale and servicing of textile machinery and components. As of the end of 2018, its total assets were EUR 733.7 million and its net assets were EUR 166.1 million. Revenue was EUR 674.7 million. Operating profit was EUR 31.8 million. Net profit was EUR 25.1 million.

## - Saurer Technologies

As of the end of 2018, Saurer Intelligent Machinery owned 100 % of its equities. Its registered capital is EUR 10.0 million. It is mainly engaged in the manufacture, sale and servicing of textile machinery and components. As of the end of 2018, its total assets were EUR 105.6 million and its net assets were EUR 38.2 million. Revenue was EUR 154.5 million. Operating profit was EUR 13.9 million. Net profit was EUR 11.8 million.

## - Saurer Switzerland

As of the end of 2018, Saurer Intelligent Machinery owned 100 % of its equities. Its registered capital is CHF 1.0 million. It is mainly engaged in the manufacture, sale and servicing of textile machinery. As of the end of 2018, its total assets were CHF 236.6 million, and its net assets were CHF 117.0 million.

## - Saurer Switzerland Technology

As of the end of 2018, Saurer Intelligent Machinery owned 100 % of its equities. Its registered capital is CHF 1.0 million. It is mainly engaged in management, and the manufacture, sale and servicing of textile machinery. As of the end of 2018, its total assets were CHF 185.7 million, and its net assets were CHF 85.1 million. Revenue was CHF 20.5 million. Operating profit amounted to CHF 54.1 million. Net profit was CHF 45.6 million.

## - Saurer Jiangsu

As of the end of 2018, Saurer Intelligent Machinery owned 100 % of its equities. Its registered capital is USD 50.0 million. It is mainly engaged in the manufacture, sale and servicing of textile machinery. As of the end of 2018, its total assets were RMB 3151.9 million, and its net assets were RMB 1048.9 million. Revenue was RMB 2 286.4 million. Operating profit was RMB 332.1 million. Net profit was RMB 289.7 million.

## - Saurer Changzhou

As of the end of 2018, Saurer Intelligent Machinery owned 100 % of its equities. Its registered capital is USD 22.5 million. It is mainly engaged in the manufacture, sale and servicing of textile machinery. As of the end of 2018, its total assets were RMB 748.2 million, and its net assets were RMB 258.5 million. Revenue was RMB 501.3 million. Operating profit was RMB 58.3 million. Net profit was RMB 51.7 million.

### 3 The Company's future development

#### (1) Competitive landscape and outlook

The pace of global economic growth slowed down in 2018, according to estimates by the International Monetary Fund (IMF), but the major textile-producing nations all continued to experience steady growth. The Indian economy grew at a rate of 7.3% in 2018, while the US and Eurozone grew by 2.9% and 1.9%, respectively. Due to macroeconomic factors and political uncertainty, the Turkish economy grew by 3.5% in 2018, compared with 7.5% in the previous year. China's economy was put under pressure both at home and abroad, while at the same time the country continued to optimise its economic structure. The high-tech and equipment manufacturing industry grew faster than the general economy. Energy consumption per unit of GDP dropped by 3.1%, indicating efficiency improvements.

In 2018, with China's national strategy and various industrial policies continuing to advance, two major opportunities arose for the textile machinery industry – industrial transfer and technological upgrading.

In terms of industrial transfer, the Xinjiang regional policies that support the development of the textile industry remain in effect with no major changes. According to data from China's National Bureau of Statistics, Xinjiang's cotton production in 2018 was 5 111 000 tonnes, accounting for 83.8% of the country's total. With this policy support, more and more enterprises have discovered the advantages of textile industry development in Xinjiang Province, and there was a steady trend to transfer the textile industry to the western region. In addition, the "One Belt, One Road" initiative further promotes China's ties with other textile nations.

As for technological progress, the Internet of Things (IoT) and automation technology are widely recognised as the major trends in the manufacturing industry. The demand for automation and intelligent technologies for the textile enterprises is urgent, since labour costs continue to increase and customer needs are diversifying. In addition, the reduction of emissions and of energy consumption are required by China's national macroeconomic policies and an inevitable development trend of the industry. Textile enterprises attach more and more importance to environmental protection in their production process. In addition to energy saving, textile companies also recycle production materials to reduce costs and improve profits.

In 2019, China plans to introduce a series of tax- and fee-reduction policies, focused on reducing the tax burden on the manufacturing industry. The current 16% VAT rate for manufacturing and other industries will be reduced to 13%, and reforms in the electricity market are aimed at lowering the average electricity price for general industrial and commercial use by an additional 10%. In addition to raw material prices, the growth of GDP, population and per capita income are the most important driving forces for the development of the textile industry. The reduction of electricity costs and taxes is expected to enhance investor confidence in the Chinese textile sector.

In summary, the smooth transition of China's economic environment as well as tax and fee reduction are expected to positively influence the profits of textile machinery enterprises. With the accelerated transfer of the textile industry to the western region and the steady advancement of the "One Belt, One Road" initiative, industrial development oriented towards high technology and low-energy consumption will offer multiple opportunities for the Company.

#### (2) Strategy

##### (a) Adapt and integrate industrial production

To enhance operational efficiency, the Company's main business activities in Europe will focus on product R&D and the manufacture of key components, as well as the assembly of certain high-end products. In procurement, the Company will exploit the strength of the local Chinese market and proceed with plans to integrate the supply chain as a basis for ensuring product quality. Together with the transfer of production to Asia, selecting high-quality suppliers in China, India and other lower-cost regions will gradually decrease reliance on purchasing parts from Europe.

##### (b) Continue to expand the business

The Company continues to strengthen its R&D efforts, using its pioneering spirit in developing innovative and cutting-edge technologies and its worldwide customer base to expand business into other uncovered sectors in the textile industry. For example, the new air-spinning machine Autoairo, which will be launched mid 2019, will open new markets in the textile industry for the Company. The area of glass filament yarns offers major growth opportunities beyond textile. Global demand for LCD screens, smartphones and electric vehicles is still high, contributing to a stable position of the glass filament industry globally.

- (c) Innovation based on the E<sup>3</sup>-Triple Added Value concept  
 With more than 440 R&D experts around the world and 1500 registered patents, Saurer enjoys the highest level of R&D and technical innovation in the area of smart textile solutions. The Company aims not only to enhance ergonomic applications and to make operations more efficient, but also to reduce the energy consumption of its equipment and to improve the working environment for operators. The Company will strengthen its focus on finding solutions that reduce waste and consumption of resources and increase machine intelligence to improve quality and output. The Company aims at becoming more dynamic through cooperation with Industry 4.0 experts and specialists in other relevant areas or through M&A, enhancing its development capabilities and aligning its operations and offerings with trends in automation, digitisation and "smart" development.
- (d) Improve sales of components and increase service revenue  
 Saurer's sales of components and services is focused mainly on customers who already use its machinery and equipment, but some components have broader appeal. The steady growth in sales of the Company's traditional products has boosted its inventory of intelligent equipment. Since sales of parts and services – with their relatively high margins – are recession-proof and enhance customer loyalty, increasing the Saurer market share in this sector is an important part of the Company's future development strategy.

### (3) Operating plan

- (a) Customer focus (Market-in approach)  
 The Company will continue to increase its focus on customers and provide them with both functional and profitable products and responsive service. The Company will offer more training centres and related courses to provide customers and their employees with practical training. While helping customers to better utilise its products, the Company aims to improve/refine its understanding of customer's production processes and will support clients to improve their operations.
- (b) Innovative product development  
 The Company will continue to invest in R&D, closely follow customer needs and improve product performance accordingly, and launch new products. The Company also plans to consolidate its position as a leading global supplier of high-end technology solutions.
- (c) Stable growth of market share  
 The Company will actively expand and develop new markets through an accurate grasp of changes in market development, effectively and efficiently adjusting sales strategies while stabilising existing markets. The start of production in the Saurer Xinjiang Factory in 2018 helps the Company to further expand into emerging markets along the "One Belt, One Road" route.
- (d) Systematic and effective cost control  
 The Company continues to implement its industrial redistribution and integration plan, increase the proportion of procurement from low-cost countries and pursue the gradual shift of production lines from higher-cost areas and regions to lower-cost areas. This will systematically and effectively reduce the cost of production.
- (e) Corporate social responsibility  
 The Company actively practises its corporate social responsibility in several ways. It will continue to promote the concept of E<sup>3</sup> – Triple Added Value for its products, improving product performance indicators in terms of energy savings, economic benefits and ergonomics. With respect to social issues, the Company will actively take up and implement the Chinese government's strategic policy on poverty alleviation. The Company offers numerous employee benefits such as vocational training or further education to enhance personal skills and actively cares for their health and safety.

**(4) Potential risks****(a) Economic risks**

Fluctuation in demand resulting from slow economic growth may occur from time to time. Textile products are consumer goods, and personal income level and future expectations of income may influence the purchase of textile products, such as garments and home textile products. Slow economic growth or inflation decreases the purchasing power of consumers, and adversely affects industrial growth.

**(b) Risks to competitive advantage**

The pace of product updates and technology upgrades in the textile industry is accelerating constantly. If Saurer cannot maintain its capability to innovate, improve its level of technology, protect IP (intellectual property) rights, acquire excellent talent, expand its share of high-quality customers, increase the scale of its business and improve its risk resilience, accurately grasp industrial trends and adjust its corporate strategies in a timely manner by making the most of its own advantages, the Company will not be able to maintain its competitive advantage, which would adversely affect its business.

**(c) International business risks**

Saurer's production sites and sales organisations are distributed across 12 countries around the world. Owing to the nature of global operations, the overseas business risks faced by Saurer during its daily operations include those relating to management, investment decisions, politics, terrorism and other risks, including those that might result from regional cultural differences.

**(d) Production safety risks**

Saurer's main products include intelligent textile equipment and key components. The production processes involve complex procedures that are dangerous to some extent. Although Saurer has formulated a relatively comprehensive set of guidelines and protocols, including rules and operational directives on manufacturing safety, to promote industrial safety, it is impossible to preclude personal injury or even death due to operational error or accidents during production activities. Such events can result in a suspension of business, and also in the Company being subject to penalties that affect daily operations and safety.

**(e) Foreign exchange fluctuation risks**

Saurer's production and sales are distributed across different countries and regions of the world and involve the settlement of different currencies, including among others USD, EUR and RMB. Because foreign exchange rate fluctuations are unpredictable, they may represent risks for Saurer's future operations, which in turn could affect business and profitability, as well as draw the attention and concern of investors to such risks.

# 5. Significant events

## 1 Proposed plan for distribution of profit to common shareholders or capital reserve

### (1) Formulation, implementation or adjustment of cash dividend policies

#### (a) Formulation or adjustment of cash dividend policies

During the reporting period, the Company did not formulate any new cash dividend policies, nor were the cash dividend policies adjusted as stipulated in the Articles of Association. Please refer to the Articles of Association for the specific content of the cash dividend policies.

#### (b) Implementation of cash dividend policies

During 2018, the Company implemented the annual profit distribution plan for 2017 in accordance with a resolution passed at the Annual General Meeting (AGM) in 2017. Based on the total number of shares of 1895412995, cash dividends amounting to RMB 0.1 (before tax) for every ten shares (to a total of RMB 18954129.95 (before tax)) were distributed to all shareholders. There were no other forms of profit distribution and capital reserve converted into share capital.

The Company's profit distribution plan for 2017 was in accordance with the Articles of Association and the relevant laws and regulations such as the Guideline 3 for Supervision of Listed Companies – Cash Dividend of Listed Companies issued by China Securities Regulatory Commission and the Guidelines for Cash Dividends of Listed Companies on the Shanghai Stock Exchange. After review and approval by the Board of Directors, the Independent Directors expressed their opinions and gave their approval. After review and implementation by the AGM, related decision-making and implementation were legal and effective.

#### (c) Profit distribution plan for 2018

Proposed profit distribution plan for 2018: based on the total number of shares of 1895412995, cash dividends amounting to RMB 1.293 (before tax) for every ten shares (to a total of RMB 245076900 (before tax)) were to be distributed to all shareholders. There were no other forms of profit distribution and capital reserve converted into share capital.

**(2) Plan or proposed plan for distribution of profit to common shareholders or capital reserve over the last three years (including the reporting period)**

<b>Dividend year</b>	<b>Stock dividend per 10 shares</b>	<b>Cash dividend per 10 shares (yuan, before tax)</b>	<b>Capital reserve transferred into share capital per 10 shares</b>	<b>Amount of cash dividend (before tax)</b>	<b>Net profit attributable to shareholders of the Listed Company in the consolidated financial statements for the year of dividend distribution</b>	<b>Percentage of net profit attributable to the shareholders of the Listed Company in the consolidated financial statements (%)</b>
2018	0	1.293	0	245 077	810 294	30.24
2017	0	2.829	0	203 376	658 327	30.89
2016	0	0	0	0	-227 994	0

Unit: thousand RMB

## 2 Fulfilment of commitments

### (1) Commitments of the actual controller, shareholders, affiliates, purchaser and related parties of the Company in the reporting period or renewal period

Commitment background	Commitment type	Committer	Commitments
Restricted sale of shares		Jinsheng Group, state-owned company	From the date of issuance by the Shanghai Stock Exchange of the acknowledgement in respect of the transfer of shares to the expiration of 6 months after the completion of the transfer of shares, the parties shall not reduce the shares of the Listed Company. For details, please refer to the "Announcement of Xinjiang Urban Construction (Group), Co. Ltd on Letter of Promise on Contractual Transfer of Shareholder's Shares" (ad hoc 2017-090) published on the Shanghai Stock Exchange website on 26 September 2017.
Restricted sale of shares		State-owned company	1. Within 36 months after the completion of restructuring, the remaining shares of the Listed Company shall not be transferred. 2. For the remaining shares of the Listed Company, the shares derived from the Listed Company's distribution of the stock dividends, capital reserve and the increase of share capital shall also comply with the above commitments. 3. If the applicable laws and regulations provide otherwise for the restricted sale period for the remaining shares of the Listed Company held by the state-owned company, or the CSRC has other requirements, the state-owned company shall comply with such regulations or requirements. If the state-owned company is in breach of the said commitments, it shall bear the corresponding legal liabilities, and indemnify the Listed Company or investors for any and all losses caused thereby as according to the law.
Restricted sale of shares		Jinsheng Group	The newly issued shares of the Listed Company subscribed by Saurer Intelligent Machinery shall not be transferred within 36 months after completion of issuance.
Restricted sale of shares		Jinsheng Group	1. The shares of the Listed Company assigned by Jinsheng Group from the state-owned company shall not be transferred within 36 months after completion of the restructuring. 2. Within 6 months after completion of the restructuring, if the closing price of the shares of the Listed Company is lower than the issuing price for 20 consecutive business days, or if at the end of 6 months after completion of the restructuring the closing price is lower than the issuing price, the lock-up period of the shares of the Listed Company obtained due to the said restructuring (including the shares obtained resulting from assignment and issuance, similarly hereinafter) shall be automatically extended for 6 months. 3. Upon expiration of the said lock-up period, if the results commitment period as specified in the Results Commitment and Compensation Agreement signed by Jinsheng Group for the purpose of restructuring has not expired, or the obligations for shared compensation under the Results Commitment and Compensation Agreement have not been completed, the said lock-up period shall be extended to the date of expiration of the results commitment period and the date of completion of the share compensation obligations (if it is not necessary to provide compensation, then it shall be the date of release of the announcement on the special auditing report on the committed results). 4. Shares of the Listed Company acquired by restructuring, shares derived from distribution of dividends and capital reserve converted to equities etc. shall also comply with the above commitments. 5. If the applicable laws and regulations otherwise specify the restriction period for the shares of the Listed Company obtained by Jinsheng Group, or the CSRC has other requirements, Jinsheng Group shall comply with such regulations or requirements. If Jinsheng Group is in breach of the said commitments, it shall bear the corresponding legal liabilities, and indemnify the Listed Company or investors for any and all losses caused thereby according to law.
Restricted sale of shares		Guokai Finance, Zhao Hongxiu, Jinbuer, Jiangsu Huatai, Hehe Investment, Shenzhen Longding, Advanced Manufacturing Industry Investment Fund, Huashan Investment, Shanghai Yongjun, Ningbo Yukang, Tibet Jiaze, Hezhong Investment, Shanghai Jinye, Shanghai Hongcheng, Beijing Zhongtai, Nanjing Daofeng	1. If, upon completion of issuance, the Committer holds the equities of Saurer Intelligent Machinery for less than 12 months (subject to those as at the date upon completion of the industrial and commercial registration), the Committer shall not transfer the shares as issued by the Listed Company and subscribed by the Committer in such shares within 36 months after completion of issuance. If, upon completion of issuance, the Committer holds the shares of Saurer Intelligent Machinery for 12 months or more (according to the date of completion of the industrial and commercial registration), the Committer shall not transfer the shares as issued by the Listed Company and subscribed by the Committer in such shares within 24 months after completion of issuance. 2. Within 6 months after completion of the restructuring, if the closing price of the shares of the Listed Company is lower than the issuing price for 20 consecutive business days, or if at the end of 6 months after completion of the restructuring the closing price is lower than the issuing price, the lock-up period of the shares of the Listed Company obtained by the Committer due to issuance shall be automatically extended for 6 months. 3. For the shares of the Listed Company obtained by the Committer from issuance, shares derived from distribution by the Listed Company of dividends and capital reserve converted to equities etc. shall also comply with the above commitments.

Commitment relating to the restructuring of significant assets

Commitment date and period	Fulfilment period	Was the commitment fulfilled in a timely manner?	If not fulfilled in a timely manner, state the specific reasons for non-fulfilment	If not fulfilled in a timely manner, state the next applicable plan
Up to 6 months after completion of transfer of shares	Yes	Yes		
Within 36 months after completion of restructuring	Yes	Yes		
Within 36 months after completion of issuance	Yes	Yes		
Within 36 months after completion of restructuring	Yes	Yes		
Within 24 or 36 months after completion of issuance	Yes	Yes		

Commitment background	Commitment type	Committer	Commitments
Commitment relating to the restructuring of significant assets	Other	Jinsheng Group, Pan Xueping	<p>After completion of the transaction, Jinsheng Group, as the controlling shareholder of the Listed Company, and Pan Xueping, as the actual controller, are committed to ensuring the following: I. Guarantee that the staff of the Listed Company are independent. 1. The Senior Officers of the Listed Company (CEO, COO, CFO, Board Secretary etc.) shall work in the Listed Company, and receive remuneration from the Listed Company, and shall not act in any position other than Director or Supervisor in any enterprises other than the Listed Company and its subsidiaries as controlled by the Committer ("Committer's Controlled Other Enterprises"). 2. The financial staff of the Listed Company shall not hold a concurrent office in or receive salaries from the Committer/Committer's Controlled Other Enterprises. 3. The personnel relationship and labour relationship of the Listed Company shall be independent of the Committer/Committer's Controlled Other Enterprises. 4. The Directors, Supervisors and Senior Officers of the Listed Company are elected, replaced, dismissed, employed or removed according to the applicable laws and regulations and the Company's Articles of Association. The Committer will not interfere in personnel appointments or the dismissal of the above persons by exceeding the powers of the Board of Directors and the AGM of the Listed Company. II. Guarantee that the assets of the Listed Company are independent. 1. The Listed Company has independent and complete assets, and such assets are completely under the control of the Listed Company, and are independently owned and operated by the Listed Company. 2. The Committer/Committer's Controlled Other Enterprises will not illegally occupy the funds and assets of the Listed Company in any form. 3. No guarantees shall be provided to the Committer or the Committer's Controlled Other Enterprises for their violation by using the assets of the Listed Company. III. Guarantee that the organisations of the Listed Company are independent. 1. The Listed Company establishes and improves corporate governance structures in accordance with the law, and establishes an independent and complete organisational structure that is completely separate from the organisations of the Committer/Committer's Controlled Other Enterprises. 2. The Listed Company and the Committer/Committer's Controlled Other Enterprises are separate in terms of office organisation and production and place of operation, and do not mix in any circumstances. IV. Guarantee that the business of the Listed Company is independent. 1. The Listed Company has the assets, staff and qualifications to independently conduct its own business activities, and has the ability to independently operate in the market. 2. Except when relevant rights are exercised in accordance with applicable laws and regulations and the Listed Company's Articles of Association, it will not interfere in the operations of the Listed Company by exceeding the powers of the Board of Directors and the AGM and the management of the Listed Company. 3. The Committer will regulate and try its best to reduce related-party transactions with the Listed Company. For the related-party transactions that cannot be avoided or that are necessary, it will establish transaction conditions according to fair and reasonable market principles. For the related-party transactions, the Listed Company will strictly carry out decision-making procedures and fulfil information-disclosure obligations in a timely manner, according to the applicable laws and regulations and the Articles of Association of the Listed Company, and the management rules for related-party transactions. V. Guarantee the financial independence of the Listed Company. 1. The Listed Company shall establish an independent finance and accounting department, and establish independent financial accounting systems and financial management systems. 2. The Listed Company shall open a separate bank account, and will not share any bank account with the Committer or the Committer's Controlled Other Enterprises. 3. The Listed Company will make its financial decisions independently. The Committer will not interfere in the use of the funds of the Listed Company by exceeding the powers of the Board of Directors and the AGM and the operational management of the Listed Company. 4. The Listed Company shall pay taxes legally and independently. If the Committer is in breach of the said commitments, it shall bear the corresponding legal liabilities, and indemnify the Listed Company or investors for any and all losses caused thereby as according to the law.</p>
	Settlement of related-party transactions	Jinsheng Group, Pan Xueping	<p>1. The Committer will try its best to reduce related-party transactions between the Committer and the Committer's Controlled Other Enterprises and the Listed Company. For any related-party transactions that cannot be avoided or that are necessary, it will establish transaction conditions according to fair and reasonable market principles. For related-party transactions, the Listed Company will strictly perform its decision-making procedures and fulfil its information disclosure obligations in a timely manner, according to the applicable laws and regulations and the Articles of Association of the Listed Company, and the management rules for related-party transactions. 2. The Committer and the Committer's Controlled Other Enterprises will not illegally occupy the funds and assets of the Listed Company in any form, and no guarantees shall be provided to the Committer and the Committer's Controlled Other Enterprises for their violation by using the assets of the Listed Company. 3. The Committer will exercise its rights and perform its obligations according to the applicable laws and regulations and the Articles of Association of the Listed Company, and will not use the control and influence to impair the legal rights and interests of the Listed Company and other shareholders by means of the related-party transactions. If the Committer is in breach of the said commitments, it shall bear the corresponding legal liabilities, and indemnify the Listed Company or investors for any and all losses caused thereby according to law.</p>
	Other	Jinsheng Group, Pan Xueping	<p>After completion of the restructuring, the Committer will strictly comply with the provisions of the "Notice on Numerous Issues about Regularising the Funds between the Listed Company and Related Parties and External Guarantee of the Listed Company" and the "Notice on Regularising the External Guarantee of Listed Companies", and will not occupy the funds of the Listed Company and its controlled subsidiaries nor regularise the external guarantee of the Listed Company and its controlled subsidiaries. If the Committer is in breach of the said commitments, it shall bear the corresponding legal liabilities and indemnify the Listed Company or investors for any and all losses caused thereby according to law.</p>

Commitment date and period	Fulfilment period	Was the commitment fulfilled in a timely manner?	If not fulfilled in a timely manner, state the specific reasons for non-fulfilment	If not fulfilled in a timely manner, state the next applicable plan
Long term	No	Yes		
Long term	No	Yes		
Long term	No	Yes		

Commitment background	Commitment type	Committer	Commitments
Commitment relating to the restructuring of significant assets	Other	Jinsheng Group, Pan Xueping	1. After completion of the transactions, the Committer will not interfere in the operational and management activities of the Company, nor seize the interests of the Company, by exceeding its powers. 2. The Committer is aware of the legal consequences that may arise from the said commitments, and the Company will bear the joint and several liabilities for violation of the said commitments.
	Other	Hezhong Investment and its partners, Hehe Investment and its partners, Jinbuer and its partners, Ningbo Yukang and its partners, Shenzhen Longding and its partners	1. The Committer, as the partner of Hezhong Investment/Hehe Investment/Jinbuer/Ningbo Yukang/Shenzhen Longding (including the limited partner and general partner), is committed to ensuring that within the lock-up period of the shares of Hezhong Investment/Hehe Investment/Jinbuer/Ningbo Yukang/Shenzhen Longding, it will not transfer any assets of the partners held by the Committer. 2. Hezhong Investment/Hehe Investment/Jinbuer/Ningbo Yukang/Shenzhen Longding and their general partners are further committed to ensuring that within the lock-up period of the shares of the partners, it will not handle the formalities for transfer of properties for the partners. 3. If the Committer is in breach of the said commitments, it shall bear the corresponding legal liabilities, and indemnify the Listed Company or investors for any and all losses caused thereby as according to the law.
	Guarantee and compensation of value of assets purchased	Jinsheng Group, Hezhong Investment, Hehe Investment and Jinbuer	The Committer is committed to ensuring that, in the year when the restructuring is completed and for two entire accounting years thereafter, i.e. 2017, 2018 and 2019, the net profits attributable to the owners of the parent company as realised by Saurer Intelligent Machinery (according to the consolidated statements, net of the non-recurring profits and losses, similarly hereinafter) shall not be less than RMB 583 million, RMB 766 million and RMB 1003 million, respectively, and the total shall not be less than RMB 2352 million.
	Guarantee and compensation of value of assets purchased	Pan Xueping	Pan Xueping, as the controlling shareholder of Jinsheng Group, is unconditionally and irrevocably committed to bearing the unlimited joint and several guarantee liabilities to Jinsheng Group for the results compensation obligations under the results compensation agreement.
Other commitments	Settlement of industrial competition	Jinsheng Group, Pan Xueping	1. As at the date of issuance of this commitment letter, the Committer has not invested in any company, enterprise or other operating entities that are identical or similar to Saurer Intelligent Machinery; and the Committer and the Committer's Controlled Other Enterprises will not operate for themselves or on behalf of others any business that is identical or similar to that of Saurer Intelligent Machinery, and there is no industrial competition against Saurer Intelligent Machinery. 2. After completion of the restructuring, during the period when the Committer acts as the controlling shareholder/actual controller of the Listed Company, it will not engage in any business that is competitive with that of the Listed Company currently or in the future in any form. 3. After completion of the restructuring, during the period when the Committer acts as the controlling shareholder/actual controller of the Listed Company, if the Committer's Controlled Other Enterprises plan to engage in any business that is competitive with that of the Listed Company, the Committer will exercise its veto power in order to ensure that they are not engaged in any direct or indirect competition against the Listed Company. If there is any commercial opportunity that is related to the scope of business of the Listed Company, the Committer will first assign or introduce it to the Listed Company. 4. After completion of the restructuring, during the period when the Committer acts as the controlling shareholder/actual controller of the Listed Company, if the Listed Company changes its scope of business, thereby causing any competition against the Committer and the Committer's Controlled Other Enterprises, the Committer will (and will ensure that the Committer's Controlled Other Enterprises will) take the following measures to eliminate the competition: stop operating the business that is competitive with that of the Listed Company; transfer the competitive business to the Listed Company; or transfer the competitive business to any unrelated third parties. 5. The Committer will not provide any confidential information relating to the business of the Listed Company to any third parties, or assist any third parties in engaging in any business competing with that of the Listed Company, by using its control or influences over the Listed Company. 6. If the Committer is in breach of the said commitments, it shall bear the corresponding legal liabilities and indemnify the Listed Company or investors for any and all losses caused thereby as according to the law.
	Other	Jinsheng Group	Within 12 months from 7 December 2017, through the centralised auction trading system of the Shanghai Stock Exchange, according to fluctuations of the company's share price and the overall trend of the capital market, the Company will increase its holdings of the Company's shares at a total amount of not less than RMB 150 million and at a percentage of not more than 2% of the current total share capital. For details, please refer to the Saurer Announcement on Future Shareholding Increase Plan by the Controlling Shareholder, the Supplementary Announcement on Future Shareholding Increase Plan by the Controlling Shareholder, the Announcement on Revision of Shareholding Increase Plan and Continuance of Shareholding Increase by the Controlling Shareholder and the Announcement on Completion of Shareholding Increase Plan by the Controlling Shareholder (ad hoc announcements 2017-107, 2017-109, 2018-025, 2018-055) released on the Shanghai Stock Exchange website 7 December 2017, 8 December 2017, 15 June 2018 and 8 December 2018, respectively.

Commitment date and period	Fulfilment period	Was the commitment fulfilled in a timely manner?	If not fulfilled in a timely manner, state the specific reasons for non-fulfilment	If not fulfilled in a timely manner, state the next applicable plan
Long term	No	Yes		
Within 36 months after completion of issuance	Yes	Yes		
2017, 2018, 2019	Yes	Yes		
2017, 2018, 2019	Yes	Yes		
Long term	No	Yes		
Within 12 months from 7 December 2017	Yes	Yes		

## (2) Earnings forecast

The Company and Jinsheng Group, Jinbuer, Hezhong Investment and Hehe Investment signed the Results Commitment and Compensation Agreement, a Supplementary Agreement to the Results Commitment and Compensation Agreement and a Supplementary Agreement II to the Results Commitment and Compensation Agreement. Jinsheng Group, Jinbuer, Hezhong Investment and Hehe Investment are committed to ensuring that the net profits attributable to the owners of the parent company in 2017, 2018 and 2019 as realised by Saurer Intelligent Machinery (according to the consolidated statements, net of the non-recurring profits and losses, similarly hereinafter) shall not be less than RMB 583 million, RMB 766 million and RMB 1003 million, respectively, and the total shall not be less than RMB 2352 million.

The Special Audit Report explaining the Difference between Actual Net Profit and Committed Net Profit (PwC Special Audit No. (2019) 2162) showed that the net profit attributable to the owners of the parent company realised by Saurer Intelligent Machinery less non-recurring gains and losses in 2018 was RMB 867 million, above RMB 766 million, resulting in a performance commitment completion rate of 113.20 %.

## (3) Completion of performance guarantee and its impact on impairment of goodwill

During the reporting period, the Company exceeded its performance commitments, with a performance commitment completion rate of 113.20 %. The Company uses the model of the present value of expected future cash flows to provide an impairment test to goodwill every year, and no sign of impairment was found in 2018.

## 3 Employment and dismissal of accounting firm

<b>Current employment</b>	
Name of domestic accounting firm	PwC Mainland China (special general partnership)
Remuneration of domestic accounting firm	512
Auditing years of domestic accounting firm	2 years

Unit: 10 thousand RMB

	<b>Name</b>	<b>Remuneration</b>
Internal control auditing accounting firm	PricewaterhouseCoopers	
	Zhong Tian CPAs Firm (special ordinary partnership)	220

## 4 Statements on the Integrity of the Company and its controlling shareholders and actual controller during the reporting period

During the reporting period, the Company and its controlling shareholders and actual controller acted in good faith, and have no large debts that are due and outstanding, as judged by the court.

## 5 Significant related-party transactions

### (1) Issues not disclosed in ad hoc announcements

Related-party transaction parties	Affiliation	Type of related-party transaction	Content of related-party transaction	Pricing principles of related-party transaction	Price of related-party transaction	Amount of related-party transaction	Same kinds of transactions (%)	Mode of settlement of related-party transaction	Market price	Reason for larger difference between the transaction price and the market reference price
Xinjiang Litai Silk Road Investment Co. Ltd	Shareholder's subsidiary	Sale of goods	Sale of machinery and equipment	Mark-up of costs	-	1 479 833	16.05	According to the agreement	-	-
Kuitun Litai Silk Road Investment Co. Ltd	Shareholder's subsidiary	Sale of goods	Sale of machinery and equipment	Mark-up of costs	-	548 255	5.95	According to the agreement	-	-
LT Textile International Co. Ltd	Shareholder's subsidiary	Sale of goods	Sale of machinery and equipment	Mark-up of costs	-	511 587	5.43	According to the agreement	-	-
Total					-	2 539 675	27.43		-	-

Unit: thousand RMB

Notes on related-party transactions: the Company makes disclosures in accordance with the provisions of the Trading Rules of the Shanghai Stock Exchange for stock listings.

## 6 Significant contracts and their implementation

### (1) Guarantees

#### (a) Information on external guarantees (excluding guarantees to subsidiaries)

Guarantor	Relationship between the guarantor and the Listed Company	Guarantee	Amount of guarantee	Signing date of guarantee	Guarantee start date	Guarantee end date	Type of guarantee	Completion of guarantee	Overdue guarantee	Overdue amount of guarantee	Counter-guarantee	Related-party guarantee	Relationship
None													

Total amount of guarantee incurred in the reporting period (excluding guarantees to subsidiaries) 0

Total balance of guarantee at the end of the reporting period (A) (excluding guarantees to subsidiaries) 0

#### (b) Guarantees provided to subsidiaries from the Company and its subsidiaries

Total amount of guarantees provided to subsidiaries in the reporting period 1 389 469 219

Total balance of guarantees provided to subsidiaries at the end of the reporting period (B) 2 216 634 725

#### (c) Total amount of guarantees provided (including guarantees provided for subsidiaries)

Total amount of guarantees provided (A + B) 2 216 634 725

Percentage of total amount of guarantee against net assets of the Company (%) 47.64

Including:

Amount of guarantee provided for shareholders, actual controllers and related parties (C) 0

Direct or indirect debt guarantees provided for guaranteed parties whose asset/liability ratio exceeds 70% (D) 2 313 316 495

Amount of total guarantee exceeding 50% of net assets (E) 0

Total amount of guarantee of C + D + E 2 313 316 495

Instructions on possible joint and several clearance liabilities for undue guarantees None

Instructions on guarantees 2018-011, 2018-026, 2018-028, 2018-035, 2018-038, 2018-043, 2018-044 and 2018-050

Unit: RMB

For details, please refer to ad hoc announcements

**(2) Cash asset management entrusted to others**

(a) Entrusted wealth management

(i) Overview of entrusted wealth management

Type	Source of funds	Amount entrusted	Outstanding balance	Unrecovered amount overdue
Wealth management bank products	Own funds	560000	0	0

Unit: 10 thousand RMB

(ii) Individual entrusted wealth management

Trustee	Entrusted wealth management product	Entrusted wealth management amount	Starting date of entrusted wealth management	Ending date of entrusted wealth management	Source of funds	Funds investment direction	Determination of remuneration	Annualised rate of return	Expected return (if any)	Actual return or loss	Actual recovery	Have statutory procedures been completed?	Is any entrusted wealth management planned in the future?	Accrual of impairment provision (if any)
Agri-cultural Bank of China	Principal guaranteed floating earning	110000	29.12.2018	02.01.2019	Own funds	Ben Li Feng Bu Bu Gao Open RMB wealth management product	Calculated per day	2%		25.3	Recovery of principal and interest	Yes	No	
Bank of Nanjing	Principal guaranteed earning	450000	27.02.2018	27.06.2018	Own funds	Zhu Lian Bi He – Ji Ji Wen Xin No. 1BB RMB wealth management product	Calculated per day	4%		5917.8	Recovery of principal and interest	Yes	No	
Bank of Nanjing	Principal guaranteed earning	450000	28.09.2017	27.02.2018	Own funds	Zhu Lian Bi He – Ji Ji Wen Xin No. 1BB RMB wealth management product	Calculated per day	3.5%		6558.9	Recovery of principal and interest	Yes	No	

Unit: 10 thousand RMB

## 7 Active corporate social responsibility

### (1) Corporate social responsibility

During the reporting period, the Company was actively engaged in multiple corporate social responsibility activities in many regions and countries.

(a) Focus on protection of the rights and interests of employees and building a corporate culture

Saurer is a people-oriented company and acts to protect the rights and interests of its employees by building constructive labour relations. The Company organises a range of professional training and team-building activities, and has established an atmosphere supporting the growth and development of talents. Around 60 employees of the Company working at the factory located in Übach-Palenberg in Germany are active in a programme that promotes equality in the work place. The Company has also set up a leadership development programme to prepare and train qualified managers for leadership roles.

(b) Focus on environmental protection

The Company's R&D is guided by the E<sup>3</sup> – Triple Added Value concept. This philosophy improves product performance indicators for energy saving, economic efficiency and ergonomics. This in turn lowers energy consumption, reduces raw material costs and makes production more efficient by lowering demand for labour. The Company also advocates the paperless office, and renders active assistance to local governments in Turkey in recycling and reusing of resources.

(c) Developing social sponsoring activities and practicing corporate social responsibility

The Company's social sponsoring activities in 2018 included assistance to Veermata Jijabai Technological Institute (VJTI) of India in installing audiovisual equipment and other facilities to offer students better learning conditions, and a donation to a school for children with intellectual disabilities located in Bursa, Turkey.

### (2) Environmental information

(a) Companies not on the list of major pollutant-discharging entities

The Company and its major subsidiaries are not listed as major pollutant-discharging entities by China's environmental protection department. The Company is engaged mainly in R&D and the production and sale of intelligent textile equipment and key components, and is not among industries that are responsible for heavy pollution. The major pollutants discharged by the Company include wastewater, waste gas, some waste residue and a certain amount of noise generated by the production processes. The Company strictly follows all laws and regulations related to environmental protection, and several of its locations are certified according to ISO 50001 energy management standard.

# 6. Changes in common shares and shareholders

## 1 Changes in common share capital

### (1) Table of changes in common share capital

No changes have occurred to the total number of common shares and the share capital of the Company during the reporting period.

## 2 Shareholders and actual controllers

### (1) Total shareholders

Total number of common shareholders at the end of the reporting period (persons)	73 591
Total number of common shareholders at the end of the last trading month before the disclosure date of the Annual Report (persons)	74 996
Total number of preferred shareholders with restored voting rights at the end of the reporting period (persons)	0
Total number of preferred shareholders with restored voting rights at the end of the last trading month before the disclosure date of the Annual Report (persons)	0

**(2) Top 10 shareholders and top 10 tradable shareholders  
(or holders of shares not subject to conditional sales)  
by the end of the reporting period**

(a) Top 10 shareholders

Name of shareholder	Increase or decrease during the period	Shares at the end of the reporting period	Ratio (%)	Shares subject to conditional sales	Pledged or frozen		Nature of shareholder
					Share status	Quantity	
Jiangsu Jinsheng Industry Co. Ltd	10743571	889759677	46.94	721247974	Pledged	804727808	Domestic non-state-owned legal person
China Development Bank Finance Co. Ltd	0	99675850	5.26	99675850	None	0	State-owned legal person
Zhao Hongxiu	0	74756888	3.94	74756888	None	74755000	Domestic natural person
Changzhou Kimble Investment Partnership Firm (limited partnership)	0	66450567	3.51	66450567	None	0	Other
Jiangsu Huatai Strategic Emerging Industry Investment Fund (limited partnership)	0	49688858	2.62	49688858	None	0	Other
Changzhou Hehe Investment Partnership Firm (limited partnership)	0	38513087	2.03	38513087	Pledged	38510000	Other
Shenzhen Longding Shuming Equity Investment Partnership Firm (limited partnership)	0	34886547	1.84	34886547	None	0	Other
China Advanced Manufacturing Industry Investment Fund (limited partnership)	0	33225283	1.75	33225283	None	0	Other
Urumqi State-owned Assets Operation (Group) Co. Ltd	0	30072467	1.59	0	None	0	State-owned legal person
Xie Jianyong	19196932	19196932	1.01	0	None	0	Domestic natural person

Unit: share

(b) Top 10 holders of shares not subject to conditional sales

Name of shareholder	Number of shares not subject to conditional sales	Type and number of shares	
		Type	Quantity
Jiangsu Jinsheng Industry Co. Ltd	168511703	RMB common shares	163511703
Urumqi State-owned Assets Operation (Group) Co. Ltd	30072467	RMB common shares	30072467
Xie Jianyong	19196932	RMB common shares	19196932
Central Huijin Investment Ltd	15129700	RMB common shares	15129700
Zhao Jingjing	8819824	RMB common shares	8819824
Wang Yu	8369683	RMB common shares	8369683
Liao Wei	7529287	RMB common shares	7529287
Agricultural Bank of China Limited – CSI 500 Index Exchange Traded Open-Ended Securities Investment Fund	6206383	RMB common shares	6206383
Shenzhen Dowell Capital Investment Management Co. Ltd – Dowell Capital Commodity I Private Placement Fund	5875100	RMB common shares	5875100
Yang Wenting	5334293	RMB common shares	5334293

### (3) Top 10 holders of shares subject to conditional sales, and the conditions for sale

No.	Name of holder of shares subject to conditional sales	Number of shares held	Condition for listing and trading of shares subject to conditional sales		Conditions of sale
			Tradable time	Newly added tradable shares	
1	Jiangsu Jinsheng Industry Co. Ltd	721 247 974	07.09.2020		Asset purchase via share issuance
2	China Development Bank Capital Co. Ltd	16 612 641	07.09.2020		Asset purchase via share issuance
2	China Development Bank Capital Co. Ltd	83 063 209	05.09.2019		Asset purchase via share issuance
3	Zhao Hongxiu	74 756 888	05.09.2019		Asset purchase via share issuance
4	Changzhou Kimble Investment Partnership Firm (limited partnership)	66 450 567	05.09.2019		Asset purchase via share issuance
5	Jiangsu Huatai Strategic Emerging Industry Investment Fund (limited partnership)	49 688 858	05.09.2019		Asset purchase via share issuance
6	Changzhou Hehe Investment Partnership Firm (limited partnership)	38 513 087	05.09.2019		Asset purchase via share issuance
7	Shenzhen Longding Shuming Equity Investment Partnership Firm (limited partnership)	34 886 547	05.09.2019		Asset purchase via share issuance
8	China Advanced Manufacturing Industry Investment Fund (limited partnership)	33 225 283	05.09.2019		Asset purchase via share issuance
9	Tibet Jiaze Venture Investment Firm	16 612 641	05.09.2019		Asset purchase via share issuance
9	Shanghai Yongjun Equity Investment Partnership Firm (limited partnership)	16 612 641	05.09.2019		Asset purchase via share issuance
9	Ningbo Yukang Equity Investment Centre (limited partnership)	16 612 641	05.09.2019		Asset purchase via share issuance
9	Huashan Investment Co. Ltd	16 612 641	05.09.2019		Asset purchase via share issuance

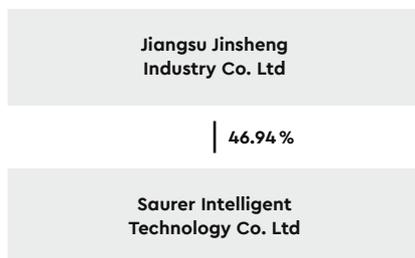
## 3 Controlling shareholder and actual controller

### (1) Controlling shareholder > 30 %

#### (a) Legal person

Name	Jiangsu Jinsheng Industry Co. Ltd
The person in charge or legal representative	Pan Xueping
Date of incorporation	25 December 2000
Principal businesses and operations	Manufacture of agricultural machinery, auto parts, electronic products (except satellite ground reception facilities), construction machinery and garments; sales of self-produced products; import, export and domestic wholesale of high-end CNC machine tools and key components; domestic procurement and wholesale of cotton, cotton yarn and textiles. (For projects that are subject to approval according to law, operating activities can only be carried out after the approval of the relevant department has been obtained.)
Shareholdings of other listed companies at home and abroad in the period	None
Other explanations	None

(b) Equity and controlling relationship between the Company and its controlling shareholder

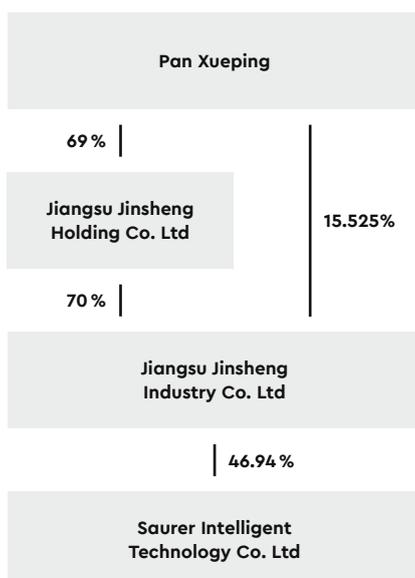


## (2) Actual controller

(a) Legal person

Name	Pan Xueping
Nationality	China
Is right of abode in other countries or regions obtained?	No
Occupation and job title	Chairman of the Board of Jiangsu Jinsheng Industry Co. Ltd
Control of domestic or foreign-listed companies in the past decade	None
Other explanations	None

(b) Equity and controlling relationship between the Company and its actual controller



# 7. Directors, Supervisors, Senior Executives and Employees

## 1 Shareholding changes and remuneration

### (1) Shareholding changes and remuneration of Directors, Supervisors and Senior Executives in service or leaving the Company during the reporting period

Name	Position (Note)	Gender	Age	Start of Tenure	End of Tenure	Shares held at beginning of the year	Shares held at end of the year	Share change in the year	Reason for change	Remuneration from related parties in reporting period
Pan Xueping	Chairman	Male	55	11.09.17	10.09.20	0	0	0	-	Yes
Stefan Kross	Deputy Chairman	Male	63	20.04.18	10.09.20	0	0	0	-	No
	Director			11.09.17	10.09.20					No
Clement Woon	Director	Male	59	11.09.17	10.09.20	0	0	0	-	No
	CEO			11.09.17	-					No
Ding Yuan	Director	Male	48	21.05.18	10.09.20	0	0	0	-	No
Yeung Kwok On	Director	Male	49	21.05.18	10.09.20	0	0	0	-	No
Guan Ye	Director	Male	48	21.05.18	10.09.20	0	0	0	-	No
	Chief Operating Officer			11.09.17	-					No
Guido Spix	Independent Director	Male	55	21.05.18	10.09.20	0	0	0	-	No
Dominique Turpin	Independent Director	Male	61	21.05.18	10.09.20	0	0	0	-	No
Chen Jieping	Independent Director	Male	65	11.09.17	10.09.20	0	0	0	-	No
Xie Manlin	Independent Director	Male	55	11.09.17	10.09.20	0	0	0	-	No
Zhang Yueping	Chairman of the Board of Supervisors	Male	48	11.09.17	10.09.20	0	0	0	-	Yes
Jin Hao	Supervisor	Male	43	11.09.17	10.09.20	0	0	0	-	Yes
Liang Taifu	Supervisor	Male	37	21.05.18	10.09.20	0	0	0	-	Yes
Sheng Yiping	Supervisor	Male	42	21.05.18	10.09.20	163400	163400	0	-	No
Pei Guoqing	Supervisor	Male	51	11.09.17	10.09.20	0	0	0	-	No
Zeng Zhengping	Secretary to Board of Directors	Male	56	11.09.17	-	0	0	0	-	No
Lu Yimin	Chief Financial Officer	Female	45	29.11.17	-	0	0	0	-	No
Peter Moser	Chief Human Resources Officer	Male	57	11.09.17	-	0	0	-	-	No
Hans-Georg Haerter	Former Director	Male	73	21.05.18	31.12.18	0	0	0	-	No
Total	-	-	-	-	-	163400	163400	0	-	-

Unit: share

Name	Main work experience
Pan Xueping	Chairman of the Company, and Chairman and Chief Executive Officer of Jiangsu Jinsheng Industry Co. Ltd. Mr. Pan also serves as Vice-President of the China Textile Machinery Association, China Textile Engineering Society, China Textile Enterprise Association and Changzhou General Chamber of Commerce. Before founding Jiangsu Jinsheng Industry, Mr. Pan worked as General Manager of Steel Manufacturing Co. Ltd (affiliated to Pacific Group's Shanghai Textile Machinery Plant), Director and Secretary of the Party Committee of Jiangsu Jintan Textile Machinery Factory and Jintan Huajin Machinery Factory, and Chief Executive Officer of the Pre-spinning Division of Saurer in Switzerland.
Stefan Kross	Director of the Company. Mr. Kross was formerly Chief Operating Officer of Volkmann GmbH & Co. KG, member of the Board of W. Schlafhorst AG & Co., Chief Technology Officer of Spinning Solutions for Saurer GmbH & Co. KG, Chief Executive Officer of Oerlikon Barmag and Oerlikon Manmade Fibres Segment, and a member of the Oerlikon Executive Committee.
Clement Woon	Director and Chief Executive Officer of the Company. Mr. Woon previously worked at Oerlikon (Switzerland), SATS Ltd (Singapore) and Hexagon Metrology AB (Sweden). He formerly served as Chief Executive Officer of the Oerlikon textile machinery business, President and Chief Executive Officer of SATS Ltd and President of the geodetic surveying business of Leica Geosystems AG.
Ding Yuan	Director of the Company. Mr. Ding is also Vice President and Dean, Cathay Capital Chair Professor in Accounting at CEIBS; Independent Non-executive Director and Chairman of the Audit Committee of Red Star Macalline Group Co. Ltd; Independent Non-executive Director, Chairman of the Audit Committee, Member of the Nomination Committee and the Compensation Committee of Landsea Group; Independent Non-executive Director, Chairman of the Compensation Committee and Member of the Nomination Committee and the Audit Committee of Man Wah Holdings Limited; and Director of Jaccar Holdings. He was previously a Tenured Professor in the Faculty of Accounting and Management Control of HEC Paris, France, Independent Director and Chairman of the Audit Committee of Anhui Gujing Co. Ltd, Independent Director and Chairman of the Audit Committee of TCL Group, and Director and Chairman of the Audit Committee of Mag Industries Corp.
Yeung Kwok On	Director of the Company. Senior Management Consultant of Tencent Group, Dean of Qingteng University, President of Y-Triangle Organisation Learning Oasis, Visiting Professor in Management of CEIBS, Independent Non-executive Director of SITC International Holdings Co. Ltd and Country Garden Holdings Limited. He previously worked as Chief HR Officer of Acer Group, and as a senior consultant for companies including Alibaba, Taiwan Semiconductor Manufacturing Company, Mary Kay, ING Insurance, TCL-Thomson Electronics Corporation.
Guan Ye	Independent Director and Chief Operating Officer of the Company. Mr. Guan has worked in international companies including Ingersoll Rand, TI Automotive and P&G. He served as President of Ingersoll-Rand Fu Hsing Holdings Ltd, Director of Asia Pacific Operations for Ingersoll Rand Industrial Technologies and Ingersoll Rand Security Technologies, and Vice-President of TI Automotive (China).
Guido Spix	Independent Director of the Company. President, CTO, and COO of Multivac Inc. Mr. Spix previously held positions including Design Engineer, Machine Design Engineer, and Deputy General Manager of R&D Department in Truetzschler, Volkmann, and Oerlikon Textile Co. Ltd.
Dominique Turpin	Independent Director of the Company. Professor and Dean of External Relations at the International Institute for Management Development (IMD) in Lausanne, Switzerland. Member of the Advisory Committee of Waseda Business School (Japan); International Academy of Sport Science and Technology, ECAL and EHL (all Lausanne, Switzerland); and Editorial Consultant for Singapore Management Review. He served as IMD President in 2010-2016 and has rich experience in brand management, marketing and strategic development.
Chen Jieping	Independent Director of the Company. Mr. Chen is a Professor of Accounting at China Europe International Business School (CEIBS). He is also an Independent Non-executive Director of Shenzhen World Union Properties Consultancy Inc.; Jinmao (China) Hotel Investments and Management Ltd; HJ Capital (International) Holdings Co. Ltd; and Shanghai La Chapelle Fashion Co. Ltd. Mr. Chen was the Deputy Dean of CEIBS and Director of the EMBA course. Before joining CEIBS, he had 13 years of teaching experience at the City University of Hong Kong, serving as a Tenured Professor and head of the Accounting Department.
Xie Manlin	Independent Director of the Company. Mr. Xie is also the Director of the Jiangsu Xie Manlin Law Firm; Independent Director of Jiangsu NandaSoft Technology Co. Ltd and Nanjing Putian Telecommunications Co. Ltd; Legal Adviser to the Jiangsu Provincial People's Government and Nanjing Municipal People's Government; and Chief Supervisor of the Nanjing Bar Association. Mr. Xie was previously a lawyer at Nanjing Secondary Law Firm and Nanjing Jinling Law Firm, and an Independent Director of the Bank of Nanjing Co. Ltd.
Zhang Yueping	Chairman of the Board of Supervisors of the Company. Mr. Zhang is also the Co-Chief Executive Officer and President of Jiangsu Jinsheng Industry Co. Ltd. Mr. Zhang previously worked as Deputy General Manager and Executive Deputy General Manager of Jiangsu Jinsheng Industry, Executive Deputy General Manager of Saurer (Jintan) and Technical Director and Executive Deputy Director of Jintan Textile Machinery Factory. Mr. Zhang has extensive experience in both R&D and management. Before joining Jinsheng, he worked for the Jintan Diesel Engine plant under Changzhou Diesel Engine Group and was in charge of the design of processes and special process equipment, factory technical upgrading and technical management.
Jin Hao	Supervisor of the Company. Vice-President and Chief Legal Officer of Jiangsu Jinsheng Industry Co. Ltd. Mr. Jin has worked as a lawyer in a number of Chinese and foreign law firms.
Liang Taifu	Supervisor of the Company. Vice-President of Jiangsu Jinsheng Industry Co. Ltd (in charge of securities business). Mr. Liang previously worked as Deputy General Manager of Investment Banking Division I., Director and Sponsor Representative of China Merchants Securities Co. Ltd.
Sheng Yiping	Employee Supervisor of the Company and former Director of textile products of Saurer Jintan. Mr. Sheng has spent his career working in Saurer (Changzhou) Textile Machinery Co. Ltd. starting as an engineer in the assembly workshop and product design; project manager; Secretary of the General Manager; Executive Deputy General Manager; and now General Manager.
Pei Guoqing	Employee Supervisor of the Company and Deputy General Manager of Saurer (Changzhou) Textile Machinery Co. Ltd. Mr. Pei previously worked at Jiangsu Jintan Textile Machinery Factory and Jinsheng Industry Co. Ltd.
Zeng Zhengping	Secretary of the Board of Directors of the Company. Mr. Zeng was previously Chief Financial Officer of ZF Friedrichshafen AG (China) Investment Co. Ltd.
Lu Yimin	Chief Financial Officer of the Company. Ms. Lu previously worked at Jiangsu Jinsheng Industry Co. Ltd, where she served as Vice-President of the company and Chief Financial Officer of the Overseas Segment. She also worked for PwC China and PwC USA, holding the titles of M&A Consulting Director, Senior Manager and Manager.
Peter Moser	Chief Human Resources Officer of the Company. Mr. Moser formerly worked as Senior Vice President of Human Resources for Leica Geosystems (Switzerland). Prior to joining Saurer, he served as Executive Vice-President of Human Resources at Swissport International Ltd (Switzerland).

Note: the Company completed its expanded election of the Board of Directors and the Board of Supervisors in May 2018. Newly appointed Directors and Supervisors assumed office in the same month. Mr. Hans-Georg Haerter, Director of the Company, submitted his letter of resignation on 26 December 2018, which took effect on 31 December 2018.

## 2 Employment of Directors, Supervisors and Senior Executives in service or leaving the Company during the reporting period

### (1) Posts in the shareholding company

Name	Name of shareholding company	Position held	Start of Tenure	End of Tenure
Pan Xueping	Jiangsu Jinsheng Industry Co. Ltd	Chairman and Chief Executive Officer	12.2000	
Zhang Yueping	Jiangsu Jinsheng Industry Co. Ltd	Director and Deputy General Manager	12.2000	
Jin Hao	Jiangsu Jinsheng Industry Co. Ltd	Supervisor, Vice President, Chief Legal Officer	03.2013	
Liang Taifu	Jiangsu Jinsheng Industry Co. Ltd	Vice President	10.2015	
Pei Guoqing	Jiangsu Jinsheng Industry Co. Ltd	Supervisor	12.2000	

### (2) Posts in other entities

Name	Name of other entities	Position held	Start of Tenure	End of Tenure
Pan Xueping	Maigaiti Litai Silk Road Textile Co. Ltd	Executive Director and General Manager	08.2018	
Pan Xueping	Alaer Litai Silk Road Investment Co. Ltd	Chairman	05.2018	
Pan Xueping	Xinjiang Litai Silk Road Investment Co. Ltd	Chairman	04.2015	
Pan Xueping	Kuitun Litai Silk Road Investment Co. Ltd	Chairman	05.2015	
Pan Xueping	Litai Xingshi (Taicang) Holding Co. Ltd	Chairman	03.2015	
Pan Xueping	Jiangsu Jintan Zhonghe Investment Co. Ltd	Deputy Chairman	01.2015	
Pan Xueping	Taicang Litai Textile Factory Co. Ltd	Chairman	06.2008	
Pan Xueping	EMAG (China) Machinery Co. Ltd	Chairman	11.2010	
Pan Xueping	Litai Silk Road Holding Co. Ltd	Chairman	03.2015	
Pan Xueping	Heberlein Ceramic Materials Co. Ltd	Executive Director	01.2015	
Pan Xueping	Jiangsu Changjin Investment Co. Ltd	Chairman and General Manager	10.2009	
Pan Xueping	Jiangsu Jinsheng Asset Management Co. Ltd	Executive Director	10.2015	
Pan Xueping	Changzhou Jintan Changsheng Investment Co. Ltd	Chairman	11.2017	
Pan Xueping	KOEPFER (Changzhou) Transmission Technology Co. Ltd	Chairman	11.2013	
Pan Xueping	Xinjiang Jinsheng Enterprise Management Co. Ltd	Executive Director	04.2017	
Pan Xueping	Shanghai Shenglun Enterprise Management Co. Ltd	Executive Director	02.2018	
Zhang Yueping	Xinjiang Litai Silk Road Investment Co. Ltd	Director	04.2015	
Zhang Yueping	Litai Xingshi (Taicang) Holding Co. Ltd	Director	03.2015	
Zhang Yueping	EMAG (China) Machinery Co. Ltd	Director	11.2010	
Zhang Yueping	Taicang Litai Textile Factory Co. Ltd	Deputy Chairman	06.2008	
Zhang Yueping	Kuitun Litai Silk Road Investment Co. Ltd	Director	05.2015	
Zhang Yueping	Jiangsu Jintan Zhonghe Investment Co. Ltd	Chairman of the Board of Supervisors	01.2015	
Zhang Yueping	Changzhou Jintan Huamao Jinsheng Technology Development Co. Ltd	Chairman and General Manager	10.2010	
Zhang Yueping	Jiangsu Weier Technology Co. Ltd	Chairman and General Manager	09.2010	
Zhang Yueping	KOEPFER (Changzhou) Transmission Technology Co. Ltd	Director	11.2013	
Zhang Yueping	Taicang Litai Textile Technology Co. Ltd	Executive Director	05.2014	
Zhang Yueping	Litai Silk Road Holding Co. Ltd	Director	03.2015	
Zhang Yueping	Changzhou Jintan Changsheng Investment Co. Ltd	Director	11.2017	
Zhang Yueping	Jiangsu Fine Work Auto Parts Co. Ltd	Director	12.2006	
Zhang Yueping	Jiangsu Changjin Investment Co. Ltd	Director	10.2009	
Zhang Yueping	Xinjiang Jinsheng Enterprise Management Co. Ltd	General Manager	04.2017	
Zhang Yueping	Jiangsu Jinsheng International Trade Co. Ltd	Executive Director	06.2017	
Zhang Yueping	Alaer Litai Silk Road Investment Co. Ltd	Director	05.2018	
Jin Hao	Xinjiang Litai Silk Road Investment Co. Ltd	Supervisor	04.2015	
Jin Hao	Litai Xingshi (Taicang) Holding Co. Ltd	Supervisor	03.2015	

Name	Name of other entities	Position held	Start of Tenure	End of Tenure
Jin Hao	Kuitun Litai Silk Road Investment Co. Ltd	Supervisor	05. 2015	
Jin Hao	Jiangsu Jinsheng Asset Management Co. Ltd	Supervisor	10. 2015	
Jin Hao	Litai Silk Road Holding Co. Ltd	Supervisor	03. 2015	
Jin Hao	Heberlein Ceramic Materials Co. Ltd	Supervisor	01. 2015	
Jin Hao	Xinjiang Jinsheng Enterprise Management Co. Ltd	Supervisor	04. 2017	
Jin Hao	Jiangsu Jinsheng International Trade Co. Ltd	Supervisor	06. 2017	
Jin Hao	Alaer Litai Silk Road Investment Co. Ltd	Supervisor	05. 2018	
Ding Yuan	China Europe International Business School	Deputy Dean and Dean	09. 2006	
Ding Yuan	Landsea Group	Independent Non-executive Director	07. 2013	
Ding Yuan	Man Wah Holdings Limited	Independent Non-executive Director	-	
Ding Yuan	Adisseo Co. Ltd	Independent Non-executive Director	10. 2018	
Ding Yuan	Jaccar Holdings	Director	-	
Yeung Kwok On	China Europe International Business School	Visiting Professor	-	
Yeung Kwok On	Tencent Group	Senior Management Consultant	-	
Yeung Kwok On	SITC International Holdings Co. Ltd	Independent Non-executive Director	09. 2010	
Yeung Kwok On	Country Garden Holdings Limited	Independent Non-executive Director	04. 2014	
Guido Spix	Multivac Inc	President, Chief Technology Officer and Chief Operation Officer	-	
Dominique Turpin	Waseda Business School	Member of the Advisory Committee	-	
Dominique Turpin	International Academy of Sport Science and Technology, Lausanne, Switzerland	Member of the Advisory Committee	-	
Dominique Turpin	ECAL	Member of the Advisory Committee	-	
Dominique Turpin	Singapore Management Review	Editorial Consultant	-	
Chen Jieping	Shanghai La Chapelle Co. Ltd	Independent Non-executive Director	05. 2017	05. 2020
Chen Jieping	Shenzhen WorldUnion Properties Consultancy Incorporated	Independent Non-executive Director	09. 2016	09. 2019
Chen Jieping	HJ Capital (International) Holdings Company Limited	Independent Non-executive Director	07. 2014	07. 2020
Chen Jieping	Jinmao (China) Hotel Investment Management Co. Ltd	Independent Non-executive Director	03. 2014	03. 2020
Xie Manlin	Jiangsu Xie Manlin Law Firm	Director	12. 1994	
Xie Manlin	Nanjing Putian Telecommunications Co. Ltd	Independent Non-executive Director	08. 2017	08. 2020
Xie Manlin	Jiangsu NandaSoft Technology Co. Ltd	Independent Non-executive Director	06. 2011	12. 2020
Hans-Georg Haerter	Faurecia Group	Member of the Board of Supervisors	-	
Hans-Georg Haerter	Klingelberg GmbH	Member of the Board of Supervisors	-	

### 3 Remuneration of Directors, Supervisors and Senior Executives

Decision-making procedure	The annual payable remuneration of Directors, Supervisors and Senior Executives is proposed by the Remuneration and Nomination Committee and submitted to the Board of Directors for approval. The remuneration of Directors, Supervisors and Senior Executives shall also be examined and approved by the AGM if it is within AGM's approval scope.
Basis	Members of the 9th Board of Directors receive a Director's allowance from the Company. However, if a Non-independent Director holds a position in the Company, he will receive remuneration according to his post and will not be granted additional allowance. Members of the 9th Board of Supervisors receive a Supervisor's allowance from the Company. However, if a Supervisor holds a position in the Company, he will receive remuneration according to his post and will not be granted an additional allowance. Senior Executives of the Company receive remuneration according to the related personnel regulations for their posts, and the remuneration is composed of the base salary plus performance bonus.
Total remuneration actually received by the Directors, Supervisors and Senior Executives by the end of reporting period	RMB 364 874 000 (before tax)

## 4 Change in Directors, Superiors and Senior Executives

Name	Position	Change	Reason for change
Stefan Kross	Deputy Chairman	Elected	New appointment
Hans-Georg Haerter	Director	Elected	New appointment
Ding Yuan	Director	Elected	New appointment
Yeung Kwok On	Director	Elected	New appointment
Guan Ye	Director	Elected	New appointment
Guido Spix	Independent Director	Elected	New appointment
Dominique Turpin	Independent Director	Elected	New appointment
Liang Taifu	Supervisor	Elected	New appointment
Sheng Yiping	Supervisor	Elected	New appointment
Hans-Georg Haerter	Director	Left office	Resignation

## 5 Profile of employees of the parent company and main subsidiaries

### (1) Employees

Number of employees in service in parent company	19
Number of employees in service in main subsidiaries	4 724
Total number of employees in service	4 743
Number of retired employees to be covered by parent company and main subsidiaries	0

#### (a) Professional composition

Category of professional composition	Number of professionals
Production personnel	2 186
Procurement personnel	90
Warehousing and logistics personnel	273
Quality personnel	184
Customer service personnel	790
Sales personnel	324
R&D personnel	445
Management and administrative personnel	451
Total	4 743

#### (b) Educational background

Highest qualification received	Number of people
Master's degree or above	444
Bachelor's degree	811
Qualifications below university level	3 488
Total	4 743

### (2) Compensation policy

Saurer provides employees with compensation and social benefits competitive with the market. Annual performance bonuses are based on both individual performance and that of the Company. For employees with outstanding performance, the Company offers promotion as well as salary adjustments. The Company also provides long-term incentives for employees. In Europe, for example, in addition to contributions made to statutory pension schemes, the Company funds additional pension plans based on local labour market regulations. It also strives to motivate and retain employees in a number of different ways.

### (3) Training scheme

(a) Saurer has a training system to help employees acquire new knowledge and skills and grow their careers. In addition to regular multichannel employee communication, the Company has also established training and succession plans based on the identification of key talents and has put career development processes in place.

(b) The Company's employee training system includes onboard training and job skill training. Newly recruited employees grow and develop as they are given instructions and training by experienced staff, such as on-the-job training, technical skills training and appraisals and evaluations. The Company also arranges various industrial management training and opportunities for employees to exchange technical expertise, help them develop networks in the industry and enhance their business skills. These events raise employees' awareness and sense of pride in both the industry and the Company.

(c) During the reporting period, the Company has set up training programmes globally. Training expenses of the Spinning Solutions Segment and the Technologies Segment added up to RMB 11 000 000 and RMB 2 182 000 respectively, across their business units around the world.

### (4) Labour outsourcing

Total working hours of outsourced labour force	2 152 320
Total remuneration paid for outsourced labour force	RMB 181 988 795

# 8. Corporate governance report

## 1 Corporate governance

### (1) Corporate governance

During the reporting period, the Company amended the Articles of Association and the Implementation Details for the Special Committees of the Board of Directors based on the actual situation of the Company. These measures improved the corporate governance structure and standardised operations in strict accordance with the Company Law and Securities Law, the Code of Corporate Governance for Listed Companies and the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange. The Shareholders' General Meeting, the Board of Directors, the Board of Supervisors, the Special Committees of the Board of Directors and the Senior Executives of the Company did their part in accordance with the law to safeguard the interests of investors and the Company. Corporate governance is in line with the requirements of the Code of Corporate Governance for Listed Companies and other relevant regulations.

#### (a) Shareholders and Shareholders' General Meetings

During the reporting period, the Company convened and held shareholders' meetings in strict accordance with the relevant laws and regulations, the Articles of Association and the Rules of Procedure of the Shareholders' General Meeting. Matters given careful consideration included voting procedures, the equal treatment of all investors, effective protection of the legitimate rights and interests of small and medium-sized shareholders, as well as ensuring that every shareholder had the right to know and participate in company matters and exercise their voting rights in accordance with the law.

#### (b) Controlling shareholder and the Listed Company

During the reporting period, the controlling shareholder of the Company conscientiously performed its fiduciary duty, acted legally and in compliance, exercised its right as a shareholder at shareholders' meetings and did not directly or indirectly interfere with Company business activities and decision-making beyond the Shareholders' General Meeting and the Board of Directors.

#### (c) Directors and the Board of Directors

During the reporting period, the number of members and composition of the Board of Directors complied with all the relevant laws and regulations as well as the requirements of the Articles of Association. The Board of Directors carried out its work in strict accordance with all the relevant laws and regulations, the Articles of Association, the Rules of Procedure of the Board, the Work System for Independent Directors and the Implementation Details for the Special Committees of the Board of Directors. All Directors performed their duties in good faith and diligence and received related training. Independent Directors performed their duties independently to safeguard the overall interests of the Company and shareholders, and issued independent opinions on important and significant issues. The Strategy, Audit and Remuneration and Nomination Committees under the Board of Directors fulfilled their remits, providing adequate protection for the decision-making of the Board and thus reducing risks.

**(d) Supervisors and the Board of Supervisors**

During the reporting period, the number of members and composition of the Board of Supervisors complied with all the relevant laws and regulations, and the requirements of the Articles of Association. The Board of Supervisors carried out work in strict accordance with the relevant laws and regulations, the Articles of Association and the Rules of Procedure for the Board of Supervisors. They effectively supervised the Company's financial operations and ensured the lawful compliance of Directors and Senior Executives in the performance of their duties and acted to safeguard the overall interests of the Company and its shareholders.

**(e) Information disclosure management and investor relations management**

During the reporting period, the Company disclosed all information that might have had a significant impact on the production, operation and share price of the Company in a true, accurate, complete, timely and fair manner. This was done in strict accordance with the relevant laws and regulations, such as the Company Law and Securities Law, the Administrative Measures for the Disclosure of Information by Listed Companies and the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange. Disclosures included the provisions regarding company regulations, such as the Articles of Association, the Information Disclosure Management System, the Information Disclosure Delay and Exemption Business Management System and investor relations management. These disclosures were made to ensure full Company transparency and to warrant that all shareholders of the Company have equal access to company information. The Company attaches great importance to the management of investor relations and has strengthened its communication with investors through various channels such as the investor hotline, email, the Shanghai Stock Exchange's e-interaction platform and investor meetings or road shows. The Company values the opinions and suggestions of investors and safeguards the legitimate rights and interests of all investors.

**(2) Insider information registration management**

During the reporting period, the Company was in strict compliance with the relevant laws and regulations governing insider information and the Insider Registration Management System, as well as the registration and recording of relevant personnel involved with insider information about periodic Company reports, major asset restructuring and other relevant issues. During the reporting period, there was no occurrence of the use of insider information to buy or sell Company shares before the disclosure of material and sensitive information that might have affected the Company share price. No investigations were made of the Company by the regulatory authorities, and there were no requests made for any rectification during this period.

## 2 Extraordinary Shareholders' General Meetings and Annual Shareholders' General Meeting

Session	Date	Reference website	Disclosure date
First EGM in 2018	28.02.18	Website of Shanghai Stock Exchange (www.sse.com.cn), ad hoc 2018-007	01.03.18
AGM for 2017	21.05.18	Website of Shanghai Stock Exchange (www.sse.com.cn), ad hoc 2018-023	22.05.18
Second EGM in 2018	28.09.18	Website of Shanghai Stock Exchange (www.sse.com.cn), ad hoc 2018-045	29.09.18
Third EGM in 2018	17.12.18	Website of Shanghai Stock Exchange (www.sse.com.cn), ad hoc 2018-056	18.12.18

Note: the Company held one AGM and three EGMs during the reporting period. All proposals submitted by the Company's Board of Directors to the shareholders were approved at the AGM and EGMs.

### 3 Board matters

#### (1) Directors' attendance at board meetings and shareholders' meetings

Director name	Independent Director?	Attendance at board meetings							Attendance at shareholders' meetings
		Required number of board meetings for the year	Attendance in person	Attendance by correspondence	Represented by proxy	Absences	Two successive absences	Attendances	
Pan Xueping	No	7	7	5	0	0	No	4	
Stefan Kross	No	7	7	6	0	0	No	0	
Clement Woon	No	7	7	5	0	0	No	0	
Ding Yuan	No	4	4	3	0	0	No	0	
Yang Guo'an	No	4	4	3	0	0	No	0	
Guan Ye	No	4	4	3	0	0	No	1	
Guido Spix	Yes	4	4	3	0	0	No	0	
Dominique Turpin	Yes	4	4	3	0	0	No	0	
Chen Jieping	Yes	7	7	5	0	0	No	1	
Xie Manlin	Yes	7	7	5	0	0	No	1	
Hans-Georg Haerter	No	4	4	3	0	0	No	0	

Number of board meetings held in 2018	7
Including: number of on-site meetings	1
Number of meetings by correspondence	5
Number of on-site meetings combined with other methods of correspondence	1

#### 4 Important opinions and suggestions put forward by the Special Committees attached to the Board of Directors during the reporting period

During the reporting period, the Special Committees attached to the Board of Directors performed their duties conscientiously in accordance with the provisions of their respective work rules, actively and effectively supported the Company's standard operations and promoted the productive development of the Company. During the reporting period, the Special Committees raised no objections to any matters considered by the Board of Directors.

## **5 Establishment and implementation of the appraisal and incentive mechanisms for Senior Executives**

During the reporting period, the Company determined the remuneration for Senior Executives according to the existing plan, which was examined and approved by the Board of Directors. Senior Executives received their remuneration according to the relevant requirements for the positions held, and the remuneration was composed of base pay plus a performance bonus. The Company appraised the performance of Senior Executives based on completion of the Company's annual operating plan and the completion of personal work goals. All assessments were made objectively and correctly, and Company performance appraisal plans were co-implemented with the rules and regulations on incentives and penalties.

## **6 Disclosure of internal control self-assessment report**

In accordance with "The Basic Standard for Enterprise Internal Control" and other related internal control regulations, the Board of Directors assessed the effectiveness of the Company's internal controls in 2018. For details, please refer to the "Saurer Intelligent Technology 2018 Internal Control Evaluation Report" disclosed by the Company through the Shanghai Stock Exchange, the Securities Times, Securities Daily and Shanghai Securities News on 26 April 2019.

## **7 Audit report for the Company's internal control**

The Company employed PricewaterhouseCoopers (PwC) to provide an audit opinion on the effectiveness of its internal control on financial reporting. According to the "Saurer Intelligent Technology 2018 Internal Control Audit Report" issued by PwC, the Company maintained effective internal control on financial reporting in all material aspects in accordance with the Internal Enterprise Control System and Norms and related regulations on 31 December 2018. For details, please refer to the "Saurer Intelligent Technology 2018 Internal Control Audit Report" via the Shanghai Stock Exchange, Securities Times, Securities Daily and Shanghai Securities News on 26 April 2019.

# 9. Financial statements and auditor's report

For the year ended 31 December 2018

## **Important notes**

### **English translation of the financial statements**

The English translation is for reference only. Should there be any inconsistency between the Chinese and English versions, the Chinese version shall prevail. The English names of certain Chinese Companies represent the English translation. They are used for identification purposes only as no English names have been registered.

### **Financial figures/amounts**

All amounts in the report are in thousand RMB unless otherwise stated.

# Auditor's report

To the shareholders of Saurer Intelligent Technology Co. Ltd

## Opinion

### What we have audited

We have audited the accompanying financial statements of Saurer Intelligent Technology Co. Ltd (hereinafter "Saurer Intelligent"), which comprise:

- the consolidated and Company balance sheets as at 31 December 2018;
- the consolidated and Company income statements for the year then ended;
- the consolidated and Company cash flow statements for the year then ended;
- the consolidated and Company statements of changes in shareholders' equity for the year then ended; and
- notes to the financial statements.

### Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and Company financial position of Saurer Intelligent as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises ("CASs").

### Basis for 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of Saurer Intelligent 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.

### 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.

Key audit matters identified in our audit are summarised as follows:

- impairment of goodwill and intangible assets with indefinite useful lives;
- related party sales.

**Key audit matter**

(A) Impairment of goodwill and intangible assets with indefinite useful lives

Refer to note 2 (29) (a), note 4 (12) and note 4 (13) and to the consolidated financial statements

The goodwill and intangible assets with indefinite useful lives (trademarks) of Saurer Intelligent Machinery Co. Ltd were recognised for the acquisition of the staple fibre spinning business and component business from OC Oerlikon in 2013. As at 31 December 2018, the carrying value of goodwill and trademarks amounted to RMB 615 million and RMB 867 million, respectively. Their carrying values represented 4 % and 6 % of total assets, and 10 % and 14 % of net assets of Saurer Intelligent, respectively.

In carrying out the impairment assessment of goodwill and trademarks, Saurer Intelligent uses discounted cash flow method ("DCF") to determine the recoverable amount of goodwill and trademarks every year. Management assessed whether the recoverable amount of the cash generating unit ("CGU") is lower than its carrying amount. Key assumptions adopted and judgments exercised in the preparation of the DCF mainly included sales growth rate, brand commission rate and discount rate.

We focused on this area because of the significant amount of related party sales from Saurer Intelligent to Litai Lions; related party transactions (including transaction pricing) are an audit focus area.

(B) Related party sales

Refer to note 2 (23) and note 8 (4) (b) to the consolidated financial statements

**In 2018, the total sales of Saurer Intelligent to its related parties, Litai Lions (Taicang) Holdings Co. Ltd and its subsidiaries (collectively known as "Litai Lions"), amounted to RMB 2540 million, accounting for 27.5 % of Saurer Intelligent's total sales of the year. Litai Lions purchased equipment from Saurer Intelligent for its own production and operation.**

We focused on this area because of the significance of the amount of the related party sales from Saurer Intelligent to Litai Lions, and comparing to third party sales, related party transactions (including transaction pricing) are an audit focus area.

**How our audit addressed the key audit matter**

In testing the impairment of goodwill and trademarks, we performed the procedures as set out below:

- understood, evaluated and tested internal processes and key controls implemented by management of Saurer Intelligent for the impairment testing of goodwill and trademarks;
- evaluated the reasonableness of the financial budget prepared by management by comparing the actual financial performance of the current year with the budget used in last years' impairment test;
- evaluated whether the methodology adopted by management to determine the CGU is appropriate;
- obtained the DCF model from management, understood and evaluated whether the methodology adopted by management is appropriate;
- obtained key assumptions adopted and judgments exercised in preparation of the DCF model, including sales growth rate, brand commission rate and discounting rates. In respect of the financial budget used in the model, we compared it with the actual financial performance of the current year, as well as did benchmarking against industry practice and data; in respect of the sales growth rate and brand commission rate, we compared them to the historical sales growth rate and industry data. In respect of the discount rates, we compared them to the range independently estimated by us. In addition, we performed a sensitivity analysis to evaluate the reasonableness of the key assumptions and parameters adopted by management; and
- tested the mathematical accuracy of underlying DCF calculations.

Based on the audit procedures performed above, we found the key assumptions adopted and estimates made by management in determining the recoverable amounts of goodwill and trademarks to be supportable based on the evidence we gathered.

In auditing Saurer Intelligent's sales to Litai Lions, we performed the procedures as set out below:

- understood, evaluated and tested the processes of related party transactions and key management internal controls;
- reviewed the sales contracts and interviewed the management to understand and evaluate the pricing policy of related party transactions and its reasonableness and consistency, we also compared the sales to the related party with the sales to third parties;
- performed an on-site visit to Litai Lions, inspected the machines purchased from Saurer Intelligent in 2018 on a sample basis, understood the construction plan and progress of Litai Lions' plants, and compared its demand of machines and the installation progress of those machines purchased from Saurer Intelligent;
- conducted tests on the sales from Saurer Intelligent to Litai Lions on a sample basis, by tracing to the risk and reward clauses in the relevant sales contracts and corresponding supporting documents such as customs declaration documents, invoices, and goods-in receipts. Tested the revenue recognised before and post year-end to ensure that the relevant sales were recorded in the correct financial period; and
- sent confirmations to Litai Lions to confirm the amount of sales transactions in 2018 and balances as at 31 December 2018 between Saurer Intelligent and Litai Lions.

Based on the audit procedures performed above, we found Saurer Intelligent's revenue recognition for sales to Litai Lions is in compliance with its revenue recognition accounting policies.

### Other information

Management of Saurer Intelligent is responsible for the other information. The other information comprises all of the information included in the 2018 annual report of Saurer Intelligent other than the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of management and the Audit Committee for the financial statements

Management of Saurer Intelligent is responsible for the preparation and fair presentation of these financial statements in accordance with the CASs, and for such internal control as management determines 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, management is responsible for assessing Saurer Intelligent's ability to continue as a going concern, disclosing, as applicable, matters related to a going concern and using the going concern basis of accounting unless management either intends to liquidate Saurer Intelligent or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing Saurer Intelligent's financial reporting process.

### 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 CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- evaluate the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Saurer Intelligent's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in these financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Saurer Intelligent to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Saurer Intelligent to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the 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.

PricewaterhouseCoopers Zhong Tian LLP  
Shanghai, the People's Republic of China

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Signing CPA  
Jiang Songyi  
Engagement Partner

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Signing CPA  
Rao Shenghua

[25 April 2019]

# Financial statements

## Consolidated and Company balance sheets

as at 31 December 2018

### Assets

	Note	31 December 2018 Consolidated	31 December 2017 Consolidated	1 January 2017 Consolidated	31 December 2018 Company	31 December 2017 Company	1 January 2017 Company
<b>Current assets</b>							
Cash at bank and on hand	4 (1), 15 (1)	3 720 401	2 473 431	3 103 780	63	1 572	693 119
Financial assets at fair value through profit or loss	4 (2)	4 966	6 178	1 860	-	-	-
Notes and accounts receivable	4 (3)	3 348 304	2 170 304	997 019	-	-	3 029 224
Advances to suppliers	4 (5)	132 958	76 265	63 643	-	-	33 039
Other receivables	4 (4), 15 (2)	255 962	166 020	60 730	871	-	2 197 364
Inventories	4 (6)	1 762 645	1 574 625	1 213 840	-	-	760 248
Other current assets	4 (8)	1 301 055	4 726 641	4 710 506	-	-	19 837
<b>Total current assets</b>		<b>10 526 291</b>	<b>11 193 464</b>	<b>10 151 378</b>	<b>934</b>	<b>1 572</b>	<b>6 732 831</b>
<b>Non-current assets</b>							
Available-for-sale financial assets		-	-	51	-	-	20 000
Long-term receivables	4 (7)	42 951	35 240	51 127	-	-	1 170 042
Long-term equity investments	4 (9), 15 (3)	-	350	1 082	10 452 842	10 452 842	193 910
Investment properties		-	-	-	-	-	520 417
Fixed assets	4 (10)	903 000	846 896	871 519	-	-	55 677
Construction in progress	4 (11)	465 036	208 767	38 727	-	-	450
Intangible assets	4 (12)	1 290 712	1 315 639	1 208 058	-	-	16 072
Development costs	4 (12)	90 417	51 655	74 569	-	-	400
Goodwill	4 (13)	615 137	603 812	583 884	-	-	-
Long-term prepaid expenses	4 (14)	4 121	3 454	3 705	-	-	414
Deferred tax assets	4 (15)	50 457	67 187	26 738	-	-	504 762
Other non-current assets	4 (17)	427 584	205 308	214 405	-	-	85 907
<b>Total non-current assets</b>		<b>3 889 415</b>	<b>3 338 308</b>	<b>3 073 865</b>	<b>10 452 842</b>	<b>10 452 842</b>	<b>2 568 051</b>
<b>Total assets</b>		<b>14 415 706</b>	<b>14 531 772</b>	<b>13 225 243</b>	<b>10 453 776</b>	<b>10 454 414</b>	<b>9 300 882</b>

## Liabilities and owners' equity

	Note	31 December 2018 Consolidated	31 December 2017 Consolidated	1 January 2017 Consolidated	31 December 2018 Company	31 December 2017 Company	1 January 2017 Company
<b>Current liabilities</b>							
Short-term borrowings	4 (18)	1499334	267001	878882	100000	-	1510000
Financial liabilities at fair value through profit or loss	4 (2)	5416	7532	1082	-	-	-
Notes and accounts payables	4 (19)	1547131	1492701	823976	-	-	682705
Advances from customers	4 (20), 8 (5) (c)	586799	1374279	843492	-	-	268473
Employee benefits payable	4 (21), 15 (5)	274665	259705	231278	569	308	12641
Taxes payable	4 (22)	291390	255681	118594	4085	33049	19258
Other payables	4 (23), 15 (4)	377032	332763	230874	885023	828218	907471
Current portion of non-current liabilities	4 (24)	733820	733286	431448	-	-	1308250
Other current liabilities		-	-	-	-	-	1547847
<b>Total current liabilities</b>		<b>5315587</b>	<b>4722948</b>	<b>3559626</b>	<b>989677</b>	<b>861575</b>	<b>6256645</b>
<b>Non-current liabilities</b>							
Long-term borrowings	4 (25)	2552138	2729389	2356705	-	-	1159125
Provisions	4 (26)	10338	7770	7385	-	-	-
Long-term employee benefits payable	4 (27)	336724	328688	293881	-	-	9108
Deferred tax liabilities	4 (15)	183558	168323	150398	-	-	-
Long-term payables		-	-	-	-	-	59060
Deferred revenue	4 (28)	29586	69290	69290	4560	-	52190
<b>Total non-current liabilities</b>		<b>3112344</b>	<b>3303460</b>	<b>2877659</b>	<b>4560</b>	<b>-</b>	<b>1279483</b>
<b>Total liabilities</b>		<b>8427931</b>	<b>8026408</b>	<b>6437285</b>	<b>994237</b>	<b>861575</b>	<b>7536128</b>
<b>Owners' equity</b>							
Paid-in capital	4 (29)	1895413	1895413	1219627	1895413	1895413	675786
Capital surplus	4 (31) (a)	1579834	-	24022	6857481	6857481	552019
Other comprehensive income	4 (30)	-48440	-123388	33250	1534	1534	1534
Special reserve		-	-	-	1447	1447	1447
Surplus reserve	4 (31) (b)	48742	48742	-	205662	205662	156920
Retained earnings	4 (32)	1177607	386267	1253134	498002	631302	377048
Total equity attributable to equity holders of the Company		4653156	2207034	2530033	9459539	9592839	1764754
Non-controlling interests		1334619	4298330	4257925	-	-	-
<b>Total owners' equity</b>		<b>5987775</b>	<b>6505364</b>	<b>6787958</b>	<b>9459539</b>	<b>9592839</b>	<b>1764754</b>
<b>Total liabilities and owners' equity</b>		<b>14415706</b>	<b>14531772</b>	<b>13225243</b>	<b>10453776</b>	<b>10454414</b>	<b>9300882</b>

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

Legal representative: Pan Xueping. Principal in charge of accounting: Lu Yimin. Head of accounting department: Lu Yimin

## Consolidated and Company income statements

for the year ended 31 December 2018

	Note	31 December 2018 Consolidated	31 December 2017 Consolidated	31 December 2018 Company	31 December 2017 Company
<b>1. Revenue</b>	<b>4 (34), 15 (6)</b>	<b>9 220 759</b>	<b>8 713 412</b>	<b>-</b>	<b>853 275</b>
Less: cost of sales	4 (34), 4 (40), 15 (6)	-6 571 207	-6 389 179	-	-801 045
- Taxes and surcharges	4 (35)	-19 911	-28 947	-667	-40 791
- Selling and distribution expenses	4 (36), 4 (40)	-568 699	-595 694	-539	-6 047
- General and administrative expenses	4 (37), 4 (40)	-382 922	-375 608	-91 122	-154 502
- Research and development expenses	4 (38), 4 (40)	-475 204	-310 817	-	-
- Financial income - net	4 (39), 15 (7)	-139 160	-96 253	-22 018	-114 837
- Including: interest expense		-108 600	-110 766	-21 165	-158 567
- Interest income		8 819	26 196	12	45 214
- Asset impairment losses	4 (41)	-53 193	-52 697	-	-54 173
Add: other income	4 (42)	1 017	-	-	-
- Investment income	4 (43)	88 249	160 584	-	770 591
- Including: shares of (losses)/income in associates and joint ventures		-350	-740	-	-
Profit arising from changes in fair value	4 (44)	390	-	-	-
Income/(losses) of assets disposal	4 (45)	148	-1 318	-	278
<b>2. Operating profit</b>		<b>1 100 267</b>	<b>1 023 483</b>	<b>-114 346</b>	<b>452 749</b>
Add: non-operating income	4 (46)	46 560	4 192	-	8 242
Less: non-operating expenses	4 (47)	-895	-31 290	-	-1 156
<b>3. Profit before tax</b>		<b>1 145 932</b>	<b>996 385</b>	<b>-114 346</b>	<b>459 835</b>
Less: income tax expenses	4 (48)	-288 882	-246 868	-	27 583
<b>4. Net profit/(losses)</b>		<b>857 050</b>	<b>749 517</b>	<b>-114 346</b>	<b>487 418</b>
Classification by business continuity					
- Net income from continuing operations		857 050	749 157	-114 346	487 418
- Net income/(loss) from discontinuing operations		-	-	-	-
Classification by attribution of the ownership					
- Attributable to equity holders of the Company		810 294	658 327		
- Non-controlling interests		46 756	91 190		
<b>5. Other comprehensive income net of tax</b>	<b>4 (30)</b>	<b>74 948</b>	<b>-156 147</b>	<b>-</b>	<b>-</b>
Other comprehensive income attributable to equity holders of the Company net of tax					
Other comprehensive income items which will not be reclassified to profit or loss		7 402	10 077	-	-
- Changes in measurement of defined benefit plans assets/liabilities		7 402	10 077	-	-
Other comprehensive income items which will be reclassified to profit or loss		67 546	-166 715	-	-
- Effective part of cash flow hedges		-820	249	-	-
- Foreign currency translation difference		68 366	-166 964	-	-
Other comprehensive income attributable to non-controlling interests net of tax		-	491	-	-
<b>6. Total comprehensive income</b>		<b>931 998</b>	<b>593 370</b>	<b>-114 346</b>	<b>487 418</b>
Attributable to equity holders of the Company		885 242	501 689		
Attributable to non-controlling interests		46 756	91 681		
<b>7. Earnings per share</b>					
Basic earnings per share (in yuan)		0.4275	0.4556		
Diluted earnings per share (in yuan)		0.4275	0.4556		

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

Legal representative: Pan Xueping. Principal in charge of accounting: Lu Yimin. Head of accounting department: Lu Yimin

**Consolidated and Company cash flow statement**

for the year ended 31 December 2018

	Note	31 December 2018 Consolidated	31 December 2017 Consolidated	31 December 2018 Company	31 December 2017 Company
<b>1. Cash flows from operating activities</b>					
Cash received from sales of goods or rendering of services		7 733 608	8 560 567	-	1 621 297
Cash received relating to other operating activities	4 (49) (a)	18 380	15 654	12	98 993
Subtotal of cash inflows		7 751 988	8 576 221	12	1 720 290
Cash paid for goods and services		-5 972 799	-5 367 987	-	-1 324 318
Cash paid to and on behalf of employees		-1 749 624	-1 571 943	-2 246	-75 254
Payments of taxes and surcharges		-385 963	-315 033	-33 404	-62 856
Cash paid relating to other operating activities	4 (49) (b)	-686 365	-645 101	-24 138	-127 131
Subtotal of cash outflows		-8 794 751	-7 900 064	-59 788	-1 589 559
<b>Net cash flows (used in)/from operating activities</b>	<b>4 (50) (a), 15 (8) (a)</b>	<b>-1 042 763</b>	<b>676 157</b>	<b>-59 776</b>	<b>130 731</b>
<b>2. Cash flows from investing activities</b>					
Cash received from restricted cash and deposit		415 715	914 297	-	-
Cash received from investment income		-	-	-	1 326
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		2 140	1 324	-	297
Cash received from disposal of subsidiaries and other operating units		-	30 585	-	-
Interest received		134 327	192 638	-	-
Cash received from repayment by third parties		125 808	800 000	-	-
Cash received relating to other investing activities	4 (49) (c)	9 000 000	9 315 396	-	-
Subtotal of cash inflows		9 677 990	11 254 240	-	1 623
Cash paid to acquire fixed assets, intangible assets and other long-term assets		-683 593	-396 885	-	-1 244
Cash paid to acquire investments		-	-	-	-715 342
Cash paid for loans to third parties		-202 500	-926 077	-	-
Cash paid for restricted cash and deposit		-885 459	-351 670	-	-
Cash paid relating to other investing activities	4 (49) (d)	-5 601 724	-9 250 000	-	-601 091
Subtotal of cash outflows		-7 373 276	-10 924 632	-	-1 317 677
<b>Net cash flows (used in)/from investing activities</b>		<b>2 304 714</b>	<b>329 608</b>	<b>-</b>	<b>-1 316 054</b>

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

Legal representative: Pan Xueping. Principal in charge of accounting: Lu Yimin. Head of accounting department: Lu Yimin

**Consolidated and Company cash flow statement**

for the year ended 31 December 2018

		31 December 2018	31 December 2017	31 December 2018	31 December 2017
	Note	Consolidated	Consolidated	Company	Company
<b>3. Cash flows from financing activities</b>					
Cash received from capital contributions		3 000 000	-	-	-
Including: cash received from capital contributions by non-controlling shareholders of subsidiaries		3 000 000	-	-	-
Cash received from bank borrowings		1 731 437	1 564 858	100 000	2 555 000
Cash received from related party borrowings		3 000	-	85 820	811 789
Cash received from other financing activities	4 (49) (e)	-	184 422	-	480 000
Subtotal of cash inflows		4 734 437	1 749 280	185 820	3 846 789
Cash repayments of bank borrowings		-672 698	-1 834 182	-	-2 228 425
Cash paid for repayment of related party borrowings		-14 917	-	-106 000	-
Dividend distributed to non-controlling interests of subsidiaries		-270 882	-295 093	-20 714	-311 693
Including: dividend distributed to non-controlling interests of subsidiaries		-145 086	-	-	-
Cash paid to acquire non-controlling interests of subsidiaries in subsidiaries liquidation	4 (33)	-4 200 000	-	-	-
Cash paid to acquire non-controlling interests of subsidiaries		-	-715 342	-	-
Cash paid for other financing activities	4 (49) (f)	-60 000	-	-	-780 000
Subtotal of cash outflows		-5 218 497	-2 844 617	-126 714	-3 320 118
<b>Net cash flows (used in)/from financing activities</b>		<b>-484 060</b>	<b>-1 095 337</b>	<b>59 106</b>	<b>526 671</b>
<b>4. Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b>-668</b>	<b>21 850</b>	<b>-839</b>	<b>-</b>
<b>5. Net increase/(decrease) in cash and cash equivalents</b>	<b>4 (50) (e), 15 (8) (b)</b>	<b>777 223</b>	<b>-67 722</b>	<b>-1 509</b>	<b>-658 652</b>
Add: cash and cash equivalents at the beginning of the year		2 057 716	2 125 438	1 572	660 224
<b>6. Cash and cash equivalents at the end of the year</b>	<b>4 (50) (d), 15 (8) (c)</b>	<b>2 834 939</b>	<b>2 057 716</b>	<b>63</b>	<b>1 572</b>

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

Legal representative: Pan Xueping. Principal in charge of accounting: Lu Yimin. Head of accounting department: Lu Yimin

**Consolidated statement of changes in owners' equity**

for the year ended 31 December 2018

	Note	Equity attributable to the parent company					Non-controlling interests	Total owners' equity
		Paid-in capital	Capital surplus	Other comprehensive income	Surplus reserve	Undistributed profits		
<b>Balance at 1 January 2017</b>	<b>4 (29)</b>	<b>1 219 627</b>	<b>24 022</b>	<b>33 250</b>	<b>-</b>	<b>1 253 134</b>	<b>4 257 925</b>	<b>6 787 958</b>
<b>Movements for the year ended 31 December 2017</b>								
Comprehensive income								
Net profit		-	-	-	-	658 327	91 190	749 517
Other comprehensive income	4 (30)	-	-	-156 030	-	-	491	-155 539
Transfer out from disposal of subsidiaries		-	-	-608	-	-	-34 619	-35 227
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>-156 638</b>	<b>-</b>	<b>658 327</b>	<b>57 062</b>	<b>558 751</b>
Capital contribution and withdrawal by owners								
The impact of restructuring deals	6 (1) (b)	675 786	-24 022	-	-	-891 100	113 333	-126 003
Purchase of non-controlling interests of subsidiaries		-	-	-	-	-585 352	-129 990	-715 342
Profit distribution								
Appropriation to surplus reserves	4 (31) (b)	-	-	-	48 742	-48 742	-	-

	Note	Equity attributable to the parent company					Non-controlling interests	Total owners' equity
		Paid-in capital	Capital surplus	Other comprehensive income	Surplus reserve	Undistributed profits		
<b>Balance at 1 January 2018</b>		<b>1 895 413</b>	<b>-</b>	<b>-123 388</b>	<b>48 742</b>	<b>386 267</b>	<b>4 298 330</b>	<b>6 505 364</b>
<b>Movements for the year ended 31 December 2018</b>								
Comprehensive income								
Net profit		-	-	-	-	810 294	46 756	857 050
Other comprehensive income	4 (30)	-	-	74 948	-	-	-	74 948
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>74 948</b>	<b>-</b>	<b>810 294</b>	<b>46 756</b>	<b>931 998</b>
Capital contribution and withdrawal by owners								
Capital invested by owners	4 (31)	-	1 579 834	-	-	-	1 334 619	2 914 453
Capital repaid to non-controlling interests of subsidiaries in subsidiaries liquidation	6 (1) (b)	-	-	-	-	-	-4 200 000	-4 200 000
Profit distribution								
Appropriation to surplus reserves	4 (32), 6 (1) (b)	-	-	-	-	-18 954	-145 086	-164 040
<b>Balance at 31 December 2018</b>		<b>1 895 413</b>	<b>1 579 834</b>	<b>-48 440</b>	<b>48 742</b>	<b>1 177 607</b>	<b>1 334 619</b>	<b>5 987 775</b>

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

Legal representative: Pan Xueping. Principal in charge of accounting: Lu Yimin. Head of accounting department: Lu Yimin

**Company statement of changes in owners' equity**

for the year ended 31 December 2018

	Note	Paid-in capital	Capital surplus	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Total owners' equity
<b>Balance at 1 January 2017</b>		<b>675 786</b>	<b>552 019</b>	<b>1 534</b>	<b>1 447</b>	<b>156 920</b>	<b>377 048</b>	<b>1 764 754</b>
<b>Movements for the year ended 31 December 2017</b>								
Total comprehensive income								
Net profit		-	-	-	-	-	487 418	487 418
Other comprehensive income		-	-	-	-	-	-	-
Total comprehensive income		-	-	-	-	-	487 418	487 418
Capital contribution and withdrawal by owners								
Capital contribution by owners	5 (1)	1 219 627	6 305 462	-	-	-	-	7 525 089
Profit distribution								
Distribution to shareholders	5 (1)	-	-	-	-	-	-184 422	-184 422
Appropriation to surplus reserve	4 (31) (b)	-	-	-	-	48 742	-48 742	-
Special reserve								
Withdrawal in current period		-	-	-	1 109	-	-	1 109
Utilisation in current period		-	-	-	-1 109	-	-	-1 109
	Note	Paid-in capital	Capital surplus	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Total owners' equity
<b>Balance at 1 January 2018</b>		<b>1 895 413</b>	<b>6 857 481</b>	<b>1 534</b>	<b>1 447</b>	<b>205 662</b>	<b>631 302</b>	<b>9 592 839</b>
<b>Movements for the year ended 31 December 2018</b>								
Total comprehensive income								
Net profit		-	-	-	-	-	-114 346	-114 346
Other comprehensive income		-	-	-	-	-	-	-
Total comprehensive income		-	-	-	-	-	-114 346	-114 346
Profit distribution								
Distribution to shareholders	4 (32)	-	-	-	-	-	-18 954	-18 954
<b>Balance at 31 December 2018</b>		<b>1 895 413</b>	<b>6 857 481</b>	<b>1 534</b>	<b>1 447</b>	<b>205 662</b>	<b>498 002</b>	<b>9 459 539</b>

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

Legal representative: Pan Xueping. Principal in charge of accounting: Lu Yimin. Head of accounting department: Lu Yimin

# Notes to the financial statements

For the year ended 31 December 2018

## 1 General information

Saurer Intelligent Technology Company Limited (formerly known as "Xinjiang Urban Construction (Group) Company Limited", hereinafter "the Company") is a limited liability company incorporated on 22nd floor, 1st Chengjian Chongjin Building Urumqi City, Xinjiang Uygur Autonomous Region of the People's Republic of China.

With the approval from The Committee of Economic System Reform of the Xinjiang Uygur Autonomous Region regarding Article 1992 No. 58 "The Approval for 'The Request to Set Up City Construction and Development Company Limited in Urumqi City'", the Company was set up by 6 companies or organisations including Urumqi Water Supply Company, Urumqi Municipal Construction Company, Urumqi Municipal Construction Department, The Office of Water Conservation in Urumqi, Urumqi Municipal Construction and Maintenance Department, and Urumqi Suburbs Road Maintenance Department, with target placement to its other legal persons and internal employees. The Company submitted its registration with Urumqi Administration for Industry and Commerce on 25 February 1993, and obtained the "License of the business corporation" No.6500001000005. The registered capital was RMB 7500000. After 5 rights issues and 2 capital injections and ownership enlargements, the capital was increased to RMB 100541029 on 29 August 2000.

In 2003, with the approval from China Securities Regulatory Commission (CSRC) regarding the "Announcement for Public Offering of Xinjiang City Construction Company Limited" (CSRC issued [2003] 75), the Company issued A-shares common stock amounting to 60000000 shares with face value of RMB 1.00 by fixed pricing to the public in secondary market. The registered total capital increased to RMB 160541029.

In 2006, after the resolutions of second Extraordinary General Meeting (EGM), the Company decided to privately issue shares to specific investors. The plan was approved by CSRC in July 2007 in "The Announcement Regarding The Approval For Private Issuing of Shares by Xinjiang City Construction (Group) Company Limited" (CSRC issued [2007] 177). With the private issuing of 43000000 common shares, the total share capital increased to RMB 203541029.

With the resolutions of the 2007 Annual General Meeting (AGM), the Company issued 2 bonus shares for every 10 shares and used the capital reserve to transfer 6 shares for every 10 shares. Upon accomplishment of the issuing, total share capital increased to RMB 366373852.

In 2008, after the resolutions of the third Extraordinary General Meeting (EGM), the Company decided to privately issue shares to specific investors. The plan was approved by CSRC in "The Approval For Private Issuing of Shares by Xinjiang City Construction (Group) Company Limited" (CSRC issued [2008] 1450). With the private issuing of 84150000 common shares, total share capital increased to RMB 450523852.

With the resolutions of the 2008 AGM, the Company transferred every 10 shares of the capital surplus into 5 shares of paid-in capital. Total share capital increased to RMB 675785778.

With the resolution from the 17th Extraordinary General Meeting (EGM) on 28 December 2016 and the first EGM on 23 January 2017, the approval was given for the "Proposal on the Company's major asset replacement and issuance of shares to purchase assets and the associated trading scheme", "Draft report on the Company's major asset replacement and issuance of shares to purchase assets and the associated trading scheme" and the "Approval of Jiangsu Jinsheng Company Limited being exempted from the offer of an increase in shareholdings", and the Company went through a series of major asset restructurings, with plans as follows:

### (1) Major asset replacement

In August 2017, the Company used all the assets and liabilities as at 31 August 2016 (base date of asset evaluation) excluding cash of RMB 185000000 (hereinafter "exchange-out assets") in exchange for 95% of shareholdings held by the 17 shareholders of Saurer Intelligent Machinery Company Limited (hereinafter "Saurer Intelligent Machinery") excluding Shanghai Yongyun Huachuang Equity Investment Partnership (hereinafter "Shanghai Yongyun"). In this transaction, the assets disposed were valued at RMB 2212400000, and the assets acquired were valued at RMB 9737500000. The above-mentioned cash of RMB 185000000 was distributed as cash dividends to all former shareholders before the Company issued stocks and purchased assets.

### (2) Undertaking of asset disposal and transfer of shares

Jiangsu Jinsheng Industrial Company Limited (hereinafter "Jinsheng Industrial") exchanged parts of the shares of Saurer Intelligent Machinery for the exchange-out assets of the Company. The exchange-out assets were undertaken by the Company's original shareholder Urumqi State-owned Asset Management Company (hereinafter "Guo-zi Company") or the designated third party (hereinafter "Assets Receiver"). As consideration for the exchange-out assets, Guo-zi Company transferred its 22.11% stake in the Company to Jinsheng Industrial (149 400 432 common shares).

### (3) Issuance of shares and purchase assets

In August 2017, regarding the difference amounting to RMB 7 525 100 000 arising from the major asset exchange mentioned above, Xinjiang City Construction issued to 17 shareholders of Saurer Intelligent Machinery, excluding Shanghai Yongyun, 1 219 627 217 common shares at a face value of RMB 1.00 and at an issue price of RMB 6.17. The difference between the face value and issue price amounting to RMB 6 305 472 712 was recognised as capital reserve. Therefore, the total number of shares increased to 1 895 412 995.

In August 2017, the settlement of exchange-out assets was completed. Meanwhile, the exchange of assets in the major asset replacement was also completed. Therefore, 25 August 2017 was the settlement day of the major asset replacement.

With the resolutions of the 5th meeting of the 8th term of the Board on 25 August 2017 and 5th EGM on 11 September 2017, Xinjiang City Construction was renamed Saurer Intelligent Technology Company Limited.

The additional registered capital and paid-in capital arising from the deals mentioned above was verified by PricewaterhouseCoopers Zhong Tian LLP with a PricewaterhouseCoopers Zhong Tian LLP Yan Zi (2017) No. 801 capital verification report issued.

The business scope of the Company and its subsidiaries after major asset restructuring covers: production, research and development, and selling of the complete set of intelligent textile equipment; production, research and development, and selling of robots, robot systems, robot application technology, and software production; design, production, research, development and sales of automated intelligence equipment; production, research and development, and selling of intelligent packaging machinery; design, production and selling of intelligent electromechanical and information products; providing the related technical consultancy service and technology service; import and export of agent products and technology.

On 29 November 2017, the Company held the third board meeting and passed the resolution regarding "Acquisition of 5% of the shares of Saurer Intelligent Machinery by cash". The Company spent RMB 715 342 466 to acquire 5% of the shares of Saurer Intelligent Machinery held by Shanghai Yongyun. Saurer Intelligent Machinery becomes the wholly-owned subsidiary of the Company after the acquisition.

Upon completion of the deals above, Jinsheng Industrial and other shareholders were holding 45.93% and 54.07% of the Company's equity respectively.

From 7 December 2017 to 6 December 2018, Jinsheng Industrial increased its stake in the Company by 19 111 271 shares. After that, Jinsheng Industrial and other shareholders were holding 46.94% and 53.06% of the Company's equity respectively.

Please refer to Note 6 (1) for relevant information on the Company's subsidiaries.

On 31 December 2018, Jinsheng Industrial was the largest shareholder of the Company.

The financial statements were authorised by the Company's Board of Directors on 25 April 2019.

## 2 Summary of significant accounting policies and accounting estimates

The specific accounting policies and accounting estimates are determined based on the production and management features of the Group, and mainly reflected in the accounts receivable provision method (Note 2 (11)), inventory valuation method (Note 2 (12)), depreciation of fixed assets and amortisation of intangible assets (Note 2 (14), (17)), criteria for capitalisation of development expenditure (Note 2 (17)), the time for revenue recognition (Note 2 (23)), etc. The significant accounting policies listed in these financial statements are consistent with the accounting policies executed by Saurer Intelligent Machinery Co. Ltd.

Key judgments applied by the Group in determining significant accounting policies are stated in Note 2 (29).

### (1) Basis of preparation

The financial statements were prepared in accordance with the "Accounting Standard for Business Enterprises - Basic Standard", and the specific accounting standards and other relevant regulations (hereafter collectively referred to as "CAS") issued by the Ministry of Finance on 15 February 2006 and in subsequent periods as well as the disclosure requirements in the "Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No. 15 - General Rules on Financial Reporting" issued by the China Securities Regulatory Commission.

The financial statements are prepared on a going concern basis.

Based on the "Announcement regarding the implementation of accounting standards 2008" and the "Reply on the accounting standards relating to the indirect listing of a private company acquiring the shareholdings of a public company" issued by The Ministry of Finance, this major asset replacement and the acquisition of assets by share issue is a reverse purchase outside of the Company's scope of business, and it should be recorded as equity transaction. Therefore, the consolidated financial statements have been prepared according to the following accounting principles referred to in Note 5 (1).

- (a) The Group's consolidated financial statement is the continuation of the financial statement of the acquirer (legally the subsidiary), i.e. Saurer Intelligent Machinery, regarding the confirmation and measurement of the book value of the identifiable assets and liabilities before restructuring.
- (b) All the identifiable assets and liabilities of the Company (legally the parent company) after asset replacement are recognised and measured at fair value as at the date of restructuring. The difference between the cost of acquisition and the fair value of the identifiable net assets of the Company is adjusted in the capital reserve in the consolidated financial statement, not recognised as goodwill or current period profit or loss.
- (c) The opening balance (1 January 2017) of the share capital in the consolidated financial statement reflects the amount issued to acquire Saurer Intelligent Machinery in 2017.

### **(2) Statement of compliance with the Accounting Standards for Business Enterprises**

The financial statements of the Company for the year ended 31 December 2018 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position of the consolidated and the Company statements as at 31 December 2018 and their financial performance, cash flows and other information for the year ended 31 December 2018.

### **(3) Accounting year**

The Company's accounting year starts on 1 January and ends on 31 December.

### **(4) Functional currency**

The recording currency of the Company and its domestic subsidiaries is Renminbi (RMB). The Company's subordinate foreign subsidiaries, joint ventures and associates can determine their functional currencies according to the primary economic locations. Foreign currencies are translated into RMB when preparing the financial statements. The financial statements are presented in RMB.

In preparing the financial statements, the Group regards RMB as its presentation currency in accordance with the translation method detailed in Note 2 (8) (b).

### **(5) Business combinations**

- (a) Business combinations involving enterprises under common control

The consideration paid and net assets obtained by the absorbing party in a business combination are measured at the carrying amount. If the party being absorbed is acquired from a third party in prior years by the ultimate controlling party, it is based on the book value of the assets and liabilities (including any goodwill generated from the business combination) in the consolidated financial statement of the ultimate controlling party. The difference between the carrying amount of the net assets obtained from the combination and the carrying amount of the consideration paid for the combination is treated as an adjustment to capital surplus (share premium). If the capital surplus (share premium) is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings. Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

- (b) Business combinations involving enterprises not under common control

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. The acquirer shall recognise the positive difference between the combination cost and the fair value of the identifiable net assets it obtains from the acquiree as goodwill and recognise the negative difference in profit or loss for the current period. Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

### **(6) Preparation of the consolidated financial statements**

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

Subsidiaries are consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases. For a subsidiary that is acquired in a business combination involving enterprises under common control, it is included in the consolidated financial statements from the date when it, together with the Company, comes under common control of the ultimate controlling party. The portion of the net profits realised before the combination date is presented separately in the consolidated income statement.

In preparing the consolidated financial statements, the difference between the long-term equity investment from the acquisition of non-controlling interests from a subsidiary and the net asset share of the subsidiary continuously calculated from the date of acquisition (or the consolidation date) based on the new shareholding is treated as an adjustment to owners' equity (capital surplus). If the capital surplus is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods of the Company and subsidiaries are inconsistent, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and the accounting period of the Company. For subsidiaries acquired from business combinations involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

All significant intra-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of subsidiaries' equity and the portion of subsidiaries' net profits and losses and comprehensive incomes for the period not attributable to the Company are recognised as minority interests and presented separately in the consolidated financial statements under equity, net profits and total comprehensive income respectively. Intra-group unrealised gains and losses due to sales from the Company to its subsidiaries are fully offset net profit attributable to shareholders of the parent company. Unrealised profits and losses resulting from the sale of assets by a subsidiary to the Company are eliminated and allocated between net profit attributable to owners of the parent company and minority interests in accordance with the allocation proportion of the Company in the subsidiary. Unrealised profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to owners of the parent company and minority interests in accordance with the allocation proportion of the parent company in the subsidiary.

Under the circumstances that the Group and its subsidiaries have a different accounting policy on a single identical transaction, the subsidiaries will conform to the Group's accounting policy under consolidation basis.

## **(7) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## **(8) Foreign currency translation**

### **(a) Foreign currency transaction**

Foreign currency transactions are translated into RMB using the approximate exchange rates of the spot exchange rate prevailing at the dates of the transactions.

At the balance sheet date, monetary items denominated in foreign currencies are translated into RMB using the spot exchange rates on the balance sheet date; exchange differences arising from these translations are recognised in profit or loss for the current period directly, except for the exchange differences arising from specific foreign currency borrowings obtained for the acquisition or construction of an asset qualifying for capitalisation. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

### **(b) Translation of foreign currency financial statements**

The asset and liability items in the balance sheets for overseas operations are translated at the spot exchange rates on the balance sheet date. Among the shareholders' equity items, the items other than "undistributed profits" are translated at the spot exchange rates of the transaction dates. The income and expense items in the income statements of overseas operations are translated at the spot exchange rates or the approximate exchange rates of the spot exchange rate at the transaction dates. The differences arising from the above translation are presented separately in the shareholders' equity. The cash flows of overseas operations are translated at the spot exchange rates on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

## **(9) Financial instruments**

### **(a) Financial assets**

#### **(i) Classification of financial assets**

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments. The classification of financial assets depends on the Group's intention and ability to hold the financial assets. The Group's financial assets mainly represent financial assets at fair value through profit or loss, receivables and available-for-sale financial assets.

- Financial assets at fair value through profit or loss include financial assets held for the purpose of selling in the short term.
- Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.
- Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories at initial recognition. Available-for-sale financial assets are included in other current assets on the balance sheet if management intends to dispose of them within 12 months after the balance sheet date.

(ii) Recognition and measurement

Financial assets are recognised at fair value on the balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. In the case of financial assets at fair value through profit or loss, the related transaction costs incurred at the time of acquisition are recognised in profit or loss for the current period. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initially recognised amounts.

Financial assets through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Investments in equity instruments are measured at cost when they do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Receivables and held-to-maturity investments are measured at amortised cost using the effective interest method.

Gains or losses arising from a change in the fair value of financial assets through profit or loss are recognised in profit or loss. Interests and cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from disposal of these assets, are recognised in profit or loss for the current period.

Gains or losses arising from change in fair value of available-for-sale financial assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses arising from translation of monetary financial assets. When such financial assets are derecognised, the cumulative gains or losses previously recognised directly into equity are changed into profit or loss for the current period. Interests on available-for-sale investments in debt instruments calculated using the effective interest method during the period in which such investments are held and cash dividends declared by the investee on available-for-sale investments in equity instruments are recognised as investment income, which is recognised in profit or loss for the period.

(iii) Impairment of financial assets

The Group assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that a financial asset is impaired, an impairment loss is provided for.

Objective evidence indicating impairment of financial assets refers to the matter that actually occurs after the initial recognition of financial assets. It will affect estimated future cash flows of financial assets, and its impact can be reliably measured.

When an impairment loss on a financial asset carried at amortised cost occurs, the amount is provided for at the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and the amount is recognised in profit or loss.

If an impairment loss on available-for-sale financial assets measured at fair value incurs, the cumulative losses arising from the decline in fair value that had been recognised directly in owners' equity are transferred out from equity and into impairment loss. For an investment in a debt instrument classified as available-for-sale on which impairment losses have been recognised, if, in a subsequent period, its fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the previously recognised impairment loss is reversed into profit or loss for the current period. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognised, the increase in its fair value in a subsequent period is recognised directly in equity.

If an impairment loss on an available-for-sale financial asset measured at cost incurs, the amount of loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, and is recognised in profit or loss for the current period. The previously recognised impairment loss will not be reversed in subsequent periods.

(iv) Derecognition of financial assets

A financial asset is derecognised when any of the following criteria is met: (1) the contractual rights to receive the cash flows from the financial asset expire; (2) the financial asset has been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset to the transferee; or (3) the financial asset has been transferred and the Group has not retained control of the financial asset, although the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received and the cumulative changes in fair value that had been recognised directly in equity, is recognised in profit or loss.

(b) Financial liabilities

Financial liabilities are classified into two categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities. Financial liabilities at fair value through profit or loss mainly include derivative financial instrument liabilities which are presented as "financial liabilities held for trading" in the balance sheet. The financial liabilities of the Group mainly comprise other financial liabilities, including payables, borrowings.

Payables comprise accounts payables and other payables and are recognised at fair value at initial recognition. Payables are measured at amortised cost using the effective interest method.

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Other financial liabilities with an initial maturity period of less than one year (including one year) are classified as current liabilities; those with an initial maturity period of over one year which will be due within one year (including one year) at the balance sheet date are classified as the current portion of non-current liabilities; and the others are classified as non-current liabilities.

A financial liability (or a part of a financial liability) is derecognised when all or part of the obligation has expired. The difference between the carrying amount of an expired financial liability (or part of a financial liability) and the consideration paid shall be recognised in profit or loss.

(c) Determination of fair value of financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined using a valuation method. The Group adopts the most appropriate valuation method for the instruments that have enough data and other supporting information available and selects assets or liabilities with consistent characteristics to compare transactions. Observable inputs are preferred. In the case that relevant observable inputs cannot be obtained or are not feasible to procure in the situation, unobservable inputs are applied.

**(10) Hedging instruments**

Hedging instruments represent derivative instruments designated by the Group for hedging to avoid foreign exchange risk and interest rate risk, the changes in fair value or cash flows of which are expected to offset the changes in fair value or cash flows of hedged items. Hedging instruments of the Group comprise fair value hedges and cash flow hedges. When hedging instruments meet the following criteria, the Group applies hedge accounting:

- (i) at the inception of the transaction, the Group officially designates the hedging relations between hedging instruments and hedged items, and also documents the hedging relations, risk management objectives and hedging strategies;
- (ii) the hedging expectation is highly effective and is in compliance with the risk management strategy designated initially for the hedging relation by the Group;
- (iii) the cash flow hedge is applied when the hedged item is highly probable, and the risk of changes on cash flow will finally impact the Group's income statement;
- (iv) the effectiveness of the hedge can be reliably measured;
- (v) the Group is able to make continuous assessment of the effectiveness of the hedge and ensures the hedging is highly effective in the designated term of hedging relations.

For fair value hedges meeting the above conditions, the gains or losses arising from changes in fair value of hedging instruments and hedged items are recognised in profit or loss for the current period.

For cash flow hedges meeting the above conditions, the effective hedge of the hedging gains or losses is recognised in other comprehensive income and the ineffective part is recognised in profit or loss for the current period. For hedged items representing expected transactions which made the Company subsequently recognise a financial asset or financial liability, gains or losses originally recognised as other comprehensive income are transferred out in the same period when the financial asset or financial liability impacts the profit or loss of the Group, and recorded in profit or loss for the current period. For hedged items representing expected transactions which made the Group subsequently recognise a non-financial asset or non-financial liability, gains or losses originally recognised as other comprehensive income are transferred out in the same period when the non-financial asset or non-financial liability impacts the profit or loss of the Group, and recorded in profit or loss for the current period.

### (11) Receivables

Receivables comprise accounts receivable, other receivables and notes receivable. Accounts receivable arising from sales of goods or rendering of services are initially recognised at fair value of the contractual payments from the buyers or service recipients.

#### (a) Accounts receivable

##### (i) Accounts receivable with amounts that are individually significant and subject to provision for bad debts on the individual basis

Accounts receivable with amounts that are individually significant are subject to a separate assessment for impairment. If there exists objective evidence that the Group will not be able to collect the amount under the original terms, a provision for bad debts of that account receivable is made.

The criteria for an amount that is individually significant: the individual amount exceeds RMB 6 million.

The method of making provision for bad debts for those individually significant amounts is as follows: the provision is determined based on the negative difference between the present value of the future cash flows expected to be derived from the accounts receivable and its carrying amount.

##### (ii) Accounts receivable that are subject to provision for bad debts on the grouping basis

Accounts receivable with amounts that are not individually significant and those accounts receivable that have been individually assessed for impairment and have not been found impaired are classified into certain groupings based on their credit risk characteristics. The provision for bad debts is determined based on the historical loss experience for the groupings of receivables with similar credit risk characteristics, taking the current circumstances into consideration.

The basis for determining the groupings:

Grouping 1	Accounts receivable from related parties
Grouping 2	Accounts receivable from non-related parties that are overdue but with no impairment risk
Grouping 3	Other accounts receivable from non-related parties
Bank acceptance	Banks with low credit risk

The method of making provision for bad debts on the grouping basis is as follows:

Grouping 1	Pursuant to the previous bad debt loss rate, the provision rate is 0%
Grouping 2	Pursuant to the previous bad debt loss rate and the assessment of management, the provision rate is 0%
Grouping 3	Aging analysis method
Bank acceptance	Not accrued

In grouping 3, the provision rates using aging analysis method are shown below:

	The provision rate for accounts receivable
Not due	0%
Overdue less than 3 months	0%
Overdue between 3 and 6 months	5%
Overdue between 6 and 12 months	20%
Overdue more than 1 year	50% - 100%

##### (iii) Accounts receivable with amounts that are not individually significant but subject to provision for bad debts on the individual basis

The reason for provision for bad debts on the individual basis: there exists objective evidence that the Group will not be able to collect the amount under the original terms.

The method of making provision for bad debts: the provision is determined based on the negative difference between the present value of the future cash flows expected to be derived from the account receivable and its carrying amount.

#### (b) Receivables other than accounts receivable

Receivables other than accounts receivable are subject to separate assessment for impairment. If there exists objective evidence that the Group will not be able to collect the amount under the original terms, a provision for bad debts of that receivable is made. The method of making provision for bad debts: the provision is determined based on the negative difference between the present value of the future cash flows expected to be derived from the receivable and its carrying amount.

- (c) When the Group transfers the receivables to the financial institutions without recourse, the difference between the proceeds received from the transaction and their carrying amounts and the related taxes is recognised in profit or loss for the current period.

## (12) Inventories

### (a) Classification

Inventories include raw materials, work in process, finished goods, spare parts and turnover materials, and are measured at the lower of cost and net realisable value.

### (b) Costing of inventories

Cost is determined using the weighted average method. The cost of finished goods and work in process comprises raw materials, direct labour and systematically allocated production overhead based on the normal production capacity.

### (c) Basis for determining net realisable values of inventories and method for making provision for decline in the value of inventories

Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realisable value. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

### (d) The Group adopts the perpetual inventory system.

### (e) Amortisation method of low value consumables

Turnover materials include low value consumables. Low value consumables are expensed when issued.

## (13) Long-term equity investments

Long-term equity investments comprise the Company's long-term equity investments in its subsidiaries, and the Group's long-term equity investments in its joint ventures and associates.

Subsidiaries are the investees over which the Company is able to exercise control. A joint venture is a joint arrangement which is structured through a separate vehicle over which the Group has joint control together with other parties and only has rights to the net assets of the arrangement based on legal forms, contractual terms and other facts and circumstances. An associate is the investee over which the Group has significant influence by participating in the financial and operating policy decisions.

Investments in subsidiaries are presented in the Company's financial statements using the cost method, and are adjusted to the equity method when preparing the consolidated financial statements; investments in joint ventures and associates are accounted for using the equity method.

### (a) Determination of investment cost

For long-term equity investments acquired through a business combination: for long-term equity investments acquired through a business combination involving enterprises under common control, the investment cost shall be the absorbing party's share of the carrying amount of owners' equity of the party being absorbed at the combination date; for long-term equity investment acquired through a business combination involving enterprises not under common control, the investment cost shall be the combination cost.

For long-term equity investments acquired not through a business combination: for long-term equity investment acquired by payment in cash, the initial investment cost shall be the purchase price actually paid; for long-term equity investments acquired by issuing equity securities, the initial investment cost shall be the fair value of the equity securities issued.

### (b) Subsequent measurement and recognition of related profit and loss

Long-term equity investments accounted for using the cost method are measured at the initial investment cost, and cash dividends or profit distribution declared by the investees are recognised as investment income in profit or loss.

For long-term equity investments accounted for using the equity method, where the initial investment cost exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially measured at cost. Where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current period and the cost of the long-term equity investment is adjusted upwards accordingly.

For long-term equity investments accounted for using the equity method, the Group recognises the investment income according to its share of net profit or loss of the investee. The Group discontinues recognising its share of net losses of an investee after the carrying amount of the long-term equity investment together with any long-term interests that, in substance, form part of the investor's net investment in the investee are reduced to zero. However, if the Group has obligations for additional losses and the criteria with respect to recognition of provisions under the accounting standards on contingencies are satisfied, the Group continues recognising the investment losses and the provisions. For changes in owners' equity of the investee other than those arising from its net profit or loss, the Group records its proportionate share directly into capital surplus, provided that the Group's proportion of shareholding in the investee remains unchanged. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by an investee. The unrealised profits or losses arising from the

intra-group transactions amongst the Group and its investees are eliminated in proportion to the Group's equity interest in the investees, and then based on which the investment gains or losses are recognised. For losses on intra-group transactions amongst the Group and its investees attributable to asset impairment, any unrealised loss is not eliminated.

(c) Basis for determining existence of control, joint control or significant influence over investees

Control is the power over the investee so that the Company is entitled to variable return through participating in related activities of the investee and is able to exercise power over the investee to affect the amount of return.

Joint control is the contractually agreed sharing of control over an arrangement, and the decision of activities relating to such an arrangement requires the unanimous consent of the Group and other parties sharing control.

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

(d) Impairment of long-term equity investments

The carrying amounts of long-term equity investments in subsidiaries, joint ventures and associates are reduced to the recoverable amounts when the recoverable amounts are below their carrying amounts (Note 2 (19)).

#### (14) Fixed assets

(a) Recognition and initial measurement of fixed assets

Fixed assets comprise buildings, machinery and equipment, other equipment and land ownership.

Fixed assets are recognised when it is probable that the related economic benefits will flow to the Group and the costs can be reliably measured. Fixed assets purchased or constructed by the Group are initially measured at cost at the time of acquisition.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the associated economic benefits will flow to the Group and the related cost can be reliably measured. The carrying amount of the replaced part is derecognised. All the other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

(b) Depreciation method of fixed assets

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. For the fixed assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates of fixed assets are as follows:

	Estimated useful lives	Estimated net residual values	Annual depreciation rates
Buildings	20–60 years	0%–5%	1.58%–5%
Machinery equipment and other equipment	3–15 years	0%–5%	6.33%–33.33%
Land ownership (outside China)	Infinite	–	–

The estimated useful life and the estimated net residual value of a fixed asset and the depreciation method applied to the asset are reviewed and adjusted as appropriate at each year-end.

The Group's land ownership is located in Switzerland, Germany, India and the US held by overseas subsidiaries. Such land ownership has an infinite useful life, thus no depreciation is recognised.

(c) The carrying amount of a fixed asset is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note 2 (19)).

(d) Disposal of fixed assets

A fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

#### (15) Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to make the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. The carrying amount of construction in progress is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note 2 (19)).

### (16) Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that needs a substantially long period of time for its intended use commence to be capitalised and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use and the borrowing costs incurred thereafter are recognised in profit or loss for the current period. Capitalisation of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

For the specific borrowings obtained for the acquisition or construction of a fixed asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by deducting any interest income earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowings during the capitalisation period.

For the general borrowings obtained for the acquisition or construction of a fixed asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by applying the weighted average effective interest rate of general borrowings to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The effective interest rate is the rate at which the estimated future cash flows during the period of expected duration of the borrowings or applicable shorter period are discounted to the initial amount of the borrowings.

### (17) Intangible assets

Intangible assets include land use rights, customer relationships, patents, trademarks, computer software and development costs, etc., which are measured at cost, except for intangible assets obtained from business combinations involving enterprises not under common control, which are measured at fair value at the acquisition date.

#### (a) Land use rights

Land use rights located in the PRC are amortised on the straight-line basis over their approved use period of 50 years or remaining life of 40.5 years. If the acquisition costs of the land use rights and the buildings located thereon cannot be reasonably allocated between the land use rights and the buildings, all of the acquisition costs are recognised as fixed assets.

#### (b) Customer relationships

Customer relationships are amortised on the straight-line basis over their benefit period of 7–10 years.

#### (c) Patents

Patents are amortised on a straight-line basis over the patent protection period of 7–10 years as stipulated by the law.

#### (d) Trademarks

Trademarks include registered trademarks, etc. Trademarks have infinite useful lives, thus no amortisation is recognised.

#### (e) Computer software

Computer software is amortised on the straight-line basis over its useful life of 2–5 years.

#### (f) Periodical review of useful life and amortisation method

For an intangible asset with a finite useful life, a review of its useful life and amortisation method is performed at each year-end, with adjustment made as appropriate.

#### (g) Research and development

The expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset at end of the project.

Expenditure on the research phase is recognised in profit or loss in the period in which it is incurred. Expenditure on the development phase is capitalised only if all of the following conditions are satisfied:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- management intends to complete the intangible asset, and use or sell it;
- it can be demonstrated how the intangible asset will generate economic benefits;
- there are adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development phase can be measured reliably.

Other development expenditures that do not meet the conditions above are recognised in profit or loss in the period in which they are incurred. Development costs previously recognised as expenses are not recognised as an asset in a subsequent period. Capitalised expenditure on the development phase is presented as development costs in the balance sheet and transferred to intangible assets at the date that the asset is ready for its intended use – capitalisation for expenditures of development and research.

**(h) Impairment of intangible assets**

The carrying amount of an intangible asset is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note 2 (19)).

**(18) Long-term prepaid expenses**

Long-term prepaid expenses include the expenditure for improvements to fixed assets held under operating leases, and other expenditures that have been incurred but should be recognised as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortised on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortisation.

**(19) Impairment of long-term assets**

Fixed assets (excluding land with indefinite useful life), construction in progress, intangible assets with finite useful lives and long-term equity investments in subsidiaries, joint ventures and associates are tested for impairment if there is any indication that the assets may be impaired at the balance sheet date; land and intangible assets with indefinite useful lives and intangible assets not ready for their intended use are tested at least annually for impairment, irrespective of whether there is any indication that they may be impaired. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs 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 recognised 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 is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Goodwill that is separately presented in the financial statements is tested at least annually for impairment, irrespective of whether there is any indication that it may be impaired. In conducting the test, the carrying value of goodwill is allocated to the related asset groups or groups of asset groups which are expected to benefit from the synergies of the business combination. If the result of the test indicates that the recoverable amount of an asset group or group of asset groups, including the allocated goodwill, is lower than its carrying amount, the corresponding impairment loss is recognised. The impairment loss is first deducted from the carrying amount of goodwill that is allocated to the asset group or group of asset groups, and then deducted from the carrying amounts of other assets within the asset groups or groups of asset groups in proportion to the carrying amounts of assets other than goodwill.

Other fixed assets (land ownership) and intangible assets with indefinite useful lives and intangible assets not ready for their intended use are tested for impairment at least annually, irrespective of whether there is any indication that it may be impaired.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

**(20) Employee benefits**

Employee benefits include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits provided in various forms of consideration in exchange for service rendered by employees or compensation for the termination of the employment relationship.

**(a) Short-term employee benefits**

Short-term employee benefits include employee wages or salaries, bonuses, allowances and subsidies, staff welfare, premiums or contributions to medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs, short-term paid absences. The employee benefit liabilities are recognised in the accounting period in which the service is rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets.

**(b) Post-employment benefits**

The Group provides various pension plans and other post-employment benefits in China, Germany, Switzerland and other places. The plans include defined benefit plans and defined contribution plans.

The Group classifies post-employment benefit plans as either defined contribution plans or defined benefit plans. A defined contribution plan is a pension plan that the Group has no further payment obligations once the fixed contributions have been paid to a separate fund. The amounts based on the defined contribution plan are recognised as liabilities in the accounting period in which the service is rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets. Defined benefit plans are post-employment benefit plans other than defined contribution plans.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method at the similar interest rates of high-quality corporate bonds and state bonds with similar obligation terms and currency. Service costs (including current-service costs, past-service costs and settlement gains or losses) related to the defined benefit plan and net interest are recorded in profit or loss for the current period or related asset costs. Since employees' services in subsequent years may lead to a defined benefit level significantly higher than for the previous years, the Group recognises the accumulated benefit obligation (ABO) on a straight-line basis, starting from when the company first assumed the defined benefit obligation until the time when employee services no longer cause a significant increase in the benefit obligation. In determining the vested benefit obligation, any significant increase in defined benefit obligation due to future salary increase is not taken into consideration. Changes in the calculation of net liability or net assets related to the defined benefit plan are charged to other comprehensive income.

#### Basic pensions

The Group contributes fixed expenses to the local labour and social security authority or an independent fund, and the social security authority or independent fund bears the responsibility to pay pensions and other retirement benefits to the retired employees. The amounts based on the defined contribution plan are recognised as liabilities in the accounting period in which the service is rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets.

#### (c) Termination benefits

The Group provides compensation for terminating the employment relationship with employees before the end of the employment contracts or as an offer to encourage employees to accept voluntary redundancy before the end of the employment contracts. The Group recognises a liability arising from compensation for termination of the employment relationship with employees, with a corresponding charge to profit or loss at the earlier of the following dates: 1) when the Group cannot unilaterally withdraw the offer of termination benefits because of an employment termination plan or a curtailment proposal; 2) when the Group recognises costs or expenses related to the restructuring that involves the payment of termination benefits.

#### (d) Employee leave entitlements

The Group recognises the employee benefits related to accumulated paid leave when the employee provides service and thereby increases his/her rights to enjoy the paid leave, and is measured at the increased amount expected to be paid due to the accumulated rights to be exercised.

The Group recognises the employee benefits related to non-cumulative paid leave in the accounting period when the leave is actually taken.

#### (21) Dividend distribution

Cash dividend is recognised as a liability in the period in which it is approved by the shareholders.

#### (22) Provisions

Provisions for external guarantees, legal proceedings, product warranties, onerous contracts are recognised when the Group has a present obligation, and it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows. The increase in the discounted amount of the provision arising from the passage of time is recognised as interest expense.

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Provisions expected to be paid within one year since the balance sheet date are classified as current liabilities.

#### (23) Revenue recognition

The amount of revenue is determined in accordance with the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of the Group's activities. Revenue is shown net of discounts, rebates and returns.

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group, the related revenue can be reliably measured, and the specific revenue recognition criteria have been met for each type of the Group's activities as described below:

##### (a) Sales of products

Pursuant to the timing for risk transfer or delivery terms as agreed in the sales contract/agreement, revenue from the sales of goods is recognised when the significant risks and rewards of ownership of the goods are transferred to the buyer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and it is probable that the economic benefit associated with the transaction will flow to the Group and the relevant revenue and costs can be measured reliably.

**(b) Rendering of services**

Services mainly include technical services and after-sales services. The related revenue is recognised when the services have been rendered, the costs of related revenue can be reliably measured and the economic benefits associated with services may flow into the Group.

**(24) Government grants**

Government grants refer to the monetary or non-monetary assets obtained by the Group from the government, including tax refunds, financial subsidies, etc.

Government grants are recognised when the grants can be received and the Group can comply with all attached conditions. If a government grant is a monetary asset, it will be measured at the amount received or receivable. If a government grant is a non-monetary asset, it will be measured at its fair value. If its fair value cannot be obtained reliably, it will be measured at its nominal amount.

Government grants related to assets refer to government grants which are obtained by the Group for the purposes of purchase, construction or acquisition of the long-term assets. Government grants related to income refer to the government grants other than those related to assets.

Government grants related to assets will be recorded to net off the book value of the assets, or recognised as deferred revenue and amortised in a reasonable and systematic method in the income statement within the useful life of the asset; government grants related to income will be recorded as deferred income and recognised in profit or loss in the period in which the related expenses are recognised if the grants are intended to compensate for future expenses or losses, and otherwise recognised in profit or loss for the current period if the grants are used to compensate for expenses or losses that have been incurred. Government grants related to income will be recorded as deferred income and be deducted as related costs in the period in which the related expenses are recognised if the grants are intended to compensate for future expenses or losses, and otherwise deducted as related costs if the grants are used to compensate for expenses or losses that have been incurred.

The Group adopts the same reporting method for the same type of government grants.

Government grants related to operating activities are recorded as operating income, and government grants not related to operating activities are recorded as non-operating income.

The loans that the Group received with a concessional interest rate are recorded at the amount actually received. The borrowing cost is calculated with the loan principal and the concessional interest rate. The financial discount received by the Group is recorded to reduce the borrowing cost.

**(25) Deferred tax assets and deferred tax liabilities**

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). A deferred tax asset is recognised for the deductible losses that can be carried forward to subsequent years for the deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognised for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognised for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries, associates and joint ventures will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilised, the corresponding deferred tax assets are recognised.

Deferred tax assets and liabilities are offset when:

- the deferred taxes are related to the same tax payer within the Group and the same taxation authority; and,
- that tax payer within the Group has a legally enforceable right to offset current tax assets against current tax liabilities.

**(26) Leases**

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease. An operating lease is a lease other than a finance lease.

**(a) Operating leases**

Lease payments under an operating lease are recognised on a straight-line basis over the period of the lease, and are either capitalised as part of the cost of related assets or charged as an expense for the current period.

Rental income from an operating lease is recognised on a straight-line basis over the period of the lease.

**(b) Finance leases**

The leased asset is recognised at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount of the leased asset and the minimum lease payments is accounted for as an unrecognised finance charge and is amortised using the effective interest method over the period of the lease. A long-term payable is recorded at the amount equal to the minimum lease payments less the unrecognised finance charge.

**(27) Held for sale and discontinued operations**

Non-current assets or held-for-sale assets that meet the following conditions: (1) the assets are available for immediate sale in other similar transactions; (2) the Group has sales agreements with other parties and the agreement is legally binding with appropriate authorisation and the asset will be sold within 1 year.

Non-current assets (except for financial assets, investment properties measured at fair value and deferred tax assets) that meet the recognition criteria for held for sale are recognised at the amount equal to the lower of the fair value less costs to sell and the carrying amount. Any excess of the original carrying amount over the fair value less the costs to sell is recognised as asset impairment loss.

Such non-current assets and assets included in disposal groups classified as held for sale are accounted for as current assets, while liabilities included in disposal groups classified as held for sale are accounted for as current liabilities and are individually presented in the balance sheet.

A discontinued operation is a component of the Group that either has been disposed of or is classified as held for sale, and is separately identifiable operationally and for financial reporting purposes, and satisfies one of the following conditions: (1) represents a separate major line of business or geographical area of operations; (2) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; and (3) is a subsidiary acquired exclusively with a view to resale.

The discontinued net profit in the income statement includes the operating profit and loss, and profit and loss on disposal.

**(28) Segment information**

The Group identifies operating segments based on the internal organisation structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments.

An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenue and incur expenses from its ordinary activities; (2) its operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) the information on its financial position, operating results and cash flows is available to the Group. If two or more operating segments have similar economic characteristics and satisfy certain conditions, they are aggregated into one single operating segment.

**(29) Critical accounting estimates and judgments**

The Group continually evaluates the critical accounting estimates and key judgments applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting year are outlined below:

(a) Accounting estimates for impairment provision of goodwill, fixed assets and intangible assets with indefinite useful lives  
The Group tests for impairment of goodwill, fixed assets and intangible assets with indefinite useful lives annually. The recoverable amount of asset groups and combinations of asset groups is the present value of the future cash flows expected to be derived from them. The recoverable amount of fixed assets and intangible assets with indefinite useful lives is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. The calculations of the recoverable amounts require the use of estimates.

If management revises the growth rate that is used in the calculation of the future cash flows of asset groups and combinations of asset groups, the Group would need to adjust the provision for impairment against goodwill and fixed assets and intangible assets with infinite useful lives. If management revises the pre-tax discount rate applied to the discounted cash flows, and the revised pre-tax discount rate is higher than the one currently applied, the Group would need to recognise further impairment against goodwill and fixed assets and intangible assets with infinite useful lives.

If the actual growth rate/pre-tax discount rate is higher/lower than management's estimates, the impairment loss of goodwill and fixed assets and intangible assets with indefinite useful lives previously provided for is not allowed to be reversed by the Group.

## (b) Accounting estimates for provision for decline in the value of inventories

The Group periodically evaluates the net realisable value of inventories and recognises a decline in the value of inventories at the excess of their costs over their net realisable value. When making estimates of the net realisable value, the Group takes into consideration the use of inventories on hand and other information available to form the underlying assumptions, including the inventories' expected selling price. The net realisable value of inventories may vary based on changes in the market price and actual use of the inventories, resulting in changes in the provision for a decline in the value of inventories and thereby affecting the profit or loss.

## (c) Useful lives and residual values of fixed assets (excluding overseas land ownership)

The Group's management estimates the expected useful lives and residual values of fixed assets with finite useful lives. The estimates are based on the actual useful lives in the past and industry practices of fixed assets with a similar nature and function. The economic environment, technical environment and other environment may have a significant impact on the useful lives and expected net residual values of fixed assets; and changes in the economic environment, technical environment and other environment may also lead to significant changes in the expected realisation method of economic benefits related to fixed assets. Different estimates may affect the depreciation of fixed assets and profit or loss for the current period. Fixed assets of the Group also include certain developed land located outside China, which has an indefinite useful life and is not subject to amortisation.

## (d) Useful lives and residual values of intangible assets (excluding trademarks)

The Group's management estimates the expected useful lives of intangible assets with finite useful lives. The estimates are based on the actual useful lives in the past and industry practices of intangible assets with a similar nature and function. The economic environment, technical environment and other environment may have a significant impact on the useful lives of intangible assets; and changes in the economic environment, technical environment and other environment may also lead to significant changes in the expected realisation method of economic benefits related to intangible assets. Different estimates may affect the amortisation of intangible assets and profit or loss for the current period.

## (e) Income tax and deferred income tax

The Group is subject to income taxes in numerous countries/jurisdictions. There are some transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgment is required from the Group in determining the provision for income taxes in each of these countries/jurisdictions. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets and deferred tax liabilities are measured at the applicable rate at the time of realisation of the estimated deferred tax assets or settlement of deferred tax liabilities. Deferred tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

The Group's management recognises deferred tax assets in accordance with the enacted or substantially enacted tax laws and the best estimates of the Group's realisable earnings in the expected future year in which the deferred tax assets will be realised. However, estimates of future earnings or future taxable income require a large number of judgments and estimates, together with tax planning strategies. Different judgments and estimates will affect the amount of deferred tax assets recognised. Management will reassess the estimate of earnings and other estimates at each balance sheet date.

## (f) Provisions

It is probable that there will be an outflow of economic benefits due to product warranties and the amount is uncertain. The Group recognises provisions in accordance with the best estimate of the outflow to perform the related present obligation. The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.

The Group's management makes estimates of the warranty cost based on the historical experience of similar projects or the costs expected to be incurred. However, the evaluation of the future actual warranty cost requires a large number of judgments and estimates. Different judgments and estimates will affect the amount of provisions recognised. During the warranty process, the Group continues to review and reevaluate the expected warranty cost.

**(30) Significant change in accounting policies**

In 2018, the Ministry of Finance issued the "Circular on the Amendment to the Formats of Corporate Financial Statements for the Year of 2018" (Cai-Kuai [2018] No. 15). The financial statements are prepared in accordance with the above circular with restatement of the comparative figures for 2017, and the impacts are as follows:

(a) The impacts on the consolidated balance sheet and income statement are as follows:

The nature and reason for the changes in accounting policies	The line items affected	The amounts affected	
		31 December 2017	1 January 2017
The Group notes receivable and accounts receivable as notes and accounts receivables.	Notes receivable	-2 042 921	-966 126
	Accounts receivable	-127 383	-30 893
	Notes and accounts receivables	2 170 304	997 019
The Group interests receivable and dividends receivable and other receivables as other receivables.	Interests receivable	-8 565	-24 676
	Dividends receivable	-	-
	Other receivables	8 565	24 676
The Group notes payable and accounts payable as notes and accounts payables.	Notes payable	-1 492 701	-823 976
	Accounts payable	-	-
	Notes and accounts payables	1 492 701	823 976
The Group interests payable, dividends payable and other payables as other payables.	Interests payable	-2 395	-2 300
	Dividends payable	-	-
	Other payables	2 395	2 300

The nature and reason for the changes in accounting policies	The line items affected	The amounts affected	
		1 January 2017	
The Group presented research and development expenses separately from general and administrative expenses.	Research and development expenses		310 817
	General and administrative expenses		-310 817
The Group reclassified interest income arising from WMPs and third party temporary loans from financial expenses to investment income.	Financial expenses		149 242
	Investment income		-149 242

(b) There is no impact on the consolidated cash flow for the year ended 31 December 2017.

(c) The impacts on the Company balance sheet and income statement are as follows:

The nature and reason for the changes in accounting policies	The line items affected	The amounts affected	
		31 December 2017	1 January 2017
The Company notes receivable and accounts receivable as notes and accounts receivables.	Notes receivable	-	-3 028 724
	Accounts receivable	-	-500
	Notes and accounts receivables	-	3 029 224
The Company interests receivable and dividends receivable and other receivables as other receivables.	Dividends receivable	-	-37
	Other receivables	-	37
The Company notes payable and accounts payable as notes and accounts payables.	Accounts payable	-	104 050
	Notes payable	-	578 655
	Notes and accounts payables	-	-682 705

(d) There is no impact on the Company income statement for the year ended 31 December 2017.

(e) There is no impact on the Company cash flow for the year ended 31 December 2017.

### 3 Taxation

(1) The main categories and rates of taxes applicable to the Group for the year 2017 and 2018 are set out below:

Category	Tax rate	Corresponding countries/regions	Tax base
Corporate income tax	(a)	Note 3 (1) (a)	Corresponding countries/regions where the Group is located
Value-added tax ("VAT")	(b)	1.5% - 35%	Corresponding countries/regions where the Group is located
Urban maintenance and construction tax	7%	China	Turnover tax paid
Educational surcharge	3%	China	Turnover tax paid
Local educational surcharges	2%	China	Turnover tax paid

(a) Corporate income tax

The corporate income tax rates applicable to the Group and its main subsidiaries are set out below:

	Countries and regions	Tax rate for 2018	Tax rate for 2017
The Company (Note 1)	China	25.00%	25.00%
Saurer Intelligent Machinery Co. Ltd	China	25.00%	25.00%
Saurer Hong Kong Machinery Co. Ltd	Hong Kong	16.50%	16.50%
Saurer Asia Machinery Co. Ltd	Hong Kong	16.50%	16.50%
Saurer (Jiangsu) Textile Machinery Co. Ltd (Note 3 (2))	China	15.00%	15.00%
Saurer (Changzhou) Textile Machinery Co. Ltd (Note 3 (2))	China	15.00%	15.00%
Saurer (Changzhou) Texparts Components Co. Ltd	China	25.00%	25.00%
Saurer (Shanghai) Textile Machinery Technology Co. Ltd	China	25.00%	25.00%
Saurer Finance Lease Co. Ltd	China	25.00%	25.00%
Changzhou Jintan Saurer Investment Co. Ltd	China	25.00%	25.00%
Saurer Xinjiang Intelligent Machinery Co. Ltd (Note 3 (2))	China	15.00%	15.00%
Saurer Intelligent Technology AG (Note 3 (2))	Switzerland	17.57%	N/A
Saurer Industries AG (Note 3 (2))	Switzerland	N/A	17.57%
Saurer Têxtil Soluções Ltda.	Brazil	34.00%	34.00%
SAURER AG (Note 3)	Switzerland	17.40%	17.40%
Saurer Czech s.r.o.	Czech Republic	19.00%	19.00%
Saurer Technologies GmbH & Co. KG	Germany	31.26%	31.26%
Saurer Spinning Solutions GmbH & Co. KG (Former name: Saurer Germany GmbH & Co. KG)	Germany	31.87%	31.87%
Saurer Fibrevisión Ltd	UK	20.00%	19.00%
Schlafhorst Machines LLP (Former name: Saurer Germany GmbH & Co. KG)	India	34.94%	32.44%
Saurer Textile Solutions Pvt. Ltd	India	34.94%	32.44%
Zinser Textile Machines LLP (Note 2)	India	N/A	N/A
Saurer México S.A. de C.V.	Mexico	30.00%	30.00%
Saurer Components Pte. Ltd	Singapore	17.00%	17.00%
Saurer Tekstil A.S.	Turkey	22.00%	20.00%
Saurer Inc.	USA	21.00%	38.58%
Saurer Technologies Management	Austria	31.27%	31.27%

Note 1: for the year 2016 and the 8-month period ended 31 August 2017, the income tax rate applicable to the Company was 15%. Upon the completion of major assets restructuring mentioned in Note 1, the income tax rate applicable to the Company is 25%.

Note 2: Zinser Textile Machines was incorporated in November 2016 and was still in the start-up period.

Note 3: Saurer Industries AG was incorporated on 21 December 2017 and dissolved on 22 November 2018.

According to the "Announcement of policies regarding the corporate income tax deduction of equipment and tools" (Cai-Shui [2018] No. 54) and related regulations, the domestic subsidiaries of the Group can deduct the whole purchase cost of assets lower than RMB 5 000 000 in the following month from the time the assets are included in the calculation of taxable income.

(b) Value-added tax ("VAT")

The Group's sales of products are subject to VAT.

According to the "Announcement of the adjustment of the VAT rate from Ministry of Finance and State Administration of Taxation" (Cai-Shui [2018] No. 32) and related regulations, the sales income of products for the domestic market of the subsidiaries of the Company can apply a 16 % VAT rate. The applicable VAT rate of the same business before 1 May 2018 was 17 %. The Company and domestic subsidiaries use the "exempt, credit, refund" method on goods exported. VAT input on purchase of raw materials, fuels, power and certain fixed assets can be deducted from VAT output. Tax payable is calculated using the taxable sales amount multiplied by the applicable tax rate less the deductible VAT input of the current period. Tax payable of the Company's overseas subsidiaries is calculated using the taxable sales amount multiplied by the applicable tax rate in each country less the deductible VAT input of the current period. In 2018 and 2017, the applicable tax rate of the Company ranged from 1.5 % to 35 %.

**(2) Tax preference**

On 6 July 2015, Saurer (Jiangsu) Textile Machinery Co. Ltd ("Saurer Jiangsu"), a subsidiary of the Group, obtained the Advance High Technology Enterprise Approval Certificate, with a validity period of 3 years. As a result, the enterprise income tax rate of Saurer Jiangsu reduced to 15 % from 1 January 2015 after approval from SAT, Jintan Office, Changzhou City, Jiangsu Province, PRC on 28 December 2015. In 2018, Saurer (Jiangsu) Textile Machinery Co. Ltd obtained the Advance High Technology Enterprise Approval Certificate and the validity period of the certificate is 3 years. The applicable enterprise income tax rate of the Company in 2017 and 2018 was 15 %.

Pursuant to the relevant regulations of "Circular on the Overall Promotion of the Pilot Program of Levying VAT in place of Business Tax" (Cai-Zheng [2016] No. 36) jointly issued by the Ministry of Finance and the State Administration of Taxation for exemplary service outsourcing enterprises registered in the pilot area, the taxable services in offshore service outsourcing business are exempted from VAT. Pursuant to the approval from SAT, Jintan Office, Changzhou City, Jiangsu Province, PRC, relevant technical services and after-sales services of Saurer Jiangsu, a subsidiary of the Company, are exempted from VAT from 1 May 2016.

On 10 October 2015, Saurer (Changzhou) Textile Machinery Co. Ltd ("Saurer Changzhou"), a subsidiary of the Group, obtained the Advance High Technology Enterprise Approval Certificate, with a validity period of 3 years. As a result, the enterprise income tax rate of Saurer Changzhou reduced to 15 % from 1 January 2015 after approval from SAT, Jintan Office, Changzhou City, Jiangsu Province, PRC on 22 September 2016. In 2018, Saurer (Changzhou) Textile Machinery Co. Ltd obtained the Advance High Technology Enterprise Approval Certificate and the validity period of the certificate is 3 years. The applicable enterprise income tax rate of the Company in 2017 and 2018 was 15 %.

According to the related regulation "Announcement of software products VAT policies" (Cai-Shui [2011] No. 100) issued by the Ministry of Finance and the State Administration of Taxation, ordinary VAT payers (who normally pay 17 % VAT (16 % starting 1 May 2018)) are entitled to receive a refund for the VAT amount exceeding 3 % on sales of self-produced and self-manufactured software products. The software business of Saurer (Changzhou) Textile Machinery Co. Ltd applied the VAT rebate policy from 1 October 2018 with approval from SAT, Jintan Office, Changzhou City, Jiangsu Province, PRC.

According to the "Announcement of issues concerning corporate income tax of fully implementing the strategy of development in China's western region" (2012, No.12), valid from 1 January 2011 to 31 December 2020, enterprises located in the western region with main business listed in the "Catalogue of encouraged industries in the western region" and main operating revenue greater than 70 % of total revenue in the current year shall be subject to enterprise income tax rate at the reduced rate of 15 %. As at 2 January 2018, Saurer Xinjiang Intelligent Machinery Co. Ltd applied with approval from the State Administration of Taxation of Urumqi Economic and Technological Development Zone for the corporate income tax rate of 15 %.

SAURER AG, a subsidiary of the Company, has obtained a tax break from the local state government of Switzerland. From 1 July 2013 to 30 June 2018, the taxable amount of SAURER AG is reduced by 50 % according to the tax levels of the state when certain conditions are satisfied, with a ceiling of CHF 10 million taxable net profit. If SAURER AG goes bankrupt or relocates to another state or country, the local state government can retroactively revoke the tax break. In addition, SAURER AG has obtained a tax break from the local commerce, education and research departments of Switzerland. From 1 July 2013 to 30 June 2018, the taxable amount of SAURER AG is reduced by 50 % according to the tax levels of the state when certain conditions are satisfied, with a ceiling of CHF 10 million taxable net profit. Should SAURER AG fail to satisfy the relevant standards, such departments can retroactively revoke the tax break.

Saurer Intelligent Technology AG, a subsidiary of the Company, has obtained a tax break for direct federal tax and local state income tax. a) Direct federal tax reductions will be granted for 10 years for a maximum tax credit of CHF 22 643 291 subject to certain conditions and requirements. b) State income tax: for a total period of 10 calendar years, 60 % of the income tax generally due on the taxable business profits exceeding CHF 2 000 000 shall be exempt from local state income tax. The first CHF 2 000 000 profits and 40 % of the profits exceeding CHF 2 000 000 are taxed at statutory local state tax rate. The maximum tax relief must not exceed CHF 23 000 000.

## 4 Notes to the consolidated financial statements

### (1) Cash at bank and on hand

	31 December 2018	31 December 2017
Cash on hand	58	53
Cash at bank	3 235 159	2 409 196
Other cash balances	485 184	64 182
	3 720 401	2 473 431

As at 31 December 2018, other cash balances included:

- (i) other cash balance of RMB 338 317 000 was placed as a security deposit for the letter of guarantee and the letter of credit applied by the Group's subsidiary Saurer (Jiangsu) Textile Machinery Co. Ltd (31 December 2017: RMB 17 442 000);
- (ii) other cash balance of EUR 5 835 000 (equivalent to RMB 45 788 000) was placed as security deposit for the letter of guarantee applied by the Group's subsidiary Saurer Spinning Solutions GmbH & Co. KG (31 December 2017: EUR 5 843 000, equivalent to RMB 45 604 000);
- (iii) other cash balances of RMB 80 000 000 and RMB 20 000 000 were placed as deposit for the bank acceptance of the Group's subsidiaries, Saurer Intelligent Machinery Co. Ltd and Saurer (Changzhou) Textile Machinery Co. Ltd, respectively (Note 4 (19)) (31 December 2017: Nil);
- (iv) other cash balance of RMB 1 079 000 was placed as other deposits (31 December 2017: RMB 1 136 000).

### (2) Financial assets/financial liabilities at fair value through profit or loss

	31 December 2018	31 December 2017
Financial assets at fair value through profit or loss		
- Forward foreign exchange contracts - cash flow hedges (a)	4 966	6 178
Financial liabilities at fair value through profit or loss		
- Forward foreign exchange contracts - cash flow hedges (a)	5 416	7 532

- (a) The Company's subsidiaries Saurer Spinning Solutions GmbH & Co. KG, Saurer Technologies GmbH & Co. KG and Saurer Inc. entered into foreign exchange forward contracts to mitigate foreign exchange risks arising from the collection and payment in foreign currencies for the year ended 31 December 2018 and 31 December 2017. The foreign exchange forward contracts entered into by the Group meet the conditions for applying hedge accounting. Those foreign exchange forward contracts for selling EUR and buying USD, GBP, SGD and CHF at fixed exchange rates or for selling USD and buying EUR at fixed exchange rates are cash flow hedges.

For the year ended 31 December 2018, net losses arising from changes in fair value of the effective portion of cash flow hedges amounting to RMB 820 000 (31 December 2017: net gains amounted to RMB 249 000) were recorded in other comprehensive income. The cash flow hedges had no non-effective portion.

As at 31 December 2018, the notional amount of the outstanding foreign exchange forward contracts of the Group were approximately RMB 898 611 000 (2017: RMB 1 025 047 000) which will expire within 1 year.

### (3) Notes and accounts receivable

	31 December 2018	31 December 2017
Notes receivable (a)	113 332	127 383
Accounts receivable (b)	3 234 982	2 042 921
	3 348 304	2 170 304

- (a) Notes receivable

	31 December 2018	31 December 2017
Bank acceptance notes	113 332	5 500

- (i) As at 31 December 2018, the Group's subsidiary Saurer Jiangsu pledged notes receivable of RMB 11 775 000 (31 December 2017: RMB 5 500 000) to the bank for letters of guarantee amounting to RMB 10 088 000 (31 December 2017: RMB 4 399 000).

(ii) As at 31 December 2018 and 31 December 2017, notes receivable which have been endorsed or discounted but will not mature yet are as follows:

	31 December 2018		31 December 2017	
	Derecognised	Not derecognised	Derecognised	Not derecognised
Bank acceptance notes	293 269	-	147 448	-

All the bank acceptance notes receivable will expire within 12 months after the year end.

(b) Accounts receivable

	31 December 2018	31 December 2017
Accounts receivable (Note 11 (4))	3,292,020	2,088,816
Less: long-term receivables (Note 4 (7))	-42,951	-35,240
	3,249,069	2,053,576
Less: provision for bad debts	-14,087	-10,655
	3,234,982	2,042,921

Accounts receivable falling due after 1 year are shown in long-term receivables.

(i) The aging analysis of accounts receivable is as follows:

	31 December 2018	31 December 2017
Not due	570 937	900 091
Overdue within 3 months	1 771 276	109 235
Overdue between 3 and 6 months	81 277	330 868
Overdue between 6 and 12 months	72 181	209 365
Overdue more than 1 year	753 398	504 017
	3 249 069	2 053 576

(ii) Accounts receivable are analysed by categories as follows:

	31 December 2018			
	Carrying amount		Provision for bad debts	
	Amount	% total balance	Amount	Ratio
Amounts that are individually significant and the related provision for bad debts is provided on the individual basis	-	-	-	-
Amounts for which the related provision for bad debts is provided on the grouping basis				
Grouping 1	2 493 717	77 %	-	-
Grouping 2	9 438	0 %	-	-
Grouping 3	746 460	23 %	-14 087	2 %
Amounts that are not individually significant but the related provision for bad debts is provided on the individual basis	-	-	-	-
	3 249 069	100 %	-14 087	2 %

	31 December 2017			
	Carrying amount		Provision for bad debts	
	Amount	% total balance	Amount	Ratio
Amounts that are individually significant and the related provision for bad debts is provided on the individual basis	-	-	-	-
Amounts for which the related provision for bad debts is provided on the grouping basis				
Grouping 1	1 023 300	50 %	-	-
Grouping 2	22 200	1 %	-	-
Grouping 3	1 008 076	49 %	-10 655	1 %
Amounts that are not individually significant but the related provision for bad debts is provided on the individual basis	-	-	-	-
	2 053 576	100 %	-10 655	1 %

(iii) As at 31 December 2018 and 31 December 2017, the Group had no accounts receivable with amounts that were individually significant and no related provision for bad debts.

(iv) As at 31 December 2018, accounts receivable of Grouping 2 that were overdue amounted to RMB 9 438 000 (31 December 2017: equivalent to RMB 22 200 000). The Group expected such accounts receivable to be recovered and not impaired based on clients' financial situation and credit history, and no provision was made individually.

(v) Accounts receivable for which related provision for bad debts is provided on the basis of grouping 3 (using the aging method) are analysed as follows:

31 December 2018				
	Amount	% total balance	Provision for bad debts	Ratio
Not due	562 291	75 %	-	-
Overdue within 3 months	97 244	13 %	-	-
Overdue between 3 and 6 months	50 449	7 %	-2 522	5 %
Overdue between 6 and 12 months	23 380	3 %	-4 676	20 %
Overdue more than 1 year	13 096	2 %	-6 889	53 %
	746 460	100 %	-14 087	2 %

31 December 2017				
	Amount	% total balance	Provision for bad debts	Ratio
Not due	900 091	89 %	-	-
Overdue within 3 months	77 989	8 %	-	-
Overdue between 3 and 6 months	10 531	1 %	-533	5 %
Overdue between 6 and 12 months	4 893	0 %	-979	20 %
Overdue more than 1 year	14 572	2 %	-9 143	63 %
	1 008 076	100 %	-10 655	1 %

In 2018, the provision for bad debts was RMB 10 783 000 (2017: RMB 6 476 000). The reversal or write-off of provision for bad debts amounted to RMB 3 265 000 (2017: RMB 9 819 000). Significant reversal or write-off is shown below:

2018	Reason for reversal or write-off	Basis and rationality in determining the original provision for bad debts	Amount	Recovery mode
Overseas customer A	Business recovery	Provide on the basis of aging	1 096	Cash collected

2017	Reason for reversal or write-off	Basis and rationality in determining the original provision for bad debts	Amount	Recovery mode
Overseas customer A	Business recovery	Provide on the basis of aging	3 944	Cash collected

(vi) Accounts receivable that are written-off

In 2018, the accounts receivable that was written-off amounted to RMB 3 514 000 (2017: RMB 8 092 000). The significant accounts receivable is analysed as follows:

2018	Reason	Nature	Amount	Whether arising from related party transactions
Overseas customer C	Cannot be recovered after many times of collection, and write-off according to the policies of the Company	Payment for goods	1 363	No

2017	Reason	Nature	Amount	Whether arising from related party transactions
Overseas customer D	Cannot be recovered after many times of collection, and write-off according to the policies of the Company	Payment for goods	6 492	No

(vii) The top 5 accounts receivable are analysed by balance as follows:

	Balance	Provision for bad debts	Percentage of total balance of accounts receivable (%)
31 December 2018	2 625 251	-	81 %
31 December 2017	1 311 128	-	64 %

#### (4) Other receivables

	31 December 2018	31 December 2017
Accounts receivable from third parties (a)	202 500	125 808
Tax refund receivable	9 575	1 792
Deposits receivable	8 149	7 476
Loans receivable from employees	7 223	6 100
Interest receivable	10 787	8 565
Others	17 728	16 279
	255 962	166 020
Less: provision for bad debts	-	-
	255 962	166 020

(a) The aging of other receivables is analysed as follows:

31 December 2018				
	Carrying amount		Provision for bad debts	
	Amount	% total balance	Amount	Ratio
Within 1 year	244 459	96 %	-	-
1 to 2 years	3 035	1 %	-	-
Over 2 years	8 468	3 %	-	-
	255 962	100 %	-	-

31 December 2017				
	Carrying amount		Provision for bad debts	
	Amount	% total balance	Amount	Ratio
Within 1 year	143 883	87 %	-	-
1 to 2 years	1 303	1 %	-	-
Over 2 years	20 834	12 %	-	-
	166 020	100 %	-	-

(b) The analysis of top 5 other receivables by balance

As at 31 December 2018, the top 5 other receivables are analysed by balance as follows:

	Nature	Balance	Aging	% of the total amount	Provision for bad debts
Jiangsu Jintan Economics and Technology Development Co. Ltd	Temporary loan	93 600	Within 1 year	36.57 %	-
Changzhou Haomai Machinery Manufacture Co. Ltd	Temporary loan	50 000	Within 1 year	19.53 %	-
Changzhou Jintan Nanjin Machine Tool Co. Ltd	Temporary loan	35 000	Within 1 year	13.67 %	-
Jiangsu First Construction Co. Ltd	Temporary loan	28 399	Within 1 year	11.10 %	-
Jiangsu Jintan Management Committee of Economic Development Zone	Project establishment deposit	1 800	Over 3 years	0.70 %	-
		208 799		81.57 %	

## (5) Advances to suppliers

(a) The aging of advances to suppliers is analysed as follows:

	31 December 2018		31 December 2017	
	Amount	% total balance	Amount	% total balance
Within 6 months	105 714	80 %	54 007	71 %
6 to 12 months	21 864	16 %	17 654	23 %
Over 1 year	5 380	4 %	4 604	6 %
	132 958	100 %	76 265	100 %

As at 31 December 2018, advances with the aging over 1 year were unsettled advances for procurement, amounting to RMB 5 380 000 (31 December 2017: RMB 4 604 000).

(b) As at 31 December 2018 and 31 December 2017, the top 5 advances to suppliers are analysed by balance as follows:

	Total balance of the top 5 advances to suppliers	% of total advances to suppliers
31 December 2018	78 036	59 %
31 December 2017	24 944	33 %

**(6) Inventories**

(a) Inventories are summarised by categories as follows:

	31 December 2018			31 December 2017		
	Carrying amount	Provision for decline in inventories	Carrying amount	Carrying amount	Provision for decline in inventories	Carrying amount
Raw materials	1 009 830	-79 297	930 533	850 181	-74 227	775 954
Work in progress	172 606	-2 500	170 106	153 489	-2 378	151 111
Finished goods	361 493	-8 030	353 463	373 773	-6 759	367 014
Spare parts	359 022	-50 479	308 543	315 898	-35 352	280 546
	1 902 951	-140 306	1 762 645	1 693 341	-118 716	1 574 625

(b) Provision for decline in inventories is analysed as follows:

	31 December 2017	Increase in the current year			Foreign currency translation difference	31 December 2018
		Accrual	Reversal	Write-off		
Raw materials	74 227	38 617	-14 712	-18 814	-21	79 297
Work in progress	2 378	823	-699	-8	6	2 500
Finished goods	6 759	10 895	-8 749	-394	-481	8 030
Spare parts	35 352	19 924	-424	-4 410	37	50 479
	118 716	70 259	-24 584	-23 626	-459	140 306

(c) Provision for decline in inventories in 2018 is as follows:

	Specific determining basis for net realisable value	The reason for reversal or write-off of provision for decline in the value of inventories
Raw materials	Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.	The difference between the accrued provision for the decline in the value of inventories in the current year and prior year is reversed; the provision for the decline in the value of inventories in the prior year is written-off based on the physical disposal of the inventories in the current year.
Work in progress		
Finished goods		
Spare parts		

**(7) Long-term receivables**

	31 December 2018	31 December 2017
Accounts receivable (Note 4 (3) (b))	3 292 020	2 088 816
Less: accounts receivable due within 1 year	-3 249 069	-2 053 576
	42 951	35 240

Long-term receivables are the undue receivables from instalment sales of the subsidiaries.

**(8) Other current assets**

	31 December 2018	31 December 2017
Wealth management products (WMPs) (a)	1 100 000	4 539 131
VAT input	187 224	179 221
Enterprise income tax prepaid	13 831	8 289
	1 301 055	4 726 641

(a) The balance of WMPs on 31 December 2018 comprises: the subsidiary of the Company, Saurer Intelligent Machinery Co. Ltd, purchased a principal-guaranteed WMP amounting to RMB 1 100 000 000 with an expected annual yield of 2.10 % that could be redeemed at any time in the open period. The WMPs were fully collected on 2 January 2019.

The balance of WMPs on 31 December 2017 comprises: Saurer Textile (Changzhou) Machinery Technology Co. Ltd, the subsidiary of the Company, purchased an interest-guaranteed and principal-guaranteed RMB WMP amounting to RMB 4 500 000 000 with an expected annual yield of 3.5 %. The WMPs were fully collected on 27 February 2018.

**(9) Long-term equity investments**

	31 December 2018	31 December 2017
Joint ventures	-	350
Less: provision for impairment of long-term equity investments	-	-
	-	350

On 2 March 2015, the Company's Swiss subsidiary SAURER AG entered into a joint venture agreement with a third party to establish Saurer Premier Technologies Private Limited in India. The registered capital of the joint venture was INR 30 000 000. According to the agreement, SAURER AG and the third party hold 50 % equity and 50 % voting rights in the joint venture, respectively. The main operations of the joint venture are production and sales of clearers and accessories. The long-term equity investments are subject to the foreign exchange control of India, where the investments are located.

(a) Joint ventures

	31 December 2017	Movements in the current year								31 December 2018	Provision for impairment
		Investment increased	Investment decreased	Share of net loss under equity method	Adjustment of other comprehen- sive income	Share of other changes in equity	Profit/cash dividends declared by joint venture	Provision for impairment	Others		
Saurer Premier Technologies Private Limited	350	-	-	-350	-	-	-	-	-	-	-

For information about equity in joint ventures, please refer to Note 6 (2).

**(10) Fixed assets**

	31 December 2017	Increase in the current year		Decrease in the current year	Foreign currency translation difference	31 December 2018
		Transfers from construction in progress	Other increases			
<b>Total cost</b>	<b>1476661</b>	<b>76206</b>	<b>117947</b>	<b>-26651</b>	<b>5819</b>	<b>1649982</b>
Buildings	443342	8976	12722	-163	2641	467518
Machinery equipment and other equipment	914155	67230	105225	-26488	3857	1063979
Land ownership	119164	-	-	-	-679	118485
<b>Total accumulated depreciation</b>	<b>-622274</b>	<b>-</b>	<b>-136771</b>	<b>24659</b>	<b>-5062</b>	<b>-739448</b>
Buildings	-104074	-	-22155	54	-1160	-127335
Machinery equipment and other equipment	-518200	-	-114616	24605	-3902	-612113
Land ownership	-	-	-	-	-	-
<b>Total impairment</b>	<b>-7491</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-43</b>	<b>-7534</b>
Buildings	-	-	-	-	-	-
Machinery equipment and other equipment	-7491	-	-	-	-43	-7534
Land ownership	-	-	-	-	-	-
<b>Carrying amount</b>	<b>846896</b>					<b>903000</b>
Buildings	339268					340183
Machinery equipment and other equipment	388464					444332
Land ownership	119164					118485

(a) In 2018, depreciation of fixed assets was RMB 136 771 000 (2017: RMB 138 447 000), of which RMB 107 133 000, RMB 7 651 000, RMB 14 414 000 and RMB 7 573 000 (2017: RMB 115 251 000, RMB 5 311 000 and RMB 10 932 000 and RMB 6 953 000) were recorded in cost of sales, operating expenses, general and administrative expenses and research and development expenses.

In 2018, the cost of fixed assets transfers from construction in progress were RMB 76 206 000 (2017: RMB 55 886 000).

As at 31 December 2018, the balances of impairment provision were equivalent to RMB 7 534 000 (31 December 2017: RMB 7 491 000).

(b) Information on mortgages and pledges

Refer to Note 4 (25) (c) for mortgage information of fixed assets.

(c) In 2018 and 2017, the Company had no idle fixed assets, fixed assets held under financial leases, fixed assets used for operating leases or fixed assets without property certificates.

**(11) Construction in progress**

	31 December 2018			31 December 2017		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Xinjiang Plant Construction Project	342 095	-	342 095	136 134	-	136 134
Other plant and equipment	122 941	-	122 941	72 633	-	72 633
	465 036	-	465 036	208 767	-	208 767

**(a) Changes in major construction in progress**

Project name	Budget	31 December 2017	Increase in the current year	Transfer to fixed assets	Transfer to intangible assets	Foreign currency translation difference	31 December 2018	% of engineering investment to budget	Progress of works	Cumulative amount of capitalised borrowing costs	Including: borrowing costs capitalised in the current year	Capitalisation rate for borrowing costs in the current year	Source of fund
Xinjiang Plant Construction Project	475 766	136 134	205 961	-	-	-	342 095	72 %	72 %	8 908	8 908	5.14 %	loan
Other plant and equipment	157 688	72 633	127 796	-76 206	-1 983	701	122 941	78 %	78 %	-	-	-	Self-raised
Total	633 454	208 767	333 757	-76 206	-1 983	701	465 036			8 908	8 908		

As at 31 December 2018, the Group believed that there was no indication that any construction in progress may be impaired, therefore no provision was made.

As at 31 December 2018, the constructions in progress of the subsidiary of the Company, Saurer Xinjiang Intelligent Machinery Co. Ltd, were placed as collateral for a long-term loan. For details, refer to Note 4 (25) (c).

**(12) Intangible assets/development expenditure**

	31 December 2017	Increase in the current year	Decrease in the current year	Foreign currency translation difference	31 December 2018
<b>Cost</b>					
Development cost	51 655	55 017	-16 890	635	90 417
Total intangible assets	1 596 190	26 703	-594	36 212	1 658 511
- Land use rights	118 427	-	-	-	118 427
- Customer relations	104 124	-	-	497	104 621
- Patents	353 451	-	-	1 833	355 284
- Trademarks	835 948	-	-	30 723	866 671
- Software and others	49 178	9 813	-594	632	59 029
- Capitalising R&D expenditure - technology	135 062	16 890	-	2 527	154 479
<b>Accumulated amortisation</b>					
Development cost	-	-	-	-	-
Total intangible assets	-275 445	-85 446	594	-2 190	-362 487
- Land use rights	-4 208	-2 250	-	-	-6 458
- Customer relations	-49 404	-11 679	-	-228	-61 311
- Patents	-167 244	-37 319	-	-1 025	-205 588
- Trademarks	-	-	-	-	-
- Software and others	-25 449	-8 034	594	-311	-33 200
- Capitalising R&D expenditure - technology	-29 140	-26 164	-	-626	-55 930
<b>Impairment</b>					
Capitalising R&D expenditure - technology	-5 106	-	-	-206	-5 312
<b>Carrying amount</b>					
Development cost	51 655				90 417
Total intangible assets	1 315 639				1 290 712
- Land use rights	114 219				111 969
- Customer relations	54 720				43 310
- Patents	186 207				149 696
- Trademarks	835 948				866 671
- Software and others	23 729				25 829
- Capitalising R&D expenditure - technology	100 816				93 237

(a) In 2018, the amortisation of intangible assets amounted to RMB 85 446 000 (2017: RMB 75 812 000).

As at 31 December 2018, the land use rights with book value amounting to RMB 89 244 000 (original value amounted to RMB 92 802 000) of Saurer Xinjiang Intelligent Machinery Co. Ltd, a subsidiary of the Company, were placed as the security collateral for the bank loan. The mortgage term was up to 48 months (Note 4 (25) (c)).

(b) Expenditure on R&D of the Group is as follows:

Project name	31 December 2017	Increase in the current year		Decrease in the current year		Foreign currency translation difference	31 December 2018
		Expenditure on R&D	Recognised in profit or loss	Recognised as intangible assets			
Project 1	3 621	1 093	-	-		26	4 740
Project 2	2 755	905	-	-		20	3 680
Project 3	7 275	29 912	-23 342	-11 661		165	2 349
Project 4	-	9 726	-	-		52	9 778
Project 5	20 870	15 775	-	-		197	36 842
Project 6	-	5 276	-	-		29	5 305
Other	17 134	322 343	-306 671	-5 229		146	27 723
	51 655	385 030	-330 013	-16 890		635	90 417

R&D expenditure incurred in 2018 amounted to RMB 385 030 000 (2017: RMB 322 082 000), of which RMB 330 013 000 (2017: RMB 275 325 000) was the expenditure incurred on the research phase and recognised in profit or loss during the current year, RMB 16 890 000 (2017: RMB 72 473 000) were recognised as intangible assets, and RMB 90 417 000 (2017: RMB 51 655 000) were incurred on the development phase and included in the year-end balance of development costs.

Development costs incurred in 2018 accounted for 14 % of total expenditure on R&D (2017: 14 %).

As at 31 December 2018, intangible assets resulting from internal research and development of the Group accounted for 7.2 % of the carrying amount of intangible assets (31 December 2017: 7.7 %).

As at 31 December 2018, the Company's subsidiary, SAURER AG, made a provision of CHF 753 000 (equivalent to RMB 5 312 000) for impairment of parts of R&D projects (31 December 2017: CHF 753 000 (equivalent to RMB 5 106 000)).

(c) As at 31 December 2018, while performing the intangible assets-trademark impairment test, the management estimated the future cash flows on the basis of historical experience and the prediction of market development and estimated the brand commission rate (1.5 %) on the basis of historical experience and the brand maintenance charge ratio. The adopted discount rate (pre-tax discount rate: 17 %~18 %) reflects the specific risk of trademark rights. The above hypotheses were used to analyse the recoverable amount of trademark rights in accordance with the historical experience of the Group and related external information.

**(13) Goodwill**

	31 December 2017	Movement in the current year	Foreign currency translation difference	31 December 2018
Goodwill				
- Acquisition of natural fibres and textile components business from the Oerlikon Group	588 456	-	11 321	599 777
- Acquisition of Verdol twisting operations	15 356	-	4	15 360
	603 812	-	11 325	615 137
Less: impairment	-	-	-	-
	603 812	-	11 325	615 137

Goodwill is the result of the acquisition of the natural fibres and textile components business from the Oerlikon Group in 2013 and the acquisition of Verdol twisting operations in 2015.

The allocation of goodwill to the asset groups and combination of asset groups are summarised by operating segments as follows:

	31 December 2018	31 December 2017
Spinning Solutions	512 401	502 805
Technologies	102 736	101 007
	615 137	603 812

The main hypothesis for future discounted cash flows:

	Spinning Solutions	Technologies
Growth rate in forecast period	-6 % ~ 15 %	11 % ~ 21 %
Growth rate in stable period	2.30 %	2.30 %
Gross profit rate	20 % ~ 26 %	27 % ~ 30 %
Discount rate	15.01 %	14.69 %

The Group determines the growth rate and gross profit rate on the basis of historical experience and the prediction of market developments and uses the pre-tax rate that can reflect the specific risk of the asset groups and combination of asset groups as the discount rate. The recoverable amount of the asset groups or combination of asset groups is calculated using the estimated cash flows determined according to the five-year budget approved by the management. Fixed growth rates will be used as basis of estimation after five years. The cash flows beyond the five-year period are calculated based on the estimated sales growth rates. The estimated sales growth rates are determined based on the estimated data of the market by management. Management determines budgeted gross margins based on past experience and forecasts of future market development. The assumptions above are used to assess the recoverable amount of each asset group or combination of asset groups within the corresponding business segment. According to the result of the impairment test, the recoverable amount of an asset group or combination of asset groups is higher than its carrying amount. Thus, no impairment loss is recognised. The allocation of goodwill has not changed in 2018.

**(14) Long-term prepaid expenses**

	31 December 2017	Increase in current year	Amortisation in current year	Foreign currency translation difference	31 December 2018
Leasehold improvement	3 454	2 111	-1 348	-96	4 121

**(15) Deferred tax assets and deferred tax liabilities**

(a) Deferred tax assets without taking into consideration the offsetting of balances

	31 December 2018		31 December 2017	
	Deductible temporary differences and deductible losses	Deferred tax assets	Deductible temporary differences and deductible losses	Deferred tax assets
Bad debts provision for account receivables	803	221	1 076	310
Provision for decline in inventories	41 968	9 060	38 455	8 862
Defined benefit plan	179 092	53 321	176 555	54 137
Other payables and accrued expenses	78 243	16 416	52 187	10 570
Provisions	450	91	1 146	317
Depreciation of fixed assets	12 543	3 882	42	13
Amortisation of intangible assets	50 157	9 384	67 701	13 930
Deductible losses	36 812	12 000	49 029	15 970
Elimination of intra-group unrealised profit	67 116	15 184	89 747	23 813
Others	577	142	-	-
	467 761	119 701	475 938	127 922
Including:				
Expected to reverse within 1 year (inclusive)		56 739		59 842
Expected to reverse after 1 year		62 962		68 080
		119 701		127 922

(b) Deferred tax liabilities without taking into consideration the offsetting of balances

	31 December 2018		31 December 2017	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Depreciation of fixed assets	118 087	25 701	121 208	25 697
Amortisation of intangible assets	449 088	96 828	330 019	75 808
Capitalised development cost	144 551	45 853	113 532	36 049
Defined benefit plan	163 238	28 680	138 844	24 395
Bad debts provision for account receivables	8 136	1 509	8 529	1 506
Provision for decline in inventories	18 621	3 326	15 355	2 738
Withholding income tax of profit not remitted by overseas subsidiaries	332 231	29 435	418 396	41 083
Interest receivable	501	124	4 522	1 131
Others	102 901	21 346	96 857	20 651
	1 337 354	252 802	1 247 262	229 058
Including:				
Expected to reverse within 1 year (inclusive)		16 997		18 470
Expected to reverse after 1 year		235 805		210 588
		252 802		229 058

(c) Deductible temporary differences and deductible losses that are not recognised as deferred tax assets are analysed as follows:

	31 December 2018	31 December 2017
Deductible temporary differences	69 556	68 451
Deductible losses	165 931	15 824
	235 487	84 275

(d) Deductible losses that are not recognised as deferred tax assets will expire in the following years:

	31 December 2018	31 December 2017
2019	-	-
2020	1 028	1 198
2021	2 210	2 210
2022	506	4 186
2023 and beyond	162 187	8 230
	165 931	15 824

(e) The net balances of deferred tax assets and liabilities after offsetting are as follows:

	31 December 2018		31 December 2017	
	Offsetting amount	After offsetting	Offsetting amount	After offsetting
Deferred tax assets	-69 244	50 457	-60 735	67 187
Deferred tax liabilities	-69 244	183 558	-60 735	168 323

(f) Temporary differences that are not recognised as deferred tax liabilities and related to investment to subsidiaries

	31 December 2018	31 December 2017
Retained earnings of subsidiaries	775 205	173 425

## (16) Allowance for assets impairment

	31 December 2017	Increase in the current year	Decrease in the current year		Foreign currency translation difference	31 December 2018
			Reversal	Write-off		
Provision for/(reversal of) bad debts	10 655	10 783	-3 265	-3 514	-572	14 087
Including:						
- Provision for bad debts of accounts receivable	10 655	10 783	-3 265	-3 514	-572	14 087
Provision for decline in the value of inventories	118 716	70 259	-24 584	-23 626	-459	140 306
Provision for impairment of fixed assets	7 491	-	-	-	43	7 534
Provision for impairment of intangible assets	5 106	-	-	-	206	5 312
	141 968	81 042	-27 849	-27 140	-782	167 239

**(17) Other non-current assets**

	31 December 2018	31 December 2017
Defined benefit plan assets (Note 4 (27))	163 238	138 844
Prepayment for machinery equipment	252 866	54 757
Others	11 480	11 707
	427 584	205 308

**(18) Short-term borrowings**

	Original currency	31 December 2018	31 December 2017
Credited borrowings (a)	RMB	100 000	-
Guaranteed borrowings (b)	RMB	297 573	181 000
Guaranteed borrowings (c)	EUR	1 051 419	64 842
Guaranteed borrowings (d)	INR	50 342	21 159
		1 499 334	267 001

(a) As at 31 December 2018, the credited borrowings of the Company amounted to RMB 100 000 000 (with an annual interest rate of 5.66 %) (31 December 2017: Nil).

(b) As at 31 December 2018, the guaranteed borrowings of RMB 297 573 000 (31 December 2017: RMB 181 000 000) were borrowings of the Company's subsidiaries Saurer (Jiangsu) Textile Machinery Co. Ltd and Saurer (Changzhou) Textile Machinery Co. Ltd, including:

(i) As at 31 December 2018, a total borrowing amount of RMB 147 573 000 (with the annual interest rate ranging from 4.79 % to 5.00 %) (31 December 2017: RMB 81 000 000, with an annual interest rate ranging from 4.35 % to 5.00 %) was guaranteed by Jiangsu Jinsheng Industry Co. Ltd, Mr Pan Xueping and Mrs Chen Meifang, by providing a maximum amount guarantee and a joint liability guarantee.

(ii) As at 31 December 2018, a total borrowing amount of RMB 150 000 000 (with the annual interest rate ranging from 5.22 % to 5.66 %) (31 December 2017: RMB 100 000 000, with an annual interest rate of 5.66 %) was guaranteed by Jiangsu Jinsheng Industry Co. Ltd and Mr Pan Xueping by providing a maximum amount guarantee and a joint liability guarantee.

(c) As at 31 December 2018, the guaranteed borrowings of EUR 133 988 000 (equivalent to RMB 1 051 419 000) (31 December 2017: EUR 8 303 000, equivalent to RMB 64 842 000) were borrowings of the Company's subsidiaries, Saurer (Jiangsu) Textile Machinery Co. Ltd and Saurer Spinning Solutions GmbH & Co. KG., including:

(i) As at 31 December 2018, the borrowing of Saurer (Jiangsu) Textile Machinery Co. Ltd with a total amount of EUR 9 974 000 (equivalent to RMB 78 267 000) (31 December 2017: EUR 4 960 000, equivalent to RMB 38 699 000) was guaranteed by Jiangsu Jinsheng Industry Co. Ltd, Mr Pan Xueping and Mrs Chen Meifang, by providing a maximum amount guarantee and a joint liability guarantee. The annual interest rate was 2.5 % (31 December 2017: 2.3 %).

(ii) As at 31 December 2018, the borrowing of Saurer Spinning Solutions GmbH & Co. KG with a total amount of EUR 124 014 000 (equivalent to RMB 973 152 000) (31 December 2017: Nil) with an annual interest rate ranging from 1.65 % to 2.05 % was guaranteed by Saurer Hong Kong Machinery Co. Ltd, a subsidiary of the Company.

(d) As at 31 December 2018, the guaranteed borrowings of INR 513 763 000 (equivalent to RMB 50 342 000) with an annual interest rate of 5.70 % to 9.50 % (31 December 2017: INR 207 028 000, equivalent to RMB 21 159 000, with an annual interest rate of 9.5 %) were secured borrowings of the company's subsidiary Saurer Textile Solutions Pvt. Ltd, guaranteed by the Company's subsidiary Saurer Hong Kong Machinery Co. Ltd.

(e) As at 31 December 2018, the annual interest rates of short-term borrowings ranged from 1.65 % to 9.50 % (31 December 2017: 1.36 % to 9.50 %).

(f) As at 31 December 2018 and 31 December 2017, there was no overdue short-term borrowing.

**(19) Notes and accounts payable**

	31 December 2018	31 December 2017
Notes payable (a)	100 000	-
Accounts payable (b)	1 447 131	1 492 101
	1 547 131	1 492 701

**(a) Notes payable**

	31 December 2018	31 December 2017
Bank acceptance notes	100 000	-

**(b) Accounts payable**

	31 December 2018	31 December 2017
Accounts payable (b)	1 447 131	1 492 101

As at 31 December 2018, accounts payable with aging over 1 year amounted to RMB 79 521 000 (31 December 2017: RMB 33 805 000), and mainly comprised unsettled material trade payable.

**(20) Advances from customers**

	31 December 2018	31 December 2017
Advances from customers	586 799	1 374 279

As at 31 December 2018, advances from customers with aging over 1 year amounted to RMB 21 350 000 (31 December 2017: RMB 47 818 000), and mainly comprised advances for machinery orders. Such payments are not settled because the orders are not completed yet.

**(21) Employee benefits payable**

	31 December 2018	31 December 2017
Short-term employee benefits (a)	208 068	198 528
Defined contribution plans (b)	1 640	2 670
Termination benefits (c)	2 271	2 162
Long-term employee benefits payable within 1 year (Note 4 (27))	62 686	56 345
	274 665	259 705

**(a) Short-term employee benefits**

	31 December 2017	Increase in the current year	Decrease in the current year	Foreign currency translation difference	31 December 2018
Wages and salaries, bonuses, allowances and subsidies	135 661	1 303 237	-1 300 313	656	139 241
Welfare of employees	-	14 525	-14 531	6	-
Social security contributions	854	21 672	-21 607	3	922
Including:					
- Medical insurance	438	18 183	-18 129	1	493
- Work injury insurance	400	2 946	-2 934	2	414
- Maternity insurance	16	543	-544	-	15
Housing funds	143	13 121	-13 114	-	150
Labour union funds and employee education funds	4 121	1 177	-1 451	-	3 847
Other short-term employee benefits	57 749	224 044	-218 324	439	63 908
	198 528	1 577 776	-1 569 340	1 104	208 068

**(b) Defined contribution plans**

	31 December 2017	Increase in the current year	Decrease in the current year	Foreign currency translation difference	31 December 2018
Basic pensions	2 413	37 744	-38 839	33	1 351
Unemployment insurance	257	2 131	-2 105	6	289
	2 670	39 875	-40 944	39	1 640

## (c) Termination benefits payable

	31 December 2018	31 December 2017
Other termination benefits	2 271	2 162

## (22) Taxes payable

	31 December 2018	31 December 2017
Enterprise income tax payable	188 345	186 827
Individual income tax payable	38 860	17 901
Unpaid value-added tax	28 515	3 398
Withholding taxes payable	25 006	10 738
Stamp tax	1 668	10 388
Land value increment tax payable	-	22 689
Others	8 996	3 740
	291 390	255 681

## (23) Other payables

	31 December 2018	31 December 2017
Accrued expenses	69 174	49 730
Project payment payables	61 243	49 957
Overpayment from customers	57 625	86 613
Accrued agent fees	49 676	44 221
Professional service fee payables	48 652	15 038
Freight payables	24 563	31 109
Fixed assets procurement	20 737	3 455
Accrued rebates	9 845	10 142
Customer deposit payables	5 641	3 341
IT maintenance fees	5 634	5 257
Bank loan interest payables	4 153	1 923
Payables to related parties (Note 8 (5) (f))	45	11 999
Interest payables to related parties (Note 8 (5) (e))	-	472
Others	20 044	19 506
	377 032	332 763

As at 31 December 2018, other payables with an aging of over 1 year amounted to RMB 41768 000 (31 December 2017: RMB 72 846 000), and mainly comprised non-trade payables. Such payables are not paid because they have not been settled yet.

## (24) Current portion of non-current liabilities

	31 December 2018	31 December 2017
Current portion of long-term borrowings (a)	491 999	459 516
Current portion of provisions (Note 4 (26))	241 821	273 770
	733 820	733 286

## (a) Current portion of long-term borrowings

	Original currency	31 December 2018	31 December 2017
Pledged borrowings (Note 4 (25))	EUR	461 999	459 516
Pledged borrowings (Note 4 (25))	RMB	30 000	-
		491 999	459 516

As at 31 December 2018 and 31 December 2017, the Group had no overdue current portion of long-term borrowings.

## (25) Long-term borrowings

	Original currency	31 December 2018	31 December 2017
Pledged borrowings (a) (Note (11))	EUR	2 147 756	2 517 680
Guaranteed borrowings (b)	EUR	596 381	671 225
Guaranteed and secured borrowings (c)	RMB	300 000	-
		3 044 137	3 188 905
Less: current portion of long-term borrowings (Note 4 (24) (a))	EUR	-461 999	-459 516
	INR	-30 000	-
		2 552 138	2 729 389

(a) As at 31 December 2018, pledged borrowings with a balance of EUR 273 700 000 (equivalent to RMB 2 147 756 000) (including the current portion of long-term borrowings EUR 48 875 000, equivalent to RMB 383 528 000) (31 December 2017: EUR 322 575 000 (equivalent to RMB 2 517 680 000) (including the current portion of long-term borrowings EUR 48 875 000, equivalent to RMB 381 467 000)) were borrowed from China Development Bank by the Company's subsidiary Saurer Hong Kong Machinery Co. Ltd in 2013, which was secured by long-term equity investments held by the Group in SAURER AG, Saurer Netherlands Machinery Company B.V., Saurer (Jiangsu) Textile Machinery Co. Ltd, Saurer (Changzhou) Textile Machinery Co. Ltd and Saurer (Changzhou) Texparts Components Co. Ltd. The interest was paid every six months. For the principal, EUR 9 775 000 was repaid on 23 June 2014, 22 June 2015 and 21 June 2016, respectively, EUR 39 100 000 was repaid on 21 June 2017, EUR 48 875 000 was repaid on 21 June 2018 and EUR 48 875 000 will be repaid on 21 June 2019, EUR 53 763 000 will be repaid on 22 June 2020 and 21 June 2021, respectively, EUR 58 650 000 will be repaid on 21 June 2022 and 21 June 2023, respectively.

The borrowing was guaranteed by the guarantee letter from China Development Bank Jiangsu Branch (CDB Jiangsu Branch). The guarantee charges were paid quarterly. In 2018, the total guarantee charges for the borrowing amounted to RMB 24 617 000 (Note 4 (39)). The borrowing was prepaid after the balance sheet date (Note (11)).

(b) As at 31 December 2018, the bank guaranteed borrowings of EUR 76 000 000 (equivalent to RMB 596 381 000) (31 December 2017: EUR 86 000 000 (equivalent to RMB 671 225 000)) by the Company's subsidiary Saurer Hong Kong Machinery Co. Ltd.

(i) As at 31 December 2018, borrowings of EUR 20 000 000 (equivalent to RMB 156 942 000) (31 December 2017: EUR 30 000 000 (equivalent to RMB 234 148 000)) were guaranteed by Saurer Spinning Solutions GmbH Co. & KG. The borrowings will mature on 30 December 2020.

(ii) As at 31 December 2018, borrowings of EUR 36 000 000 (equivalent to RMB 282 497 000) (31 December 2017: EUR 36 000 000 (equivalent to RMB 280 978 000)) were guaranteed by Saurer Spinning Solutions GmbH & Co. KG and Saurer Technologies GmbH & Co. KG. The borrowings will expire on 15 December 2020.

(iii) As at 31 December 2018, borrowings of EUR 20 000 000 (equivalent to RMB 156 942 000) (31 December 2017: EUR 20 000 000 (equivalent to RMB 156 099 000)) were guaranteed by the subsidiaries of the Company, Saurer Spinning Solutions GmbH & Co. KG and Saurer Technologies GmbH & Co. KG. The borrowings will expire on 3 December 2020.

(c) As at 31 December 2018, the bank guaranteed and secured borrowings with a total amount of RMB 300 000 000 (including current portion of borrowings RMB 30 000 000) and a maturity term of 4 years from a domestic bank by the Company's subsidiary Saurer Xinjiang Intelligent Machinery Co. Ltd. The borrowings were guaranteed by the Company by providing a joint liability guarantee.

The secured bank borrowings were pledged by the buildings and land usage right with a maximum mortgage term not exceeding 48 months.

The principal will be repaid by RMB 30 000 000 in 2019, RMB 70 000 000 in 2020 and RMB 100 000 000 in 2021, and 2022 respectively.

(d) As at 31 December 2018, the annual interest rates of long-term borrowings ranged from 1.90 % to 5.23 % (31 December 2017: 1.90 % to 2.84 %).

**(26) Provisions**

	31 December 2017	Increase in the current year	Decrease in the current year	Foreign currency translation difference	31 December 2018
Product warranties	213 044	62 738	-63 748	1 544	213 578
Others	68 496	25 478	-55 347	-46	38 581
	281 540	88 216	-119 095	1 498	252 159
Less: provision due within 1 year					
Product warranties	-206 054	-59 938	63 348	-1 381	-204 025
Others	-67 716	-25 478	55 347	51	-37 796
	-273 770	-85 416	118 695	-1 330	-241 821
Non-current portion of provisions					
Product warranties	6 990	2 800	-400	163	9 553
Others	780	-	-	5	785
	7 770	2 800	-400	168	10 338

**(27) Long-term employee benefits payable**

	31 December 2018	31 December 2017
Defined benefit plan (a)	372 662	352 153
Other employee benefits	26 748	32 880
	399 410	385 033
Less: payables within 1 year	-62 686	-56 345
	336 724	328 688

Retirement benefits supposed to be paid within 1 year are presented in employee benefits payable (Note 4 (21)).

**(a) Defined benefit pension plans**

The Group's defined benefit pension plans are mainly adopted in subsidiaries located in Germany and Switzerland. The Group's defined benefit pension plan assets are mainly held by independent entities (such as foundations) separated from the Group. The plans are reviewed by qualified actuaries according to local practices and the required frequency. Actuarial assumptions adopted in the calculation of defined retirement benefit liabilities and current service costs will vary due to the economic conditions of countries or regions where the plans are located.

(i) Changes in the current value of defined benefit pension plans and fair value of plan assets

This note was listed according to the total value of defined benefit pension plans and fair value of plan assets. The consolidation is not applied at subsidiary level.

	Current value of defined benefit pension plans	Fair value of plan assets
31 December 2017	913 704	700 395
Defined benefit cost recorded in profit or loss for the current period		
- Service cost for the current period	37 648	-
- Past service cost	-601	-
- Gain on settlement	176	-
- Net interest	10 454	7 116
	47 677	7 116
Defined benefit cost recorded in other comprehensive income for the current period		
- Actuarial gain	-19 417	-
- Return on plan assets	-	-10 790
	-19 417	-10 790
Other movement		
- Consideration paid upon settlement	7 139	30 271
- Benefit accrual	31 960	40 704
	39 099	70 975
Foreign currency translation difference	18 194	22 137
31 December 2018	999 257	789 833

	Current value of defined benefit pension plans	Fair value of plan assets
31 December 2016	832 549	644 580
Defined benefit cost recorded in profit or loss for the current period		
- Service cost for the current period	37 371	6 909
- Past service cost	-	-
- Gain on settlement	173	-
- Net interest	10 711	-
	48 255	6 909
Defined benefit cost recorded in other comprehensive income for the current period		
- Actuarial gain	23 475	-
- Return on plan assets	-	33 113
	23 475	33 113
Other movement		
- Consideration paid upon settlement	5 657	27 756
- Benefit accrual	-24 317	-16 870
	-18 660	10 886
Foreign currency translation difference	28 085	4 907
31 December 2017	913 704	700 395

(ii) The net amount of defined benefit plans after offsetting is presented in the balance sheet as follows:

	31 December 2018	31 December 2017
Defined benefit plan assets		
Present value of defined benefit plan obligations	-345 413	-312 131
Less: fair value of plan assets	508 651	450 975
Less: upper limit of plan assets	-	-
	163 238	138 844
Defined benefit plan liabilities		
Present value of defined benefit plan obligations	-653 844	-601 573
Less: fair value of plan assets	281 182	249 420
	-372 662	-352 153
	-209 424	-213 309

(iii) Changes in the retirement benefits of the Group are as follows: This note was listed according to the net value of defined benefit pension plans and fair value of plan assets. The consolidation is applied at subsidiary level.

	Defined benefit plan assets	Defined benefit plan liabilities	Net liabilities of the Group
31 December 2017	138 844	-352 153	-213 309
Defined benefit cost included in profit or loss for the current period			
- Service cost for the current period	-8 095	-29 553	-37 648
- Past service cost	-	601	601
- Gain on settlement	-156	-20	-176
- Net interest	1 112	-4 450	-3 338
	-7 139	-33 422	-40 561
Re-measurement of defined benefit plan liabilities			
- Actuarial gain			
- Difference from actuarial assumption	5 898	5 776	11 674
- Difference from experience adjustments	19 878	-12 135	7 743
- Return on plan assets (excluding that included in net interest)	-4 671	-6 119	-10 790
	21 105	-12 478	8 627
Other changes			
- Consideration paid upon settlement			
- From companies	4 373	19 112	23 485
- From employees participating in the plan	-353	-	-353
- Benefit paid	-	8 744	8 744
	4 020	27 856	31 876
Foreign currency translation difference	6 408	-2 465	3 943
31 December 2018	163 238	-372 662	-209 424

	Defined benefit plan assets	Defined benefit plan liabilities	Net liabilities of the Group
31 December 2016	119 511	-307 480	-187 969
Defined benefit cost included in profit or loss for the current period			
- Service cost for the current period	-8 547	-28 824	-37 371
- Past service cost	-	-	-
- Gain on settlement	-151	-22	-173
- Net interest	952	-4 754	-3 802
	-7 746	-33 600	-41 346
Re-measurement of defined benefit plan liabilities			
- Actuarial gain			
- Difference from actuarial assumption	-2 947	-12 000	-14 947
- Difference from experience adjustments	-3 592	-4 939	-8 531
- Return on plan assets (excluding that included in net interest)	31 761	1 355	33 116
	25 222	-15 584	9 638
Other changes			
- Consideration paid upon settlement			
- From companies	4 496	17 603	22 099
- From employees participating in the plan	-	-	-
- Benefit paid	-	7 447	7 447
	4 496	25 050	29 546
Foreign currency translation difference	-2 639	-20 539	-23 178
31 December 2017	138 844	-352 153	-213 309

(iv) The main actuarial assumptions used in estimating the liabilities at the balance sheet date were as follows:

	31 December 2018		31 December 2017	
	Germany	Switzerland	Germany	Switzerland
Discount rate	1.60 %	0.90 %	1.35 %	0.80 %
Salary growth rate	N/A	1.00 %	N/A	1.00 %
Pension growth rate	1.55 %	0.00 %	1.55 %	0.00 %

(v) The sensitivity of principal actuarial assumptions adopted in determining the present value of defined benefit plan obligations in 2018 is analysed as follows:

	Change in assumption	Impact on defined benefit obligations	
		Increase in assumption	Decrease in assumption
Discount rate	Change of 0.5 percentage point	Decrease by 5.94 %	Increase by 6.77 %
Salary growth rate	Change of 0.5 percentage point	Increase by 0.38 %	Decrease by 0.41 %
Pension growth rate	Change of 0.5 percentage point	Increase by 0.34 %	Decrease by 0.17 %
Life expectancy	Change of 1 year	Increase by 1.27 %	Decrease by 1.35 %

The sensitivity of principal actuarial assumptions adopted in determining the present value of defined benefit plan obligations in 2017 is analysed as follows:

	Change in assumption	Impact on defined benefit obligations	
		Increase in assumption	Decrease in assumption
Discount rate	Change of 0.5 percentage point	Decrease by 5.93 %	Increase by 6.67 %
Salary growth rate	Change of 0.5 percentage point	Increase by 0.32 %	Decrease by 0.38 %
Pension growth rate	Change of 0.5 percentage point	Increase by 0.38 %	Decrease by 0.25 %
Life expectancy	Change of 1 year	Increase by 1.20 %	Decrease by 1.26 %

(vi) The plan assets portfolio of the Group is mainly composed of the following investment products:

	31 December 2018	31 December 2017
Cash and cash equivalents	43 099	12 191
Equity instruments	134 142	148 203
Debt instruments	157 436	115 331
Real estate	173 975	153 621
Investment funds	227 041	220 684
Others	54 140	50 365
	789 833	700 395

## (28) Deferred revenue

	2018	2017
Enterprise development special fund (a)	24 826	69 290
Other special fund (b)	4 760	-
	29 586	69 290

(a) The Finance Bureau of Urumqi Economic and Technological Development Zone (Toutunhe District), Xinjiang Uygur Autonomous Region, appropriates an enterprise development special fund amounting to RMB 69 290 000 through Construction Investment and Development Co. Ltd of Urumqi Economic and Technological Development Zone to support the development of the Company's subsidiary Saurer Xinjiang Intelligent Machinery Co. Ltd and promote industrial transformation and upgrading and expand the business scope. The special fund shall be used exclusively for its intended purposes as expenses in production and operation, expanded reproduction, etc., and may not be misused for expenses incurred in non-production business, construction of fixed assets, etc. The fund was recognised as deferred revenue in 2017. With the start of production and operation at Saurer Xinjiang Intelligent Machinery Co. Ltd, a total amount of RMB 44 464 000 was recorded in non-operating income (Note (46)).

(b) In order to promote intelligent manufacturing, the Finance Bureau of Urumqi Shuimogou District appropriated special funds with a total amount of RMB 4 560 000 on 19 October 2018. The special funds must be earmarked for its specified purpose only, in particular for the construction of intelligent manufacturing sites, development and integration of intelligent systems and purchase of intelligent manufacturing equipment. Because the specific project has not yet begun, the appropriation was recorded as deferred revenue in 2018.

In order to enhance the talent cultivation of high-skilled workers, the Employment Service and Management Office of Urumqi Economic and Technological Development Zone appropriated RMB 200 000 to the subsidiary of the Company, Saurer Xinjiang Intelligent Machinery Co. Ltd. The special funds must be earmarked for its specified purpose only, in particular for the construction of the Saurer Intelligent numerical control and technology centre. Because the specific project has not yet begun, the appropriation was recorded as deferred revenue in 2018.

## (c) Government grants

	31 December 2017	Increase in the current year	Decrease in the current year	31 December 2018	Related to assets / related to income
			<u>Recorded in non-operating income</u>		
Discount rate	69 290	-	-44 464	24 826	Related to Income
Salary growth rate	-	4 760	-	4 760	Related to assets
Pension growth rate	69 290	4 760	-44 464	29 586	

## (29) Paid-in capital

	31 December 2017	Movement in the current year				31 December 2018
		Issue of new shares	Issue of bonus shares	Provident funds to equity	Others	Subtotal
Ordinary shares	1 895 413	-	-	-	-	1 895 413

	31 December 2016	Movement in the current year				31 December 2017
		Issue of new shares	Issue of bonus shares	Provident funds to equity	Influence of restructuring deal (Note 5 (1))	Subtotal
Ordinary shares	1 219 627	-	-	-	675 786	1 895 413

According to the approval, Zheng-Jian Zi [2017] No.1397, "Reply concerning approval of major assets restructuring and issuing of shares to Jinsheng Industrial of Xinjiang Cheng-jian" promulgated by CSRC on 28 July 2017, the Company obtained permission to issue 1219 627 (in thousand) common shares to the public with an offering price of RMB 6.17 per share. The paid-in capital as at 1 January 2017 in the Group's consolidated financial statements reflects the amount for acquiring Saurer Intelligent Machinery by issuing shares in this restructuring process.

**(30) Other comprehensive income**

	Other comprehensive income in the balance sheet			Other comprehensive income in the income statement for the year ended 31 December 2018				
	31 December 2017	Attributable to the parent company, net of tax	31 December 2018	Amount before income tax of the year	Less: transfer from previous other comprehensive income	Less: income tax expenses	Attributable to the parent company, net of tax	Attributable to non-controlling interest, net of tax
Items that will not be reclassified subsequently to profit or loss								
- Defined benefit plan actuarial losses or gains	-6 472	7 402	930	8 627	-	-1 225	7 402	-
Items that may be reclassified to profit or loss								
- Cash flow hedge losses	942	-820	122	-1 077	-	257	-820	-
- Foreign currency translation difference	-117 858	68 366	-49 492	68 366	-	-	68 366	-
	-123 388	74 948	-48 440	75 916	-	-968	74 948	-

	Other comprehensive income in the balance sheet			Other comprehensive income in the income statement for the year ended 31 December 2017				
	31 December 2016	Attributable to the parent company, net of tax	31 December 2017	Amount before income tax of the year	Less: transfer from previous other comprehensive income	Less: income tax expenses	Attributable to the parent company, net of tax	Attributable to non-controlling interest, net of tax
Items that will not be reclassified subsequently to profit or loss								
- Defined benefit plan actuarial losses or gains	-16 549	10 077	-6 472	9 638	-	439	10 077	-
Items that may be reclassified to profit or loss								
- Cash flow hedge losses	693	249	942	164	-	85	249	-
- Foreign currency translation difference	49 106	-166 964	-117 858	-165 865	-608	-	-166 964	491
	33 250	-156 638	-123 388	-156 063	-608	524	-156 638	491

## Reconciliation of other comprehensive income

	Equity attributable to the parent company				Subtotal	Non-controlling interests	Total other comprehensive income
	Losses arising from cash flow hedging instruments	Defined benefit plan actuarial gains or losses	Differences on translation of foreign currency financial statements				
31 December 2016	693	-16 549	49 106	33 250	1 350	34 600	
Movements for the year ended 31 December 2017	249	10 077	-166 964	-156 638	491	-156 147	
31 December 2017	942	-6 472	-117 858	-123 388	1 841	-121 547	
Movements for the year ended 31 December 2018	-820	7 402	68 366	74 948	-	74 948	
31 December 2018	122	930	-49 492	-48 440	1 841	-46 599	

**(31) Capital surplus and surplus reserve**

## (a) Capital surplus

	31 December 2017	Increase in the current year	Decrease in the current year (Note 5 (1))	31 December 2018
Capital increase	-	1 579 834	-	1 579 834

	31 December 2016	Increase in the current year	Decrease in the current year (Note 5 (1))	31 December 2017
Expenses paid by the parent com- pany on behalf of the Group	24 022	-	-24 022	-

As at 8 December 2018, Saurer Intelligent Machinery, a subsidiary of the Company, brought in 7 investors for an increase in its share capital, including the Nongyin Xinsilu (Jiaxing) Investment Partnership Enterprise (Limited Partnership) which is led by the Nongyin Financial property Investment Co. Ltd. The Company signed an "Investment Agreement" and a "Subscription Agreement" with each investor. As at 29 December 2018, the Company received the subscription amount of RMB 3 000 000 000. After the subscription, the Company holds 80.65 % shares of Saurer Intelligent Machinery. The changes on the registration were completed on 15 February 2019.

The Company calculated the net asset share of the subsidiary based on the shareholding before the subscription. The difference between the net asset share and the net asset share of the subsidiary calculated based on the respective shareholding after the subscription was recorded in capital surplus, amounting to RMB 1 579 834 000.

## (b) Surplus reserve

	31 December 2017	Increase in the current year	Decrease in the current year	31 December 2018
Statutory surplus reserve	48 742	-	-	48 742

	31 December 2016	Increase in the current year	Decrease in the current year	31 December 2017
Statutory surplus reserve	-	48 742	-	48 742

In accordance with the Company Law of the People's Republic of China, the Company should appropriate net profit (after offsetting accumulated losses of previous years) to the statutory surplus reserve, in which the statutory surplus reserve accounts for no less than 10 % of net profit. The Company can cease appropriation when the statutory surplus reserve accumulates to more than 50 % of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the paid-in capital after approval from the appropriate authorities. No surplus reserve was appropriated by the Company due to net losses in 2018. In 2017, the Company appropriated 10 % of the current year's profit to its statutory surplus reserve and did not appropriate discretionary surplus reserve.

**(32) Retained earnings**

	2018	2017
Undistributed profit at the beginning of the year	386 267	1 253 134
Add: net profit attributable to shareholders of the Company for the current year	810 294	658 327
Less: appropriate surplus public reserve	-	-48 742
Less: impact of restructuring deal (Note 5 (1))	-	-891 100
Less: purchase of non-controlling interests of subsidiaries (Note 4 (33))	-	-585 352
Less: distribution to shareholders	-18 954	-
Undistributed profits at the end of the year	1 177 607	386 267

As at 21 May 2018, approved by the annual shareholders meeting, the Company paid out a cash dividend of RMB 0.01 per share based on the total capital of 1 895 412 995 shares. The total payout for cash dividends amounted to RMB 18 954 129.95.

**(33) Purchase of non-controlling interests of subsidiaries**

On 29 November 2017, the Company held the third board meeting and passed the resolution regarding "Acquisition of 5 % of the shares of Saurer Intelligent Machinery by cash". The Company spent RMB 715 342 466 to acquire 5 % of the shares of Saurer Intelligent Machinery held by Shanghai Yongyun. Saurer Intelligent Machinery becomes the wholly-owned subsidiary of the Company after the acquisition.

The difference between the consideration amounting to RMB 715 342 466 paid by the Company and the share of net assets of Saurer Intelligent Machinery Co. Ltd, calculated continuously since the acquisition day regarding the increased shareholding ratio, amounting to RMB 129 990 000 was RMB 585 352 000. The Company offset the capital surplus, surplus reserve and retained earnings in sequence, and adjusted retained earnings due to insufficiency of capital surplus and surplus reserve.

**(34) Revenue and cost of sales**

	2018	2017
Main operating income	9 212 297	8 706 683
Other operating income	8 462	6 729
	9 220 759	8 713 412

	2018	2017
Cost of goods sold	6 571 207	6 389 179
Other operating costs	-	-
	6 571 207	6 389 179

**(a) Revenue from main operations and cost of main operations**

	2018		2017	
	Revenue from main operations	Cost of main operations	Revenue from main operations	Cost of main operations
Sale of machinery and equipment and components	8 043 334	5 889 991	7 608 732	5 810 349
Sales of spare parts and rendering of services	1 168 963	681 216	1 097 951	578 830
	9 212 297	6 571 207	8 706 683	6 389 179

**(b) Revenue from other operations and cost of other operations**

	2018		2017	
	Revenue from other operations	Cost of other operations	Revenue from other operations	Cost of other operations
Sales of raw materials	5 799	-	4 284	-
Rental income	2 663	-	2 445	-
	8 462	-	6 729	-

**(35) Taxes and surcharges**

	2018	2017	Calculating standard
City maintenance and construction tax	8 052	9 101	Refer to Note 3 (1)
Educational surcharge	5 864	6 698	Refer to Note 3 (1)
Stamp tax	3 139	12 047	
Others	2 856	1 101	
	19 911	28 947	

**(36) Selling expenses**

	2018	2017
Employee benefits	258 565	287 057
Freight insurance	174 222	187 436
Travelling expenses	44 103	39 110
Depreciation and amortisation expenses	18 550	16 761
Exhibition and advertising fees	18 836	17 964
Rental and related expenses	13 478	14 723
IT costs	7 032	5 994
Others	33 913	26 649
	568 699	595 694

**(37) General and administrative expenses**

	2018	2017
Employee benefits	227 991	233 987
Professional service fees	56 425	43 728
Rental and related expenses	27 394	22 446
Travelling expenses	16 893	12 843
Depreciation and amortisation expenses	16 063	18 477
Tax expenses	15 617	4 850
Transportation insurance	11 310	9 097
IT costs	3 021	4 549
Others	8 208	25 631
	382 922	375 608

**(38) Research and development expenses**

	2018	2017
Employee benefits	256 495	184 177
Depreciation and amortisation expenses	80 865	62 240
Professional service fees	52 147	10 769
Original material costs	43 907	25 577
Rental and related expenses	11 443	11 574
Travelling expenses	10 510	5 623
IT costs	4 348	4 313
Transportation insurance	3 132	315
Tax expenses	47	603
Others	12 310	5 626
	475 204	310 817

**(39) Financial expenses**

	2018	2017
Interest expenses, including:		
- Interest expenses for borrowings	114 170	106 964
- Interest expenses for benefit plans	3 338	3 802
Less: capitalised interest	-8 908	-
Subtotal for interest expenses	108 600	110 766
Less: interest income	-8 819	-26 196
Interest income - net	99 781	84 570
Net exchange gains	-16 496	-30 042
Charges for letter of guarantee (Note 4 (25) (a))	24 617	23 513
Others	31 258	18 212
	139 160	96 253

**(40) Expenses by nature**

The cost of sales, selling expenses, general and administrative expenses in the income statements are listed as follows by nature:

	2018	2017
Cost of raw materials	5 023 322	4 798 205
Employee benefits	1 781 755	1 607 457
Freight insurance	229 140	266 156
Depreciation and amortisation expenses	223 565	215 511
Rental and related expenses	186 854	157 396
Travelling expenses	114 440	89 222
Professional service fees	111 272	58 966
Warranties	108 995	174 113
IT costs	23 507	25 092
Tax expenses	20 517	10 304
Exhibition and advertising fees	18 836	17 964
Others	155 829	250 912
	7 998 032	7 671 298

**(41) Asset impairment losses**

	2018	2017
Provision for decline in value of inventories	45,675	56,040
(Reversal)/Provision for bad debts	7,518	-3,343
	53,193	52,697

**(42) Other income**

	2018	2017
Tax refund upon collection	1 017	-

**(43) Investment income**

	2018	2017
Interest income (Note 4 (8))	88 599	149 242
Proceeds from disposal of subsidiaries	-	12 082
Share of investee's net loss under equity method	-350	-740
	88 249	160 584

**(44) Gains on changes in fair value**

	2018	2017
Financial assets at fair value through profit or loss	390	-

**(45) Gains/(losses) of asset disposal**

	2018	2017	The amount included in non-recurring profit or loss in 2018	The amount included in non-recurring profit or loss in 2017
Income of fixed asset disposal	608	285	608	285
Abandonment loss of fixed asset disposal	-460	-1 603	-460	-1 603
	148	-1 318	148	-1 318

**(46) Non-operating income**

	2018	2017	The amount included in non-recurring profit or loss in 2018	The amount included in non-recurring profit or loss in 2017
Government grants (i)	46 305	2 511	46 305	2 511
Asset write-downs	-	411	-	411
Others	255	1 270	255	1 270
	46 560	4 192	46 560	4 192

## (i) Details of government grants

	2018	2017	Asset related / income related
Financial subsidies	44 464	1 519	Income related
Other government grants	1 841	992	Income related
	46 305	2 511	

## (47) Non-operating expenses

	2018	2017	The amount included in non-recurring profit or loss in 2018	The amount included in non-recurring profit or loss in 2017
Penalty and overdue fines	296	234	296	234
Expenditures for donations	2	20 000	2	20 000
Others	597	11 056	597	11 056
	895	31 290	895	31 290

## (48) Income tax expenses

	2018	2017
Current income tax calculated according to tax law and relevant regulations	262 467	265 330
Deferred income tax	26 415	-18 462
	288 882	246 868

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the income statement to the income tax expenses is as follows:

	2018	2017
Total profit	1 145 932	996 385
Income tax expenses calculated at the Company's applicable tax rate of 25 %	286 483	249 096
Effect of different tax rates of subsidiaries (Note 3 (1))	-23 268	-9 438
Income not subject to tax	-765	-3 905
Other costs, expenses and losses not deductible for tax purposes	22 041	11 385
Utilisation of previously unrecognised tax losses	-10 765	-2 251
Tax losses for which no deferred income tax asset was recognised in the current period	29 541	2 404
Withholding income tax of profit not remitted by overseas subsidiaries	-12 083	3 433
Tax clearance difference in prior years	-5 870	-8 475
Others	3 568	4 619
Income tax expenses	288 882	246 868

## (49) Notes to the cash flow statement

## (a) Cash received relating to other operating activities

	2018	2017
Government grants	6 601	2 511
Others	11 779	13 143
	18 380	15 654

## (b) Cash paid relating to other operating activities

	2018	2017
Freight insurance	195 210	173 029
Warranties	142 274	63 508
Professional service fees	76 361	48 640
Rental and related expenses	52 315	48 743
Bank charges	31 258	18 212
Guarantee charges	24 617	23 513
IT costs	23 824	17 504
Exhibition and advertising fees	18 106	17 964
Expenditures for donations	2 000	20 000
Expenses related to major asset restructuring	-	88 125
Others	120 400	125 863
	686 365	645 101

## (c) Cash received relating to other investing activities

	2018	2017
Recovery of mature bank WMPs (Note 4 (8) (a)) (Note)	9 000 000	9 313 000
Net cash inflows from actual income of foreign exchange forward contracts	-	2 396
	9 000 000	9 315 396

Note: as at 27 February 2018, the subsidiary of the Company, Saurer (Changzhou) Textile Machinery Co. Ltd, collected the receivable of the bank WMP purchased in 2017 amounting to RMB 4 500 000 000 that was used to purchase the bank WMP amounting to RMB 4 500 000 000 on the same day. The bank WMP matured and was collected on 28 June 2018.

## (d) Cash paid relating to other investing activities

	2018	2017
Net cash flow from actual earnings of foreign exchange forward contracts	1 724	-
Purchase of WMPs issued by banks (Note 4 (8) (a))	5 600 000	9 250 000
	5 601 724	9 250 000

## (e) Cash received relating to other financing activities

	2018	2017
Cash received in the restructuring deals	-	184 422

## (f) Cash paid relating to other financing activities

	2018	2017
Payment of service fees related to subsidiary's capital increase	60 000	-

**(50) Supplementary information to the cash flow statement**

## (a) Reconciliation from net profit to cash flows from operating activities

	2018	2017
Net profit	857 050	749 517
Add/(Less):		
- Provision for asset impairment (Note 4 (41))	53 193	52 697
- Depreciation of fixed assets (Note 4 (10))	136 771	138 447
- Amortisation of intangible assets (Note 4 (12))	85 446	75 812
- Amortisation of long-term prepaid expenses (Note 4 (14))	1 348	1 252
- Net losses on disposal of fixed assets, intangible assets and other non-current assets	-148	1 318
- Financial expenses	157 033	84 275
- Investment income	-88 249	-160 584
- Gain or losses from changes in fair value	-390	-
- Decrease/(increase) in deferred tax assets	16 730	-40 449
- Increase in deferred tax liabilities	15 235	23 966
- Increase in inventories	-233 236	-429 481
- Increase in operating receivables	-1 266 788	-1 218 665
- (Decrease)/increase in operating payables	-776 758	1 398 052
- Net cash flows from operating activities	-1 042 763	676 157

(b) In 2018, the Group's major operating activity was the payment for goods paid by bank acceptance notes amounting to RMB 315 611 000. The Group did not have any major investing and financing activities that do not involve cash receipts and payments.

In 2017, the Group's major investing activities that did not involve cash receipts and payments included major asset restructuring and part of deals of equity issue and assets acquisitions. For details, refer to Note 1.

## (c) Acquisition or disposal of subsidiaries

On 22 June 2017, the Group's subsidiary SAURER AG transferred all of its equity in Peass Industrial Engineers Pvt. Ltd (51%) to an overseas third party company at a consideration of INR 360,825,000. According to the agreement, the equity transfer took effect on 22 June 2017. The related information at the date of disposal is as follows:

	2017
Cash and cash equivalents received from disposal of subsidiaries in the current year	35 741
Less: cash and cash equivalents held by the Company under disposition	-5 156
Net proceeds from disposal of subsidiaries	30 585
Consideration received from disposal of subsidiaries in 2017	35 741

At the date of disposal, the assets and liabilities of Peass Industrial Engineers Pvt. Ltd held by the Company at consolidation level are listed as follows:

	Disposal day
Current assets	60 439
Non-current assets	13 648
Current liabilities	-20 463
Non-current liabilities	-6 041
	47 583

## (d) Cash and cash equivalents

	2018	2017
Cash	3 720 401	2 473 431
Including:		
- Cash on hand	58	53
- Bank deposits on demand	3 235 159	2 409 196
- Other cash balances	485 184	64 182
Less:		
- Restricted cash at bank	-485 184	-64 182
- Term deposits with the original term over 3 months	-400 278	-351 533
Cash and cash equivalents at the end of the year	2 834 939	2 057 716

## (e) Net increase /(decrease) in cash and cash equivalents

	2018	2017
Cash and cash equivalents at the end of the year	2 834 939	2 057 716
Less: cash and cash equivalents at the beginning of the year	-2 057 716	-2 125 438
Net increase/(decrease) in cash and cash equivalents	777 223	-67 222

**(51) Foreign currency items**

	31 December 2018			31 December 2017		
	Foreign currency balance	Exchange rate	RMB balance	Foreign currency balance	Exchange rate	RMB balance
Cash at bank and on hand						
EUR	12 732	7.8471	99 909	39 084	7.8049	305 051
CHF	840	6.9493	5 839	6 468	6.68	43 208
USD	3 325	6.8631	22 817	5 278	6.5364	34 497
Others			23 234			81 088
			151 799			463 844
Accounts receivable and long-term receivables						
EUR	275 684	7.8471	2 163 327	187 755	7.8049	1 465 419
CHF	4 076	6.9493	28 322	801	6.68	5 353
USD	46 314	6.8631	317 860	62 173	6.5364	406 387
Others			51 625			42 001
			2 561 134			1 919 160
Financial assets at fair value through profit or loss						
EUR	82	7.8471	643	4	7.8049	31
CHF	108	6.9493	753	3	6.68	23
USD	358	6.8631	2 456	928	6.5364	6 069
Others			1 114			55
			4 966			6 178
Short-term borrowings						
EUR	133 988	7.8471	1 051 419	-	7.8049	-
Others			50 342			86 001
			1 101 761			86 001
Payables						
EUR	80 657	7.8471	632 925	109 258	7.8049	852 750
CHF	13 394	6.9493	93 077	12 151	6.68	81 169
USD	4 061	6.8631	27 874	3 465	6.5364	22 648
Others			83 811			54 564
			837 687			1 011 131
Current portion of non-current liabilities						
EUR	58 875	7.8471	461 999	58 875	7.8049	459 516
			461 999			459 516
Long-term borrowings						
EUR	290 825	7.8471	2 282 138	349 700	7.8049	2 729 389
			2 282 138			2 729 389
Financial liabilities at fair value through profit or loss						
CHF	12	6.9493	86	116	6.68	773
USD	776	6.8631	5 323	1 008	6.5364	6 588
Others			7			171
			5 416			7 532

The foreign currency items listed above are the whole foreign currency items, except RMB, which is different from the foreign currency items in Note 12 (1) (a).

## 5 Changes of consolidation scope

### (1) Reverse purchase

Based on the "Announcement regarding the implementation of accounting standards 2008" (Cai-Kuai Han [2008] No. 60) and the "Reply on the accounting standards relating to the indirect listing of a private company acquiring the shareholdings of a public company" (Cai-Kuai Bian [2009] No. 17) promulgated by The Ministry of Finance, the major asset restructuring and the acquisition of assets by share issuing completed on 25 August 2017 is a reverse purchase outside of the Company's scope of business, and it should be recorded as an equity transaction.

All the identifiable assets and liabilities of the Company (legally the parent company) after asset replacement are recognised and measured at fair value as at the date of restructuring. The difference between the cost of acquisition and the fair value of the identifiable net assets of the Company is adjusted in the capital reserve in the consolidated financial statement, not recognised as goodwill or current period profit or loss.

#### (a) Merging costs

	Amount
Fair value of obtained identifiable net assets (b)	-126 003
Shares of the Company existing at the date of major restructuring	-675 786
Added minority equity from major asset restructuring	-113 333
Undistributed profits adjusted in consolidated statement	-915 122
- Reduced capital reserve on consolidated statement (Note 4 (31) (a))	-24 022
- Reduced surplus reserve on consolidated statement (Note 4 (31) (b))	-
- Reduced retained earnings on consolidated financial statement (Note 4 (32))	-891 100

As of August 2017, in the process of the major assets restructuring and the acquisition of assets by share issuing, the difference between the paid-in capital of the Company (parent company in law, the acquiree in accounting) and the fair value of exchange-out assets amounted to RMB 801 789 000. The added minority equity from major asset restructuring (5 % equity of Saurer Intelligent Machinery amounting to RMB 113 333 000 held by Shanghai Yongyun). The total amount of the two parts mentioned above has offset the capital reserve, surplus reserve and retained reserve at the date of the acquisition in sequence.

(b) The assets and liabilities of the acquiree at the date of restructuring are listed below:

	Fair value at date of restructuring	Book value at date of restructuring	Book value on 31 December 2016
Cash at bank and on hand	184 422	184 422	693 119
Notes receivable	-	-	500
Accounts receivable	-	-	3 028 724
Advances to suppliers	-	-	33 039
Dividend receivable	-	-	37
Other receivables	-	-	2 197 327
Inventories	-	-	760 248
Other current assets	-	-	19 837
Available-for-sale financial assets	-	-	20 000
Long-term receivables	-	-	1 170 042
Long-term equity investments	-	-	193 910
Investment property	-	-	520 417
Fixed assets	-	-	55 677
Construction in progress	-	-	450
Intangible assets	-	-	16 072
Development costs	-	-	400
Long-term prepaid expenses	-	-	414
Deferred tax assets	-	-	504 762
Other non-current assets	-	-	85 907
Less:			
- Short-term borrowings	-	-	-1 510 000
- Notes payable	-	-	-104 050
- Accounts payable	-	-	-578 655
- Advances from customers	-	-	-268 473
- Employee benefits payable	-	-	-12 641
- Taxes payable (Note 1)	-37 878	-37 878	-19 258
- Interest payable	-	-	-5 348
- Dividends payable	-184 422	-184 422	-405
- Other payables (Note 1)	-88 125	-88 125	-901 718
- Current portion of non-current liabilities	-	-	-1 308 250
- Other current liabilities	-	-	-1 547 847
- Long-term borrowings	-	-	-1 159 125
- Long-term employee benefits payable	-	-	-9 108
- Special payables	-	-	-59 060
- Deferred revenue	-	-	-52 190
Net assets	-126 003	-126 003	1 764 754

Note 1: the expenses mentioned above were mainly the tax fees and service fees related to the major asset restructuring that are supposed to be paid by the Listed Company.

## 6 Equity in other entities

### (1) Equity in subsidiaries

#### (a) Structure of the Group

- (i) Major subsidiaries obtained through incorporation or investment

		Type	Major business location	Place of registration	Date of incorporation	Nature of business	31 December 2018		31 December 2017	
							Direct/indirect share-holding (%)	Voting rights (%)	Direct/indirect share-holding (%)	Voting rights (%)
1	Saurer Intelligent Machinery Co. Ltd (Note 4 (31))	Directly held	China	China	05.11.12	Manufacturing and sales of textile machinery	80.65 %	80.65 %	100 %	100 %
2	Saurer Hong Kong Machinery Co. Ltd	Indirectly held	Hong Kong, China	Hong Kong, China	25.10.12	Investment holding	80.65 %	80.65 %	100 %	100 %
3	Saurer Asia Machinery Co. Ltd	Indirectly held	Hong Kong, China	Hong Kong, China	28.02.13	Investment holding	80.65 %	80.65 %	100 %	100 %
4	Saurer (Jiangsu) Textile Machinery Co. Ltd	Indirectly held	China	China	01.04.13	Manufacturing, sales and services of textile machinery	80.65 %	80.65 %	100 %	100 %
5	Saurer Têxtil Soluções Ltda.	Indirectly held	Brazil	Brazil	08.03.13	Sales and services of textile machinery	80.65 %	80.65 %	100 %	100 %
6	SAURER AG	Indirectly held	Switzerland	Switzerland	06.03.13	Manufacturing and sales of	80.65 %	80.65 %	100 %	100 %
7	Saurer Spinning Solutions Management GmbH (Former name: Saurer Germany Management GmbH)	Indirectly held	Germany	Germany	21.12.12	Investment holding	80.65 %	80.65 %	100 %	100 %
8	Saurer Spinning Solutions GmbH & Co. KG (Former name: Saurer Germany GmbH & Co. KG)	Indirectly held	Germany	Germany	27.11.12	Manufacturing, sales and services of textile machinery	80.65 %	80.65 %	100 %	100 %
9	Saurer Technologies GmbH & Co. KG	Indirectly held	Germany	Germany	14.11.17	Manufacturing, sales and services of textile machinery	80.65 %	80.65 %	100 %	100 %
10	Saurer Textile Solutions Pvt. Ltd	Indirectly held	India	India	18.04.13	Manufacturing, sales and services of textile machinery	80.65 %	80.65 %	100 %	100 %
11	Saurer Netherlands Machinery Company B.V.	Indirectly held	Netherlands	Netherlands	22.11.12	Investment holding	80.65 %	80.65 %	100 %	100 %
12	Saurer Inc.	Indirectly held	USA	USA	25.03.13	Sales and services of textile machinery	80.65 %	80.65 %	100 %	100 %
13	Saurer (Shanghai) Textile Machinery Technology Co. Ltd	Indirectly held	China	China	11.04.14	Sales and services of textile machinery	80.65 %	80.65 %	100 %	100 %
14	Saurer Finance Lease Co. Ltd	Indirectly held	China	China	16.12.14	Leasing	80.65 %	80.65 %	100 %	100 %
15	Changzhou Jintan Saurer Textile Machinery Technology Co. Ltd (Note 1)	Directly held	China	China	18.08.16	Consulting, investment and import and export business	N/A	N/A	50.18 %	50.18 %
16	Changzhou Saurer Textile Machinery Technology Co. Ltd (Note 2)	Indirectly held	China	China	17.08.16	Consulting, investment and import and export business	N/A	N/A	50.09 %	50.09 %
17	Changzhou Jintan Saurer Investment Co. Ltd	Directly held	China	China	08.04.16	Investment holding	80.65 %	80.65 %	100 %	100 %
18	Saurer Xinjiang Intelligent Machinery Co. Ltd	Directly held	China	China	05.08.16	Manufacturing, sales and service of intelligent textile machinery	80.65 %	80.65 %	100 %	100 %
19	Zinser Textile Machines LLP	Indirectly held	India	India	18.11.16	Manufacturing and sales of textile machinery	80.65 %	80.65 %	100 %	100 %
20	Saurer Industries AG (Note 3)	Indirectly held	Switzerland	Switzerland	21.12.17	Manufacturing and sales of textile machinery	N/A	N/A	100 %	100 %
21	Saurer Technologies Management GmbH	Indirectly held	Austria	Austria	01.07.17	Investment holding	80.65 %	80.65 %	100 %	100 %
22	Saurer Intelligent Technology AG (Note 4)	Indirectly held	Switzerland	Switzerland	15.05.18	Consulting, manufacturing and sales of textile machinery	80.65 %	80.65 %	N/A	N/A

Note 1: Changzhou Jintan Saurer Textile Machinery Technology Co. Ltd was dissolved on 11 October 2018 (Note 6 (1) (b)).

Note 2: Changzhou Saurer Textile Machinery Technology Co. Ltd was dissolved on 11 October 2018 (Note 6 (1) (b)).

Note 3: Saurer Industries AG was dissolved on 22 November 2018.

Note 4: Saurer Intelligent Technology AG was registered in Switzerland on 15 May 2018 with a registered capital of CHF 1000 000.

## (ii) Major subsidiaries obtained through acquisition involving enterprises not under common control

	Type	Major business location	Place of registration	Nature of business	31 December 2018		31 December 2017		
					Direct/indirect share-holding (%)	Voting rights (%)	Direct/indirect share-holding (%)	Voting rights (%)	
1	Saurer (Changzhou) Textile Machinery Co. Ltd	Indirectly held	China	China	Manufacturing and sales of textile machinery	80.65 %	80.65 %	100 %	100 %
2	Saurer (Changzhou) Texparts Components Co. Ltd	Indirectly held	China	China	Manufacturing and sales of textile machinery	80.65 %	80.65 %	100 %	100 %
3	Saurer Czech s.r.o.	Indirectly held	Czech Republic	Czech Republic	Manufacturing and sales of textile machinery	80.65 %	80.65 %	100 %	100 %
4	Saurer Fibrevision Ltd	Indirectly held	UK	UK	Manufacturing and sales of textile machinery	80.65 %	80.65 %	100 %	100 %
5	Schlafhorst Machines LLP.	Indirectly held	India	India	Investment holding	80.65 %	80.65 %	100 %	100 %
6	Saurer México S.A. de C.V.	Indirectly held	Mexico	Mexico	Sales and services of textile machinery	80.65 %	80.65 %	100 %	100 %
7	Saurer Components Pte. Ltd	Indirectly held	Singapore	Singapore	Manufacturing of textile machinery	80.65 %	80.65 %	100 %	100 %
8	Saurer Tekstil A.S.	Indirectly held	Turkey	Turkey	Textile machinery	80.65 %	80.65 %	100 %	100 %

## (b) Subsidiaries with significant non-controlling interests

Subsidiaries	Shareholding of non-controlling shareholders	Total profit or loss attributable to non-controlling shareholders for the year ended 31 December 2017	Other comprehensive income attributable to non-controlling interests for the year ended 31 December 2017	Dividends paid to non-controlling interests for the year ended 31 December 2017	Accumulated non-controlling interests as at 31 December 2017
Changzhou Jintan Saurer Textile Machinery Technology Co. Ltd	49.82 %	-16	-	-	1 399 284
Changzhou Saurer Textile Machinery Technology Co. Ltd	49.91 %	73 311	-	-	2 899 046
		73 295	-	-	4 298 330

Subsidiaries	Shareholding of non-controlling shareholders	Total profit or loss attributable to non-controlling shareholders for the year ended 31 December 2018	Other comprehensive income attributable to non-controlling interests for the year ended 31 December 2018	Dividends paid to non-controlling interests for the year ended 31 December 2018	Accumulated non-controlling interests as at 31 December 2018
Changzhou Jintan Saurer Textile Machinery Technology Co. Ltd	N/A	46 756	-	97 199	-
Changzhou Saurer Textile Machinery Technology Co. Ltd	N/A	-	-	47 887	-
Saurer Intelligent Machinery Co. Ltd (Note 4 (31))	19.35 %	-	-	-	-
		46 756	-	145 086	-

As at 11 October 2018, Changzhou Jintan Saurer Textile Machinery Technology Co. Ltd and Changzhou Saurer Textile Machinery Technology Co. Ltd completed the dissolution procedure. Changzhou Jintan Saurer Textile Machinery Technology Co. Ltd distributed dividends amounting to RMB 47 887 000 to minority shareholder Changzhou Qiuling Textile Technology Co. Ltd with undistributed profit. Changzhou Saurer Textile Machinery Technology Co. Ltd distributed dividends amounting to RMB 97 199 000 to minority shareholder Jiangsu Province Economic Development Zone with undistributed profit.

The major financial information of the significant non-fully-owned subsidiaries of the Group is listed below:

	31 December 2018						31 December 2017					
	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
Changzhou Jintan Saurer Textile Machinery Technology Co. Ltd	-	-	-	-	-	-	14	2 810 000	2 810 014	1 452	-	1 452
Changzhou Saurer Textile Machinery Technology Co. Ltd	-	-	-	-	-	-	5 783 427	-	5 783 427	41 129	-	41 129
Saurer Intelligent Machinery Co. Ltd (Note 4 (31))	11 401 133	3 889 415	15 290 548	5 201 686	3 107 784	8 309 470	N/A	N/A	N/A	N/A	N/A	N/A

	2018				2017			
	Revenue	Net profit/(loss)	Total comprehensive income	Cash flows from operating activities	Revenue	Net profit/(loss)	Total comprehensive income	Cash flows from operating activities
Changzhou Jintan Saurer Textile Machinery Technology Co. Ltd	-	97 555	97 555	-	-	-32	-32	-1 405
Changzhou Saurer Textile Machinery Technology Co. Ltd	-	62 449	62 449	-36 965	-	97 924	97 924	-35 862
Saurer Intelligent Machinery Co. Ltd (Note 4 (31))	9 220 759	971 396	1 046 344	-942 627	N/A	N/A	N/A	N/A

## (2) Equity in joint ventures

### (a) General information of significant joint ventures

Joint ventures	Major business location	Place of registration	Nature of business	Whether strategic to the Group's activities	Shareholding (%)	
					Direct	Indirect
Saurer Premier Technologies Private Limited	India	India	Production and sales of clearers and accessories	Yes	-	50 %

The above equity investment is accounted for using the equity method.

## (b) Summarised financial information of significant joint ventures

	31 December 2018	31 December 2017
Current assets	1 826	3 484
Including: cash and cash equivalents	226	261
Non-current assets	164	424
<b>Total assets</b>	<b>1 990</b>	<b>3 908</b>
Current liabilities	2 396	3 205
Non-current liabilities	-	-
<b>Total liabilities</b>	<b>2 396</b>	<b>3 205</b>
Non-controlling interests	-	-
Equity attributable to the parent company	-407	703
Shares of net assets in proportion	-204	352
Carrying amount of investment in joint ventures	-	350
	<b>2018</b>	<b>2017</b>
Revenue	567	1 493
Financial income	-9	71
Income tax expenses	-	-
Net loss	-1 070	-1 479
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>-1 070</b>	<b>-1 479</b>
Dividends received from joint ventures by the Group for the current year	-	-

**7 Segment information**

The reportable segments of the Group are the business units that provide different products or services, or operate in the different areas. Different businesses or areas require different technologies and marketing strategies. The Group, therefore, separately manages the production and operation of each reportable segment and evaluates their operating results in order to make decisions about resources to be allocated to these segments and to assess their performance.

The Group identified 2 reportable segments as follows:

- Spinning Solutions (SPIN) is mainly engaged in manufacturing and sales of carding, combing, roving machines, drawframe and new textile machinery; R&D and manufacturing of ring spinning machines, rotor spinning and winders; and providing the related mechanical spare parts.
- Technologies (TECH) is mainly engaged in R&D, designing and manufacturing of twisting and embroidery machines; providing mechanical parts; and sales of a variety of spare parts.

Inter-segment transfer prices are measured by reference to selling prices to third parties.

The assets are allocated based on the operations of the segment and the physical location of the asset. The liabilities are allocated based on the operations of the segment. Expenses indirectly attributable to each segment are allocated to the segments based on the proportion of each segment's revenue.

(a) Segment information as at and for the year ended 31 December 2018 is as follows:

	Spinning Solutions	Technologies	Unallocated	Elimination	Total
Revenue from external customers	7 391 748	1 828 881	130	-	9 220 759
Inter-segment revenue	29 705	47 790	-	-77 495	-
Asset impairment losses	-33 728	-19 465	-	-	-53 193
Depreciation and amortisation expenses	-158 764	-62 098	-2 703	-	-223 565
Earnings/(losses) before interest and tax	1 146 837	146 750	-47 874	-	1 245 713
Interest income	-	-	8 819	-	8 819
Interest expenses	-	-	-108 600	-	-108 600
Total profit	1 146 837	146 750	-147 655	-	1 145 932
Income tax expenses	-	-	-288 882	-	-288 882
Net profit	1 146 837	146 750	-436 537	-	857 050
Total assets	7 618 243	1 257 288	5 632 263	-92 088	14 415 706
Total liabilities	2 746 177	599 304	5 174 538	-92 088	8 427 931
Addition of fixed assets, construction in progress, long-term prepaid expenses and intangible assets	408 423	94 551	14 407	-	517 381

Segment information as at and for the year ended 31 December 2017 is as follows:

	Spinning Solutions	Technologies	Unallocated	Elimination	Total
Revenue from external customers	6 954 509	1 758 577	326	-	8 713 412
Inter-segment revenue	22 583	51 120	-	-73 703	-
Asset impairment losses	-48 420	-4 268	-9	-	-52 697
Depreciation and amortisation expenses	-159 729	-53 823	-1 959	-	-215 511
Earnings/(losses) before interest and tax	815 166	187 650	-71 103	-	931 713
Interest income	-	-	175 438	-	175 438
Interest expenses	-	-	-110 766	-	-110 766
Total profit	815 166	187 650	-6 431	-	996 385
Income tax expenses	-	-	-246 868	-	-246 868
Net profit	815 166	187 650	-253 299	-	749 517
Total assets	5 869 723	1 297 666	7 406 337	-41 954	14 531 772
Total liabilities	3 410 259	726 937	3 931 166	-41 954	8 026 408
Addition of fixed assets, construction in progress, long-term prepaid expenses and intangible assets	355 744	53 112	5 807	-	414 663

The Group's sales revenue from third-party customers in China and in foreign countries or geographical areas, and the total non-current assets other than financial assets and deferred tax assets located in China and in foreign countries or geographical areas, are as follows:

Sales revenue from third-party customers	2018	2017
Germany	4 604 935	5 254 702
China	3 752 026	2 598 140
US	391 979	291 242
Switzerland	182 339	278 869
India	150 688	152 450
United Kingdom	45 638	43 454
Turkey	39 431	45 213
Brazil	36 545	35 947
Mexico	10 922	7 529
Singapore	6 256	5 866
	9 220 759	8 713 412

Total non-current assets	2018	2017
Switzerland	1 354 885	1 266 495
Germany	1 152 615	1 098 915
China	1 006 402	576 999
India	150 088	154 019
United Kingdom	52 335	54 818
Singapore	45 182	51 884
US	29 352	27 538
Czech Republic	2 479	2 861
Brazil	1 672	1 186
Turkey	724	723
Mexico	273	441
	3 796 007	3 235 881

## 8 Related parties and related party transactions

### (1) Information on the parent company

(a) General information on the parent company

	Type	Place of registration	Legal representative	Nature of business
Jinsheng Industrial	Limited company	Jintan, China	Pan Xueping	Manufacturing of textile machinery

Jiangsu Jinsheng Shareholding Co. Ltd (formerly known as Changzhou Jintan Changsheng Investment Company) is the ultimate controller of the Company and Mr Pan Xueping is the ultimate controlling shareholder (holding 69 % equity shares) of Jiangsu Jinsheng Shareholding Co. Ltd.

(b) Registered capital and changes in registered capital of the parent company

	31 December 2017	Increase in the current year	Decrease in the current year	31 December 2018
Jinsheng Industrial	100 000	-	-	100 000

	31 December 2016	Increase in the current year	Decrease in the current year	31 December 2017
Jinsheng Industrial	30 000	70 000	-	100 000

(c) The percentages of shareholding and voting rights in the Company held by the parent company

	31 December 2018		31 December 2017	
	Percentage of shareholdings	Percentage of voting rights	Percentage of shareholdings	Percentage of voting rights
Jinsheng Industrial	46.94 %	46.94 %	46.38 %	46.38 %

### (2) Information on the subsidiaries

The general information and other related information on the subsidiaries are set out in Note 6 (1).

**(3) Information on other related parties**

Name of related party	Relationship with the Group
Taicang Li Tai Textile Co. Ltd	Controlled by the same parent company together with the Company
Jiangsu Jin Hong Textile Co. Ltd	Controlled by the same parent company together with the Company
EMAG (China) Machinery Co. Ltd	Controlled by the same parent company together with the Company
Shanghai Huayuan Mechatronics Co. Ltd	Controlled by the same parent company together with the Company
Litai Xingshi (Note)	Controlled by the same parent company together with the Company
Xinjiang Litai Silk-Road Investment Co. Ltd (Note)	Controlled by the same parent company together with the Company
Kuitun Litai Silk-Road Investment Co. Ltd (Note)	Controlled by the same parent company together with the Company
LT Textile International Limited Liability Company (Note)	Controlled by the same parent company together with the Company
Heberlein AG	Controlled by the same parent company together with the Company
Saurer Premier Technologies Private Limited	Joint venture
Chen Meifang	Close family member of the ultimate controlling shareholder
Changzhou Jintan Huamao Jinsheng Technology Development Co. Ltd (former name: Jintan Huamao Jinsheng Technology Development Co. Ltd)	Controlled by the close family member of the ultimate controlling shareholder
Jintan Garden Hotel	Controlled by the close family member of the ultimate controlling shareholder

Note: Xinjiang Litai Silk-Road Investment Co. Ltd, Kuitun Litai Silk-Road Investment Co. Ltd and LT Textile International Limited Liability Company are subsidiaries of Litai Xingshi. The following financials disclose Litai Xingshi and its subsidiaries as a whole.

**(4) Related party transactions****(a) Pricing policy and decision-making procedure**

The transaction price between the Group and related parties is based on the market price and agreed price between both parties. Lease expenses are negotiated by both parties involved in the lease and by making reference to the market price.

**(b) Sales of goods and rendering of services**

	2018	2017
Litai Xingshi (Note)	2 539 675	820 203
Taicang Li Tai Textile Co. Ltd	57	131
Jiangsu Jin Hong Textile Co. Ltd	51	-
EMAG (China) Machinery Co. Ltd	30	80
Saurer Premier Technologies Private Limited	-	96
Changzhou Jintan Huamao Jinsheng Technology Development Co. Ltd	-	13
	2 539 813	820 523

Note: the Group sells textile equipment and spare parts to Litai Xingshi. Litai Xingshi uses the equipment and spare parts in its own production.

**(c) Purchase of goods**

	2018	2017
Jiangsu Jin Hong Textile Co. Ltd	87	68
Heberlein AG	-	3 227
Saurer Premier Technologies Private Limited	-	418
Changzhou Jintan Huamao Jinsheng Technology Development Co. Ltd	-	24
	87	3 737

**(d) Other services provided**

	2018	2017
Heberlein AG	-	741

**(e) Other services received**

	2018	2017
Jintan Garden Hotel	546	176
Shanghai Huayuan Mechatronics Co. Ltd	279	1 382
Heberlein AG	-	377
Changzhou Jintan Huamao Jinsheng Technology Development Co. Ltd	-	24
	825	1 959

**(f) Interest expenses**

	2018	2017
Jinsheng Industrial	71	211

## (g) Financing

	2018	2017
Borrowing in		
Jinsheng Industrial	3 000	-
Paying back to		
Jinsheng Industrial	3 000	-

## (h) Remuneration of key management

	2018	2017
Jinsheng Industrial	26 580	18 022

## (i) Acquisition of fixed assets

	2018	2017
Shanghai Huayuan Mechatronics Co. Ltd	-	314

**(5) Receivables from and payables to related parties**

## (a) Accounts receivable

	31 December 2018	31 December 2017
Litai Xingshi	2 493 170	1 023 204
Taicang Li Tai Textile Co. Ltd	1	41
Saurer Premier Technologies Private Limited	-	55
	2 493 171	1 023 300

## (b) Other receivables

	31 December 2018	31 December 2017
Saurer Premier Technologies Private Limited	659	-
Heberlein AG	133	-
Shanghai Huayuan Mechatronics Co. Ltd	12	-
	804	-

## (c) Advances from customers

	31 December 2018	31 December 2017
Litai Xingshi and its subsidiaries	7 824	698 283

## (d) Notes and accounts payable

	31 December 2018	31 December 2017
Heberlein AG	-	523
Jiangsu Jin Hong Textile Co. Ltd	-	68
	-	591

## (e) Interest payables

	31 December 2018	31 December 2017
Jinsheng Industrial	-	472

## (f) Other payables

	31 December 2018	31 December 2017
Jintan Garden Hotel	45	45
Jinsheng Industrial (Note)	-	11 916
Shanghai Huayuan Mechatronics Co. Ltd	-	32
Changzhou Jintan Huamao Jinsheng Technology Development Co. Ltd	-	6
	45	11 999

Note: as at 31 December 2017, the balance of payables to Jinsheng Industrial included: the balance of RMB 9 278 000 representing the consideration the Company should pay to Jinsheng Industrial for the acquisition of its 30 % equity of Saurer (Changzhou) Textile Machinery Co. Ltd and 30 % equity of Saurer (Changzhou) Texparts Components Co. Ltd, respectively; the balance of RMB 2 608 000 was the borrowing to Saurer Intelligent Machinery Co. Ltd with an annual interest of 8 % due in one year; the remaining balance of RMB 30 000 was the payment made on behalf of the Company. As at 31 December 2018, the payables above were fully paid.

## (g) Advance to suppliers

	31 December 2018	31 December 2017
Saurer Premier Technologies Private Limited	-	2 006

## (h) Employee benefits payable

	31 December 2018	31 December 2017
Pan Xueping	2 083	2 100

**(6) Commitments in relation to related parties**

As at each balance sheet date, the Group's commitments in relation to Litai Xingshi that have been contracted for but not yet performed are as follows:

## Sales of goods

	31 December 2018	31 December 2017
Litai Xingshi	449 051	1 544 176

**9 Contingencies**

As at 31 December 2018 and 31 December 2017, the Group did not have significant contingencies.

## 10 Commitments

### (1) Capital commitments

Capital expenditures contracted for by the Group at the balance sheet date but not yet necessary to be recognised on the balance sheet are as follows:

	31 December 2018	31 December 2017
Buildings, machinery and equipment	361 119	370 389
Intangible assets	-	732
	361 119	371 121

### (2) Operating lease commitments

As at the balance sheet date, the future minimum lease payments due under the signed irrevocable operating lease contracts are summarised as follows:

	31 December 2018	31 December 2017
Within 1 year	76 769	70 833
1 to 2 years	48 941	46 119
2 to 3 years	40 774	37 963
Over 3 years	157 688	163 866
	324 172	318 781

## 11 Events after the balance sheet date

- (1) Apart from the events disclosed in the other notes of these financial statements, on 28 February 2019, Saurer Hong Kong Machinery Co. Ltd, a subsidiary of the Company, fully prepaid the borrowings from China Development Bank Hong Kong Branch amounting to EUR 273 700 000 (31 December 2018: RMB 2 147 756 000).
- (2) In April 2019, Shandong Ruyi Science and Technology Group and its subsidiary brought a civil action against the subsidiaries of the Company, Saurer Intelligent Machinery Co. Ltd and Saurer (Shanghai) Textile Machinery Technology Co. Ltd, regarding sales contract disputes.
- (3) On 25 April 2019, the Board of Directors proposed a cash dividend of RMB 1.293 (before tax) be paid out for every 10 shares to all shareholders from undistributed profit with the total share capital of 1 895 412 995 shares as a base. The total cash dividend paid out amounted to RMB 245 000 000 (before tax). This proposal is yet to be approved at the AGM of shareholders. Cash dividends proposed after the balance sheet date are not recognised as a liability on the balance sheet date.
- (4) After 31 December 2018, the account receivables of Litai Xingshi with total amount of RMB 770 000 000 were collected before the issuance of these financial statements.

## 12 Financial risk

The Group's activities expose it to a variety of financial risks: market risk (primarily currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

### (1) Market risk

#### (a) Foreign exchange risk

The Group operates in China and some overseas countries such as Germany, Switzerland and the US, etc. It is thus exposed to foreign exchange risk arising from various currency exposures, primarily with respect to EUR, CHF and USD. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. Foreign exchange risk mainly arises from financial instruments with non-functional currency. The Group's finance department at its headquarters makes policies, monitors and manages the foreign exchange risk related to its functional currency. Therefore, the Group has signed a number of foreign exchange forward contracts in order to mitigate foreign exchange risk (Note 4 (2)). The Group holds several foreign business investments, of which the net assets are exposed to foreign currency risk. The Group manages the exchange risk arising from the net assets of foreign business mainly through the relevant foreign currency loans.

As at 31 December 2018 and 31 December 2017, the carrying amounts in RMB equivalent to the Group's assets and liabilities denominated in foreign currencies are summarised below:

<b>31 December 2018</b>						
	<b>EUR</b>	<b>CHF</b>	<b>USD</b>	<b>RMB</b>	<b>Others</b>	<b>Total</b>
Financial assets denominated in foreign currency						
Cash at bank and on hand	40 051	530	13 408	148 062	14 452	216 503
Accounts receivable and long-term receivables	7 505	1 727	294 587	137	22 727	326 683
	<b>47 556</b>	<b>2 257</b>	<b>307 995</b>	<b>148 199</b>	<b>37 179</b>	<b>543 186</b>
Financial liabilities denominated in foreign currency						
Short-term borrowings	78 267	-	-	-	-	78 267
Payables	60 125	67 386	26 330	3 203	10 307	167 351
	<b>138 392</b>	<b>67 386</b>	<b>26 330</b>	<b>3 203</b>	<b>10 307</b>	<b>245 618</b>
<b>31 December 2017</b>						
	<b>EUR</b>	<b>CHF</b>	<b>USD</b>	<b>RMB</b>	<b>Others</b>	<b>Total</b>
Financial assets denominated in foreign currency						
- Cash at bank and on hand	2 837	3 622	26 967	455 307	19 818	508 551
- Accounts receivable and long-term receivables	6 640	630	377 712	1 154	28 459	414 595
	<b>9 477</b>	<b>4 252</b>	<b>404 679</b>	<b>456 461</b>	<b>48 277</b>	<b>923 146</b>
Financial liabilities denominated in foreign currency						
- Short-term borrowings	-	-	-	-	-	-
- Payables	57 278	46 152	21 308	993	14 509	140 240
	<b>57 278</b>	<b>46 152</b>	<b>21 308</b>	<b>993</b>	<b>14 509</b>	<b>140 240</b>

As at 31 December 2018 and 31 December 2017, the foreign exchange risk of the Group primarily arose from RMB and CHF financial assets and liabilities of the subsidiaries whose functional currency is the EUR.

If the EUR had strengthened/weakened by 10% against the RMB while all other variables had been held constant, the Group's net profit for the year ended 31 December 2018 would have been approximately RMB 98 108 000 lower/higher for various financial assets and liabilities denominated in RMB; and net profit for the year ended 31 December 2017 would have been approximately RMB 51 389 000 lower/higher for various financial assets and liabilities denominated in RMB.

If the EUR had strengthened/weakened by 10% against the CHF while all other variables had been held constant, the Group's net profit for the year ended 31 December 2018 would have been approximately RMB 81 793 000 lower/higher for various financial assets and liabilities denominated in CHF; and net profit for the year ended 31 December 2017 would have been approximately RMB 65 305 000 lower/higher for various financial assets and liabilities denominated in CHF.

**(b) Interest rate risk**

The Group's interest rate risk mainly arises from interest-bearing borrowings including bank borrowings. Financial liabilities issued at floating rates expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rates expose the Group to fair value interest rate risk. As at 31 December 2018 and 31 December 2017, the Group's interest-bearing assets and borrowings classified by floating rate and fixed rate were as follows:

	31 December 2018	31 December 2017
<b>Floating interest rate</b>		
- Short-term borrowings	924 120	-
- Long-term borrowings (including current portion of long-term borrowings)	2 604 698	2 751 828
	3 528 818	2 751 828
<b>Fixed interest rate</b>		
- Short-term borrowings	575 214	267 001
- Other payables	-	2 608
- Long-term borrowings (including current portion of long-term borrowings)	439 439	437 077
	1 014 653	706 686

To mitigate the impact of interest rate fluctuations, the Group continuously assesses and monitors its exposure to interest rate risk to take measures to control relevant risks.

As at 31 December 2018, if the floating rate had strengthened/weakened by 50 points, while all other variables had been held constant, the Group's net profit for the year would have decreased/increased by approximately RMB 17 644 000 (31 December 2017: RMB 13 759 000).

**(2) Credit risk**

Credit risk is managed on Group level. Credit risk mainly arises from cash at bank, accounts receivable, other receivables, notes receivable, etc.

The Group expects that there is no significant credit risk associated with cash at bank since they are deposited at state-owned banks and other domestic and foreign medium or large size banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on accounts receivable, other receivables and notes receivable. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantees from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure that the overall credit risk of the Group is limited to a controllable extent.

As at 31 December 2018, the Group did not hold any guarantee or other credit enhancement arising from mortgage for the debtor.

**(3) Liquidity risk**

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

Except for financial liabilities at fair value through profit or loss that have been disclosed in Note 4 (2), the financial liabilities of the Group at the balance sheet date are analysed by their maturity date below at their undiscounted contractual cash flows:

	31 December 2018				Total
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	
Short-term borrowings	1 510 379	-	-	-	1 510 379
Accounts payable	1 547 131	-	-	-	1 547 131
Other payables	377 318	-	-	-	377 318
Long-term borrowings (including: current portion of non-current liabilities)	632 683	1 177 079	1 513 796	-	3 323 558
	4 067 511	1 177 079	1 513 796	-	6 758 386

	31 December 2017				Total
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	
Short-term borrowings	270 652	-	-	-	270 652
Accounts payable	1 492 701	-	-	-	1 492 701
Other payables	332 763	-	-	-	332 763
Long-term borrowings (including: current portion of non-current liabilities)	812 178	526 084	1 916 616	464 253	3 719 131
	2 908 294	526 084	1 916 616	464 253	5 815 247

As at 31 December 2018 and 31 December 2017, the Group had no external financial guarantee.

### 13 Fair value estimates

The level at which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: unobservable inputs for the asset or liability.

#### (1) Financial instruments measured at fair value on recurring basis

As at 31 December 2018, the financial assets measured at fair value on a recurring basis by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Financial assets at fair value through profit or loss	-	4 966	-	4 966
Available-for-sale financial assets	-	-	1 100 000	1 100 000
	-	4 966	1 100 000	1 104 966
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit or loss	-	5 416	-	5 416

As at 31 December 2017, the financial assets measured at fair value on a recurring basis by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Financial assets at fair value through profit or loss	-	6 178	-	6 178
Available-for-sale financial assets	-	-	-	-
	-	6 178	-	6 178
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit or loss	-	7 532	-	7 532

The Group takes the date on which events causing the transfers between the levels take place as the timing specific for recognising the transfers. In 2018 and 2017, there was no shift among the first, second and third level.

The fair value of financial instruments traded in an active market is determined at the quoted market price; and the fair value of those not traded in an active market is determined by the Group using a valuation technique. For the valuation of hedging instruments, the discounted cash flow method is used with significant input being the observable exchange rate; for the valuation of currency swap contracts, the discounted cash flow method is used with significant input being the observable forward exchange rate and swap rate of the related currency.

The changes in level 3 financial assets are analysed below:

<b>Financial assets/(liabilities) and WMPs at fair value through profit or loss</b>	<b>2018</b>	<b>2017</b>
Balance at the beginning of the year	-	63 000
Purchases	1 100 000	250 000
Retract	-	-313 818
Transfer into level 3	-	-
Transfer out of level 3	-	-
Total gains or losses for the current period	-	-
- Gains recognised in profit	-	818
- Gains or losses recognised in other comprehensive income	-	-
Balance at the end of the year	1 100 000	-

Changes in unrealised gains or losses included in profit or loss for the current period with respect to assets still held at the end of the year

- (Losses) on changes in interest of WMPs	-	818
- (Losses) on changes in fair value	-	-

Gains or losses recognised in profit or loss are included in the income statement under the items of gains on changes in fair value, investment income and asset impairment losses respectively.

#### (2) Assets measured at fair value on a non-recurring basis

As at 31 December 2018 and 31 December 2017, the Group had no assets measured at fair value on a non-recurring basis.

#### (3) Assets and liabilities not measured at fair value but disclosed

Financial assets and liabilities measured at amortised cost mainly include receivables, short-term borrowings, payables, long-term borrowings and long-term payables. The carrying amount of the financial assets and liabilities not measured at fair value is a reasonable approximation of their fair value.

## 14 Capital management

The Group's capital management policies aim to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group can adjust the dividend payment to the owners, inject capital or dispose the assets to net off the debts.

The total capital of the Group is the total owners' equity listed in the consolidated balance sheet. The Group is not subject to external mandatory capital requirements, and monitors capital on the basis of gearing ratio.

As at 31 December 2018 and 31 December 2017, the Group's gearing ratios are as follows:

	31 December 2018	31 December 2017
Gearing ratio	58%	55%

## 15 Notes to the Company financial statements

### (1) Cash at bank and on hand

	31 December 2018	31 December 2017
Cash at bank	63	1572

### (2) Other receivables

	31 December 2018	31 December 2017
Deposit	871	-
Less: provision for bad debts	-	-
Net book value	871	-

The aging of other receivables is analysed as follows:

	31 December 2018	31 December 2017
Within 1 year	871	-

### (3) Long-term equity investments

	31 December 2018	31 December 2017
Subsidiaries	10452842	10452842
Less: provision for impairment of long-term equity investments	-	-
Net book value	10452842	10452842

As at 31 December 2018, the Company's direct holding subsidiary is Saurer Intelligent Machinery Company Limited (Note 6 (1) (a)) which holds certain long-term equity investments in subsidiaries in Hong Kong and overseas. Those long-term equity investments are subject to applicable foreign exchange control in Mainland China, Hong Kong and overseas where the investment locates.

### (4) Other payables

	31 December 2018	31 December 2017
Accounts payable to subsidiaries (a)	855698	820809
Interest payable	20077	671
Agency fee	8000	6738
Others	1248	-
	885023	828218

#### (a) Payables to subsidiaries

	31 December 2018	31 December 2017
Saurer Intelligent Machinery Co. Ltd	781797	704469
SAURER AG	32481	-
Saurer (Jiangsu) Textile Machinery Co. Ltd	22740	5140
Saurer (Shanghai) Textile Machinery Technology Co. Ltd	12090	1200
Saurer Xinjiang Intelligent Machinery Co. Ltd	6590	110000
	855698	820809

### (5) Employee benefits payable

	31 December 2018	31 December 2017
Short-term employee benefits payable	569	308
Termination benefits	-	-
Other benefits within 1 year	-	-
	569	308

## Short-term employee benefits

	31 December 2017	Increase in the current year	Decrease in the current year	31 December 2018
Payroll	308	2 459	-2 198	569
Social security contributions	-	28	-28	-
Including:				
- Medical insurance	-	24	-24	-
- Work injury insurance	-	2	-2	-
- Maternity insurance	-	2	-2	-
Housing funds	-	5	-5	-
Labour union funds and employee education funds	-	12	-12	-
Other short-term employee benefits	-	3	-3	-
	308	2 507	-2 246	569

## (6) Revenue and cost of sales

	2018	2017
Main operating income	-	832 918
Other operating income	-	20 357
	-	853 275

	2018	2017
Main operating cost	-	789 872
Other operating cost	-	11 173
	-	801 045

## (a) Revenue from main operations and cost of main operations

	2018		2017	
	Main operating income	Main operating cost	Main operating income	Main operating cost
Engineering construction	-	-	831 640	788 960
House sales	-	-	348	84
Construction materials	-	-	930	828
	-	-	832 918	789 872

Note: in 2017, the operation revenue of the Company was the revenue from January to August in 2017. Upon completion of the major asset restructuring in August 2017, the business of engineering construction, house sales and construction materials was exchanged out.

## (7) Financial income - net

	2018	2017
Interest income	-12	-45 214
Interest expenses	21 165	158 567
Commissions	26	1 369
Others	839	115
Net book value	22 018	114 837

**(8) Supplementary information to the cash flow statement****(a) Reconciliation from net (loss)/profit to cash flows from operating activities**

	2018	2017
Net (loss)/profit	-114 346	487 418
Add/(less):		
- Impairment of assets	-	54 173
- Depreciation of fixed assets	-	18 891
- Amortisation of intangible assets	-	602
- Amortisation of long-term prepaid expenses	-	119
- Disposal loss on fixed assets, intangible assets and other non-current assets	-	-278
- Financial income - net	21 165	158 682
- Investment losses	-	-770 591
- Increase in inventories	-	-64 982
- Increase/(decrease) in operating receivables	-871	808 132
- Increase/(decrease) in operating payables	33 437	-532 217
- The impact of exchange rate changes on cash	839	-
- Deferred tax	-	-29 218
Net cash flows from operating activities	-59 776	130 731

**(b) Net increase/(decrease) in cash and cash equivalents**

	2018	2017
Cash and cash equivalents at the end of the year	63	1 572
Less: cash and cash equivalents at the beginning of the year	-1 572	-660 224
Net decrease in cash and cash equivalents	-1 509	-658 652

**(c) Cash and cash equivalents**

	2018	2017
Cash at bank and on hand	63	1 572
Less: restricted cash at bank	-	-
Cash and cash equivalents at the end of the year	63	1 572

**16 Supplementary information by the management****(1) Detailed list of non-recurring gain and loss**

	2018	2017
Income/(loss) from disposal of non-current assets	148	-1 318
Governmental subsidy included in the current profits and losses	46 305	2 511
Paid or received payment for use of state funds recorded in current profits and losses	5 353	23 775
Estimated expenses of employee dismissals caused by the overseas plant shutdown and others	-	-8 539
Income of subsidiary disposal	-	12 082
Net value of other non-operating income and expense	-640	-21 068
Subtotal	51 166	7 443
Less: impact of income tax	-8 253	1 930
Less: extraordinary profit and loss attributable to minority shareholders	-	-92
Extraordinary profit and loss attributable to parent company shareholders	42 913	9 281

**Compiling foundation of extraordinary profit and loss detailed statements**

According to the regulations of "Standards For Content And Format Of Information Disclosure Of Companies Issuing Securities Publicly No. 1 – Extraordinary profit and loss [2008]" promulgated by CSRC, extraordinary profit and loss arises in various trading and issues that have no direct relation with the normal operations of a company, or that are related to normal operations but may influence reasonable judgment of the company's operation, performance and profitability due to the special and occasional nature of such trading and assets.

**(2) Net assets income and earnings per share**

	Weighted average net asset income rate (%)	
	2018	2017
Net profits attributable to shareholders of the parent company	30.58%	23.67%
Net profits attributable to parent company shareholders excluding extraordinary profit and loss	28.96%	23.34%

	Earnings per share			
	Basic earnings per share		Diluted earnings per share	
	2018	2017	2018	2017
Net profits attributable to shareholders of the parent company	0.4275	0.4556	0.4275	0.4556
Net profits attributable to parent company shareholders excluding extraordinary profit and loss	0.4049	0.4492	0.4049	0.4492

# 10. Catalogue of documents available for inspection

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Catalogue of documents available for inspection	Financial statements bearing the signatures and seals of the Company's legal representative, Chief Financial Officer and the person in charge of accounting.
Catalogue of documents available for inspection	Original of the audit report bearing the seal of PwC and the signature and seal of a certified public accountant.
Catalogue of documents available for inspection	Originals of all documents and announcements publicly disclosed by the Company in newspapers designated by the CSRC within the reporting period.

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Approval and submission date of the Board of Directors:

Chairman: Pan Xueping  
25 April 2019

# Disclaimer

Parts of the Saurer Annual Report 2018 have been translated into English. Please note that the Chinese-language version of the Saurer Annual Report is the binding version.

## **Caution concerning forward-looking statements**

This report contains forward-looking statements. These forward-looking statements reflect the views of the management of Saurer Intelligent Technology Co. Ltd as of the date of publication. The forward-looking statements may involve risks and uncertainties, including technological advances, product demand and market acceptance, the effect of economic conditions, the impact of competitive products and pricing, foreign currency exchange rates, changes in legal requirements, political measures and other risks. All of these forward-looking statements are based on estimates and assumptions made by the Saurer management and are believed to be reasonable, but are inherently uncertain and difficult to predict. Actual results or experience could differ materially from the forward-looking statements. Saurer disclaims any intention or obligation to update these forward-looking statements because of new information, future events or otherwise. It should also be noted that past performance is not a guide to future performance.

SAURER AG  
Corporate Communications  
Bleikenstrasse 11  
9630 Wattwil  
Switzerland  
ir@saurer.com

Saurer Intelligent Technology Co. Ltd  
Investor Relations  
100 Zunyi Road  
Shanghai 200051  
China  
dlu-china-ir@saurer.com

**saurer.com**