



BAO SHEN HOLDINGS LIMITED
寶申控股有限公司

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE: 8151

2019

ANNUAL
REPORT

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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*This report, for which the directors (the “**Directors**”) of Bao Shen Holdings Limited (the “**Company**”), together with its subsidiaries, (the “**Group**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading or deceptive; and (2) there are no other matters the omission of which would make any statement in this report misleading.*

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Fan Baocheng
(Chairman and Chief Executive Officer)
Mr. Zhou Zhen Dong

Independent Non-executive Directors

Mr. Liang Chi
Mr. Ho Ka Chun
Mr. Chan Chun Chi

AUDIT COMMITTEE

Mr. Chan Chun Chi *(Chairman)*
Mr. Liang Chi
Mr. Ho Ka Chun

NOMINATION COMMITTEE

Mr. Liang Chi *(Chairman)*
Mr. Ho Ka Chun
Mr. Chan Chun Chi

REMUNERATION COMMITTEE

Mr. Ho Ka Chun *(Chairman)*
Mr. Liang Chi
Mr. Chan Chun Chi

COMPANY SECRETARY

Mr. Tsoi Ka Shing

COMPLIANCE OFFICER

Mr. Fan Baocheng

AUTHORISED REPRESENTATIVES

Mr. Fan Baocheng
Mr. Tsoi Ka Shing

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Hong Kong

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Cinda International Capital Limited
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Hong Kong

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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LEGAL ADVISER AS TO HONG KONG LAW

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29 Queen's Road Central, Central
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AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants
31/F., Gloucester Tower
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11 Pedder Street, Central
Hong Kong

STOCK CODE

8151

COMPANY'S WEBSITE

www.baoshen.com.hk

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a plastic and steel component processor for white goods of home washing machines and home refrigerators, which entails manufacturing of (i) stamping components; (ii) plastic components; (iii) processing of spray-painting; and (iv) powder-coating peripheral components, with headquarters in the Anhui province, the PRC.

The uncertainties of the global economy and the PRC's business environment remained challenging for the year ended 31 December 2019. It resulted in a decrease of the revenue of approximately 3.5% for the year ended 31 December 2019 while comparing with corresponding period for 2018. Gross profit margin decreased from 24.6% for the year ended 31 December 2018 to approximately 13.1% for the year ended 31 December 2019.

OUTLOOK

Looking forward, the Directors consider the global business environment will become more challenging. The economic atmosphere and confidence could definitely be adversely affected by the continuous trade war between the US and the PRC, and the novel coronavirus (“**COVID-19**”) outbreak around the world. The outbreak of COVID-19 within the PRC and the epidemic of COVID-19 is still subsisting. This has caused temporary production halt in the Group's production bases and also our suppliers in the PRC. Thus, our production capacity was significantly reduced in January and February 2020, this brings challenges to the Group's business and supply chain. Management has adopted various measures to safeguard the health of employees and after fulfilling all the related regulations implemented by the local government, currently, all our production bases in the PRC have already resumed most of the production in order to satisfy the demand for goods from our customers. However, since late February 2020, the COVID-19 has a clear tendency to spread outside the PRC; on 11 March 2020, the World Health Organisation announced that COVID-19 can be characterised as a pandemic. The outbreak and large-scale spread of the COVID-19 has had significant impacts on global economy and various industries. It is still difficult to assess the impact of the COVID-19 in the PRC and the global economy. Such factors may result in a substantial drop of sales volume in the first quarter of 2020. There is still great uncertainty of the spread of the COVID-19, as a result the Group cannot predict the degree of impact on white goods markets in the future and business development prospects in 2020 at this stage.

To deal with these challenges, the Group will stay alert of the trade war and any changing business environment that may impact its operations and its profitability. To cope with the difficult market situation, the Group will continue to enhance sales effort by diversifying the product portfolio, continue to expand the customer base to broaden the income stream, improve the quality of the production and internal controls and strive to implement stringent cost controls. The Group will keep an open attitude in exploring the new business opportunities that will suit the Group's development and with an aim to diversify the Group's business foundation from time to time.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The Group's revenue was derived from four sources, namely, stamping components manufacturing, plastic components manufacturing, spray-painting peripheral components processing and powder-coating peripheral components processing which are analysed in note 5 to the consolidated financial statements. For the year ended 31 December 2019, the Group recorded a decrease in total revenue by approximately 3.5% to approximately RMB89.1 million (2018: approximately RMB92.4 million). Details of changes in the revenue are analysed as below.

Stamping components manufacturing

For stamping components manufacturing, the revenue increased by 14.2% from approximately RMB19.7 million for the year ended 31 December 2018 to approximately RMB22.5 million for the year ended 31 December 2019. Such increase was primarily due to increase in sale to the largest customer of the Group.

Plastic components manufacturing

For plastic components manufacturing, the revenue increased from nil for the year ended 31 December 2018 to approximately RMB9.6 million for the year ended 31 December 2019. In order to explore more business opportunities, the Group had explored to plastic components manufacturing since January 2019.

Spray-painting peripheral components processing

For spray-painting peripheral components processing, the revenue decreased by 31.7% from approximately RMB40.0 million for the year ended 31 December 2018 to approximately RMB27.3 million for the year ended 31 December 2019. Such decrease was primarily due to generally decrease in sales to the customers of the Group.

Powder-coating peripheral components processing

For powder-coating peripheral components processing, the revenue decreased by 9.2% from approximately RMB32.6 million for the year ended 31 December 2018 to approximately RMB29.6 million for the year ended 31 December 2019. Such decrease was primarily due to decrease in sales to the largest customer of the Group outweigh increase in sales to some of other customers of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit and gross profit margin

The following table sets forth a breakdown of gross profit and gross profit margin for the years indicated:

	For the year ended 31 December	
	2019 RMB'000	2018 RMB'000
Revenue	89,099	92,375
Cost of sales	(77,394)	(69,692)
Gross profit	11,705	22,683
Gross profit margin	13.1%	24.6%

The gross profit decreased by approximately 48.4%, from approximately RMB22.7 million for the year ended 31 December 2018 to approximately RMB11.7 million for the year ended 31 December 2019. The gross profit margin decreased from 24.6% for the year ended 31 December 2018 to 13.1% for the year ended 31 December 2019. The decrease in gross profit and gross profit margin was primarily due to increase in production costs including but not limited to raw material costs, direct staff costs and manufacturing overhead costs of the Group's products.

Other income and gains

Other income and gains decreased by 37.5% from approximately RMB7.8 million for the year ended 31 December 2018 to approximately RMB4.9 million for the year ended 31 December 2019. Such decrease was mainly due to decrease in government grants received in relation to the listing of the shares of the Company on GEM compared to the year ended 31 December 2018.

Selling and distribution expenses

Selling and distribution expenses increased by 6.4% from approximately RMB3.4 million for the year ended 31 December 2018 to approximately RMB3.6 million for the year ended 31 December 2019. Such increase is primarily attributable to increase in transportation expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative expenses

Administrative expenses decreased by 4.8% from approximately RMB11.3 million for the year ended 31 December 2018 to approximately RMB10.7 million for the year ended 31 December 2019. Such decrease is primarily attributable to no one-off listing expenses incurred during the year ended 31 December 2019.

Finance costs

The finance costs decreased by approximately 8.5% from approximately RMB2.7 million for the year ended 31 December 2018 to approximately RMB2.5 million for the year ended 31 December 2019. Such decrease was primary due to decrease in cost of guarantees on bank borrowing for the year ended 31 December 2019.

Income tax expenses

The income tax expenses decreased by approximately 58.6% from approximately RMB2.7 million for the year ended 31 December 2018 to approximately RMB1.1 million for the year ended 31 December 2019. The decrease was mainly due to decrease in assessable profit of the PRC subsidiary for the year ended 31 December 2019.

Loss for the year

The Group recorded a loss for the year ended 31 December 2019 of approximately RMB1.3 million compared to profit of approximately RMB10.4 million for the year ended 31 December 2018. Such decrease was mainly attributable to decrease in gross profit and decrease in government grants received in relation to the listing of the shares of the Company on GEM of approximately RMB4.0 million.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the Group had current assets of RMB105.9 million (2018: RMB94.4 million) and current liabilities of RMB62.7 million (2018: RMB48.9 million), representing a current ratio of about 1.7 times (2018: 1.9 times). The Group's total equity and the bank borrowings as at 31 December 2019 amounted to RMB83.9 million (2018: RMB83.7 million) and RMB27.3 million (2018: RMB18.7 million) respectively. All of the bank borrowings of the Group are repayable within one year. The gearing ratio of the Group as at 31 December 2019, calculated as a ratio of the bank borrowings to total equity, was approximately 32.6% (2018: 22.3%).

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant contingent liabilities (2018: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

INTEREST RATE RISK

Interest rate risk refers to the risk that the fair value of interest rate risk in relation to fixed rate bank borrowings. The Group is also exposed to cash flow interest rate due to fluctuation of prevailing market interest rate on bank deposits and bank borrowings carried at prevailing market interest rates. The Group however did not engage in any derivatives agreements and did not commit any financial instrument to hedge its interest rate risk during the year ended 31 December 2019. The management monitors the Group's interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

CAPITAL COMMITMENTS

As at 31 December 2019, the Group had capital commitment of approximately RMB3.6 million (2018: approximately RMB1.5 million).

PLEDGE OF ASSETS

The Group had pledged (i) right-of-use assets and (ii) property, plant and equipment in the aggregate amount of approximately RMB22.0 million as at 31 December 2019 (2018: prepaid lease payments, property, plant and equipment and pledged bank deposits in the aggregate amount of approximately RMB24.2 million).

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

There were no significant investments held, material acquisitions or disposals of subsidiaries and affiliated companies by the Group during the year ended 31 December 2019. Save as those disclosed in this report, there was no plan for material investments or capital assets as at 31 December 2019.

FOREIGN EXCHANGE EXPOSURE

The Group has minimal exposure to foreign currency risk as most of the business transactions, assets and liabilities are principally denominated in RMB. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The management monitors our foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS

On 23 April 2018, the Shares of the Company were listed on GEM by way of Share Offer. The business objective of the Group is to expand our market share and strengthen our market position in the steel and plastic component industry for white goods in the PRC.

After deduction of all related listing expenses and commissions, the net proceeds from the Listing amounted to approximately HK\$18.4 million. Up to 31 December 2019, the Group has approximately utilised HK\$9.0 million of the net proceeds from the Listing as follows:

Use of proceeds	As stated in Prospectus HK\$'000	Actual use of proceeds from the date of Listing up to 31 December 2019 HK\$'000	Unused amount HK\$'000
Increasing production capacity of stamping components by acquisition of automatic roll manufacturing lines, stamping machines and the moulds required, and the related additional labour cost	4,100	1,647	2,453
Increasing production capacity of powder-coating peripheral components by acquisition of one new processing line and the related additional labour cost	4,200	–	4,200
Increasing production capacity of spray-painting components by acquisition of one new processing line and the related additional labour cost	2,700	–	2,700
Repayment of part of the Group's bank loans	6,700	6,700	–
Using for general working capital purposes	700	700	–
Total	18,400	9,047	9,353

Any net proceeds that were not applied immediately have been placed in the short-term demand deposits with authorised financial institutions or licensed banks as at 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

SUBSEQUENT EVENTS

- (i) Since early 2020, the epidemic of Coronavirus Disease (the “**COVID-19 outbreak**”) has spread across the PRC and other countries, and it has affected business and economic activities to some extent.

Pending the development of the COVID-19 outbreak subsequent to the date of these financial statements, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of these financial statements.

The directors will keep continuous attention on the situation of the COVID-19 outbreak and react actively to its impact on the financial position and operating results of the Group.

- (ii) On 15 April 2020, Chuzhou Xiezhong Home Appliance Accessories Co., Ltd. (“**Xiezhong**”)* (滁州市協眾家電配件有限公司), an indirectly wholly-owned subsidiary of the Company, sold a number of machineries to a third party at a consideration of RMB2,400,000 and the third party at the same time lease back the machineries to Xiezhong.

DIVIDENDS

The Board did not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: nil).

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2019, the Group had a total of 303 full time employees (2018: 283) in the PRC and Hong Kong. For the year ended 31 December 2019, total staff costs and related expenses of the Group (including the Directors’ remuneration) were approximately RMB22.8 million (2018: approximately RMB18.0 million). Employees’ remuneration is determined with reference to market terms and the performance, qualifications and experience of employees. Apart from the statutory retirement benefits and medical benefits, the Group also provides trainings to employees to enhance their knowledge and maintain the quality of our services.

* English translation name is for identification purpose only

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Fan Baocheng (樊寶成), aged 51, is the chairman of the Board, the chief executive officer, an executive Director, the compliance officer and one of the Controlling Shareholders. He was appointed as a Director on 14 December 2015 and was then re-designated as an executive Director on 14 September 2017. Mr. Fan is primarily responsible for major decision-making, formulating the Group's overall strategic plan and overseeing its overall business development and policy-setting.

Mr. Fan is also a director of each of the subsidiaries of the Company, namely Wealthy Square Developments Limited, Dragon Shiner Development Limited, and Chuzhou Xiezhong Home Appliance Accessories Co., Ltd.* (滁州市協眾家電配件有限公司).

Mr. Fan worked as a staff in China Yangzi Electric Refrigerator Factory* (中國揚子電氣公司電冰箱總廠) from June 1991 to July 1997. Mr. Fan was also an executive director and general of several companies during different time periods, namely, Chuzhou Ruidong Company Limited* (滁州市瑞東有限公司) from August 1997 to December 2008, Chuzhou Genxing Powder-Coating Co., Ltd* (滁州市互興噴塑有限公司) from November 2005 to August 2007, Chuzhou Xingxing Painting Equipment Company Limited* (滁州市新互興塗裝設備有限公司) from March 2009 to April 2016. In addition, Mr. Fan has been the executive director and general manager of Jiangling Baocheng Technology Company Limited (江陵縣寶成科技有限公司) since June 2010.

Mr. Fan obtained a postgraduate degree in economic management and decision-making from Nanjing University in June 2006.

Mr. Zhou Zhen Dong (周振鵬), aged 30, is an executive Director since 14 September 2017 and is a Substantial Shareholder of the Group. He is responsible for major decision-making and overseeing its overall business development and policy-setting.

Mr. Zhou graduated from the Renmin University of China with a bachelor's degree in finance in June 2012. Prior to joining our Group on 18 August 2015, Mr. Zhou worked in First Seafront Fund Management Company Limited as a researcher from November 2013 to March 2014. From March 2014 to September 2014, he worked as a corporate finance analyst in Goetzpartners Business Consultants (Shanghai) Company Limited. He was a director of Gift Horizon Limited.

Mr. Zhou joined our Group on 18 August 2015 as a director of Chuzhou Xiezhong Home Appliance Accessories Co., Ltd.* (滁州市協眾家電配件有限公司). Mr. Zhou is also a director of each of the subsidiaries of the Company, namely Wealthy Square Developments Limited, Dragon Shiner Development Limited.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liang Chi (梁赤), aged 61, was appointed as an independent non-executive Director on 31 March 2018. Mr. Liang is the chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee of the Group. He is responsible for supervising and providing independent judgement to the Board.

Mr. Liang graduated from the Sun Yat-Sen University with a bachelor's degree in law in July 1984 and is a registered lawyer of the PRC since 1989. He has been a lawyer in Guangdong Fangdian Law Firm* (廣東方典律師事務所) since February 2018. He previously worked in several law firms during different periods, including Guangdong Zhongzhen Law Firm* (廣東中圳律師事務所) from July 2000 to June 2010, Guangdong Shengfang Law Firm (廣東聖方律師事務所) from July 2011 to July 2012, Beijing Zhongtian (Shenzhen) Law Firm* (北京市眾天(深圳)律師事務所分所) from July 2012 to October 2013, Guangdong Fangdian Law Firm* (廣東方典律師事務所) from October 2013 to July 2016 and Guangdong Junyan Law Firm* (廣東君言律師事務所) from July 2016 to February 2018. He has been appointed as a visiting professor of the Guangdong Institute of Public Administration* (廣東行政職業學院) from March 2017 to March 2020. In addition, he has also been qualified as a real estate valuer in the PRC since 1995.

Mr. Liang acted as an independent director of Shenzhen Derun Electronics Co., Ltd. (深圳市得潤電子股份有限公司), a listed company on the Shenzhen Stock Exchange (stock code: 2055) from May 2010 to May 2014 and has been a supervisor of Avic International Holdings Limited (中航國際控股股份有限公司), a listed company on the Stock Exchange (stock code: 161) since June 2015.

Mr. Ho Ka Chun (何家進), aged 39, was appointed as an independent non-executive Director on 31 March 2018. Mr. Ho is also the chairman of the Remuneration Committee, and a member of the Audit Committee and the Nomination Committee of the Group. He is responsible for supervising and providing independent judgement to the Board.

Mr. Ho obtained a bachelor degree in business administration from the Chinese University of Hong Kong in December 2004 and is a fellow member of the Hong Kong Institute of Certified Public Accountants since August 2005. He was the chief financial officer of China Tontine Wines Group Limited (中國通天酒業集團有限公司), a listed company on the Stock Exchange (stock code: 389) from January 2016 to July 2018. Mr. Ho has been appointed as an independent non-executive director of Fusen Pharmaceutical Company Limited (stock code: 1652) since 14 June 2018, the issued shares of which are listed on the Main Board of the Stock Exchange in July 2018. Mr. Ho worked for the Hong Kong Office of Deloitte Touche Tohmatsu from 30 August 2004 to 31 December 2012 with his last position as manager and the Guangzhou Office of Deloitte Touche Tohmatsu from 1 January 2013 to 31 December 2015 with his last position as senior manager.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Chan Chung Chi (陳駿志), aged 41, was appointed as an independent non-executive Director on 31 March 2018. Mr. Chan is also the chairman of the Audit Committee, and a member of the Remuneration Committee and the Nomination Committee of the Group. He is responsible for supervising and providing independent judgment to the Board.

Mr. Chan obtained a bachelor degree in accounting from the Hong Kong Polytechnic University in November 2004 and is a member of the Hong Kong Institute of Certified Public Accountants since February 2007. He was an independent non-executive director of Teamway International Group Holdings Limited (formerly known as Jin Bao Bao Holdings Limited), a listed company on the Stock Exchange (stock code: 1239), from June 2011 to March 2015. Since August 2010, Mr. Chan has been serving as an accounting manager and senior accounting manager of Shanghai Industrial Urban Development Group Limited (上海實業城市開發集團有限公司) (formerly known as NEO-China Land Group (Holdings) Limited (中新地產集團(控股)有限公司)), a listed company on the Stock Exchange (stock code: 563). Prior to this, Mr. Chan worked at several accounting firms, namely, K.S. Li & Company from August 2004 to March 2005, T. K. Lo & Company from March 2005 to April 2006, C.W. Leung & Co. from April 2006 to August 2007, and CCIF CPA Limited from August 2007 to July 2010, and was responsible for, among other things, audit works, consultant services and tax related matters for clients.

SENIOR MANAGEMENT

Mr. Tsoi Ka Shing (蔡嘉誠), aged 39, was appointed as the chief financial officer and company secretary of the Company on 31 March 2018. Mr. Tsoi is mainly responsible for financial management and corporate governance and overall secretarial matters of the Group.

Mr. Tsoi graduated from the University of Technology, Sydney with a bachelor degree of business, majoring in finance and accounting in July 2005. He was accredited as a certified practicing accountant by CPA Australia and certified public accountant by Hong Kong Institute of Certified Public Accountants in November 2009 and May 2011, respectively.

Mr. Tsoi has approximately 15 years of experience in accounting and financing. Mr. Tsoi joined our Group in March 2018 has been appointed as the chief financial officer and company secretary of the Company since March 2018. Mr. Tsoi has also been appointed as an independent non-executive director of Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited since 1 August 2018, the issued shares of which are being applied for listing on the Main Board of the Stock Exchange. Prior to joining the Group, Mr. Tsoi worked in China Harvest Finance Group Limited as the chief financial officer and company secretary from 15 September 2014 to 31 December 2015. Mr. Tsoi also worked in Teamway International Group Holdings Limited (formerly known as Jin Bao Bao Holdings Limited), a listed company on the Stock Exchange (stock code: 1239), as the company secretary from June 2011 to September 2014 and financial controller from June 2011 to June 2014. Mr. Tsoi worked as the senior accountant and an assistant audit manager in Shinewing (HK) CPA Limited from August 2009 to November 2010, a senior auditor in Deloitte Touche Tohmatsu from January 2008 to August 2009, an auditor in CCIF CPA Limited from February 2007 to January 2008, and an audit intermediate in Yau and Wong, CPA from July 2005 to January 2007.

COMPANY SECRETARY

Mr. Tsoi Ka Shing (蔡嘉誠) was appointed as the company secretary of the Company on 31 March 2018. He is responsible for the Group's overall company secretarial matters. Details of his qualifications and experience are set out in the paragraph headed "Senior Management" above.

* English translation name is for identification purpose only

REPORT OF THE DIRECTORS

The Directors are pleased to present this report of the Directors and the audited consolidated financial statements of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the business as a plastic and steel component processor for white goods which entails manufacturing of stamping components, plastic components and processing of spray-painting and powder-coating peripheral components. The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 32 to the consolidated financial statements of this annual report. There were no significant changes on our Group’s principal activities during the year ended 31 December 2019.

BUSINESS REVIEW

A review of the Group’s business, a discussion and analysis of the Group’s performance for the year ended 31 December 2019 and an analysis of the prospects of the Group’s business are set out in the section headed “Management Discussion and Analysis” from pages 4 to 10 of this annual report.

A description of the principal risks and uncertainties, environmental policies of the Group, compliance with the laws and regulations and key relationship with employees, customers, suppliers and others facing by the Group and have a significant impact are set out in this “Report of the Directors”.

SEGMENTAL INFORMATION

Details of segment reporting are set out in note 5 to the consolidated financial statements.

RESULTS AND FINAL DIVIDEND

The results of the Group for the year ended 31 December 2019 and the financial position of the Group as at 31 December 2019 are set out in the consolidated financial statements from pages 61 to 63 of this annual report.

The Board did not recommend the payment of final dividend for the year ended 31 December 2019 (2018: nil).

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years, as set out on page 128 of this annual report, are extracted from this annual report and the prospectus of the Company dated 9 April 2018 (the “**Prospectus**”).

PRINCIPAL RISKS AND UNCERTAINTIES

The Group’s financial position, results of operations and business prospects may be affected by a number of risks and uncertainties directly and indirectly pertaining to the Group’s business. The following are the key risks and uncertainties identified by the Group.

REPORT OF THE DIRECTORS

The Group relies heavily on the relationship with Group A

Revenue of the Group derived from Group A, which produces home appliance products, was approximately RMB32.9 million, RMB25.2 million and RMB23.4 million, for the years ended 31 December 2017, 2018 and 2019, respectively, representing approximately 33.8%, 27.2% and 26.3% of the total revenue for the same periods. The Group's business will be adversely affected if the sales of Group A drop significantly.

Concentration on the manufacturing and processing of components ultimately used in the home appliance products

During the three years ended 31 December 2017, 2018 and 2019, majority of the Group's products were subsequently applied for the production of home appliance products, in particular, home washing machines and home refrigerators. The demand of the Group's products relies on the development and sales of these home appliance products in the PRC, which may fluctuate over time. Should the demand for these products in the PRC fall as a result of adverse economic cycles and/or financial crisis or change in consumer buying behaviours, the demand for the Group's products may also fall, and in which case, the Group's business, operations and financial performance could be adversely affected.

MAJOR CUSTOMERS

During the year ended 31 December 2019, the Group's largest and the five largest customers represented approximately 33.7% and approximately 83.2% respectively of the Group's total revenue.

None of the Directors nor any of their associates (as defined in the GEM Listing Rules) nor any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any material beneficial interest in the Group's five largest customers.

KEY RELATIONSHIP WITH EMPLOYEES, CUSTOMERS, SUPPLIERS AND OTHERS THAT HAVE A SIGNIFICANT IMPACT

The Group is committed to establish and maintain long term and harmonious relationships with its employees, customers and suppliers. The Group provides a pleasant and healthy working environment to employees. During the year ended 31 December 2019, the Group organised various activities to promote friendship, bonding and healthiness of employees. In addition, instead of mass communication, employees of the Group communicate with the customers and suppliers on an ongoing and promptly basis through email, telephone or face-to-face meeting. The Group was able to retain its customers and suppliers during the year ended 31 December 2019 and no complaints were received.

ENVIRONMENTAL PROTECTION

The Group recognises its responsibility to protect the environment from its business activities. The Group has endeavoured to comply with the laws and regulations regarding environmental protection and encourages environmental protection and promotes awareness towards environmental protections among our staff and employees.

REPORT OF THE DIRECTORS

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group during the year ended 31 December 2019.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2019 are set out in note 14 to the consolidated financial statements of this annual report.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2019 are set out in note 26 to the consolidated financial statements.

DEBENTURES

The Company did not issue any debentures during the year ended 31 December 2019.

RESERVES

Details of movements in the reserves of the Group and the Company during the year ended 31 December 2019 are set out in the consolidated statement of changes in equity and in note 37 to the consolidated financial statements, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2019, the Company's reserve available for distribution to the Shareholders are approximately RMB43.0 million (2018: RMB47.3 million) as calculated in accordance with statutory provisions applicable in the Cayman Islands.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There were no purchase, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries for the year ended 31 December 2019.

PRE-EMPTIVE RIGHTS

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

REPORT OF THE DIRECTORS

EQUITY-LINKED AGREEMENTS

Save and except for the scheme as disclosed in the paragraph headed “Share Option Scheme”, no equity-linked agreements that (i) will or may result in the Company issuing shares or (ii) require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year ended 31 December 2019 or subsisted at the end of the year ended 31 December 2019.

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

During the year ended 31 December 2019, there was no material acquisition, disposal or investment by the Group.

SHARE OPTION SCHEME

A share option scheme (the “**Share Option Scheme**”) was adopted by the shareholders of the Company on 31 March 2018 for the purpose of attracting and retaining the best available personnel, to provide additional incentive to employees (full-time and part-time), Directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or services providers of the Group and to promote the success of the business of the Group. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules and are summarised below:

The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the Shares in issue at any point in time, without prior approval from the Shareholders. The number of Shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the Shares in issue at any point in time, without prior approval from the Shareholders. Options granted to substantial Shareholders or independent non-executive Directors or any of their respective associates (including a discretionary trust whose discretionary objects include substantial Shareholders, independent non-executive directors or any of their respective associates) in any 12-month period in excess of 0.1% of the Company’s share capital or with a value in excess of HK\$5 million must be approved in advance by the Shareholders. Options granted must be taken up within seven days inclusive of the day on which such offer was made, upon payment of HK\$1 per option. Options may be exercised at any time during a period as the Directors may determine which shall not exceed ten years from the date of grant. The exercise price is determined by the Directors, and will be at least the higher of (i) the closing price of the Shares on the date of grant, (ii) the average closing price of the Shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Share. The Share Option Scheme will remain in force for a period of ten years commencing on the date of the adoption date (i.e. 31 March 2018) and shall expire at the close of business on the business day immediately preceding the tenth anniversary thereof unless terminated earlier by the Shareholders in general meeting. There is no option outstanding, granted, exercised, cancelled and lapsed from the date of adoption of the Share Option Scheme to 31 December 2019.

CORPORATE GOVERNANCE

The principal corporate governance practices as adopted by the Company are set out in the section headed “Corporate Governance Report” from page 44 to page 55 of this annual report.

REPORT OF THE DIRECTORS

DISCLOSURES UNDER RULES 17.22 TO 17.24 OF THE GEM LISTING RULES

As at 31 December 2019, the Group had no circumstances which would give rise to a disclosure obligation under Rules 17.22 to Rule 17.24 of the GEM Listing Rules.

DIRECTORS AND THEIR SERVICE CONTRACTS

The Directors during the year ended 31 December 2019 and up to the date of this annual report were:

Executive Directors

Mr. Fan Baocheng (*Chairman and Chief Executive Officer*)
Mr. Zhou Zhen Dong

Independent non-executive Directors

Mr. Liang Chi
Mr. Ho Ka Chun
Mr. Chan Chun Chi

The biographical details of the Directors are set out on page 11 to page 13 of this annual report.

Each of the Directors has entered into a service contract or an appointment letter ("**Directors' Service Contract**") with the Company for an initial fixed term of three years or up to the annual general meeting which is subject to termination by either party giving not less than one month's written notice.

In accordance with Article 108 of the Articles of Association, at each annual general meeting, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

At the forthcoming annual general meeting of the Company (the "**2020 AGM**"), all the Directors will retire from office as Director by rotation and, being eligible, will offer themselves for re-election at the 2020 AGM.

Other than disclosed above, no Director proposed for re-election at the forthcoming AGM has a service contract with the Company, which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

CONFIRMATION OF INDEPENDENCE

The Company has received annual confirmation of independence from each of the independent non-executive Directors pursuant to the GEM Listing Rules. The Company considers the independent non-executive Directors to be independent pursuant to Rule 5.09 of the GEM Listing Rules.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in this annual report, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which the Director or any entity connected to the Director had a material interest, whether directly or indirectly, subsisted at any time during the year ended 31 December 2019.

CONTROLLING SHAREHOLDERS' INTEREST

Save as disclosed in this annual report, no contracts of significance were entered into between the Company or any of its subsidiaries and any Controlling Shareholders or any of its subsidiaries or any contracts of significance for the provision of services to the Company or any of its subsidiaries by any Controlling Shareholders or any of its subsidiaries.

EMOLUMENT POLICY

The emolument policy of the Group is on the basis of the qualifications and contributions of individuals to the Group. The Company has adopted the Share Option Scheme as an incentive to eligible participants, details of which are set out in the paragraph headed "Share Option Scheme".

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to the Directors' duties, responsibilities and performance and the results of the Group.

Details of the emoluments of the Directors and five highest paid individuals are set out in note 10 and note 11 to the consolidated financial statements respectively.

Details of the retirement benefit plans are set out in note 28 to the consolidated financial statements.

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance covering the liabilities of its Directors and officers in respect of legal actions against them arising out of corporate activities. The permitted indemnity provision is in force for the benefit of the Directors as required by section 470 of the Companies Ordinance (Chapter 622, Laws of Hong Kong) (the "**Companies Ordinance**") when this Directors' report prepared by the Directors is approved in accordance with section 391(1)(a) of the Companies Ordinance.

COMPETING INTERESTS

During the year ended 31 December 2019, none of the Directors, the Controlling Shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) is interested in any business apart from the business operated by the Group which competes or is likely to compete, directly or indirectly, with the Group's business during the year ended 31 December 2019 and up to the date of this annual report.

REPORT OF THE DIRECTORS

NON-COMPETITION UNDERTAKING

Mr. Fan Baocheng and Wang Mao Investments Limited (each a “**Covenantor**”, collectively, “**Covenantors**”) entered into a deed of non-competition dated 31 March 2018 in favour of the Company and its subsidiaries (the “**Deed of Non-competition**”).

Pursuant to the Deed of Non-competition, each of the Covenantors has irrevocably and unconditionally undertaken to the Company (for itself and for the benefit of the Company’s subsidiaries) that, save and except as disclosed in the Prospectus, so far as the Deed of Non-competition continues to remain effective, he/it shall not, and shall procure that his/its close associates (other than any member of the Group) not to develop, acquire, invest in, participate in, carry on or be engaged, concerned or interested, or otherwise be involved, directly or indirectly, in any business in competition with or likely to be in competition with the existing business activity of any member of the Group within Hong Kong and such other parts of the world where any member of the Group may operate from time to time, or any business activity to be conducted by any member of our Group from time to time after the Listing, save for the holding of not more than 5% shareholding interests (individually or with his/its close associates) in any company listed on a recognised stock exchange and at any time the relevant listed company shall have at least one shareholder (individually or with his/its close associates, if applicable) whose shareholding interests in the relevant listed company is higher than that of the relevant Covenantor (individually or with his/its close associates). Each of the Covenantors further undertakes that if he/it or his/its close associates other than any member of the Group is offered or becomes aware of any business opportunity which may compete with the business of the Group, he/it shall procure that his/its close associates to promptly notify the Group in writing and the Group shall have a right of first refusal to take up such opportunity. The independent non-executive Directors will review, on an annual basis, the compliance with the Deed of Non-competition by the Covenantors, and be responsible for deciding whether or not to allow any of the Covenantors and/or his/its close associates to involve or participate in any business in competition with or likely to be in competition with the existing business activity of any member of the Group within Hong Kong and such other parts of the world where any member of the Group may operate from time to time and if so, any condition to be imposed. The Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the Deed of Non-competition of the Covenantors in the annual report of the Company.

A summary of the major terms of the Deed of Non-competition was disclosed in the section headed “Relationship with Controlling Shareholders” of the Prospectus.

The Company confirms that each of the Covenantors has complied with the Deed of Non-competition from the date of Listing to 31 December 2019 and up to the date of this annual report. In order to ensure that the Covenantors have complied with the Deed of Non-competition, each of the Covenantors has provided to the Company four written confirmations that (i) he/it has provided information as may be necessary for the annual review by the independent non-executive Directors in respect of the Deed of Non-competition; and (ii) he/it has complied with the non-competition undertaking under the Deed of Non-competition for the respective periods from 1 January 2019 to 31 March 2019, 1 April 2019 to 30 June 2019, 1 July 2019 to 30 September 2019, 1 October 2019 to 31 December 2019, as well as 1 January 2020 to 31 March 2020 and to the date of this annual report.

REPORT OF THE DIRECTORS

The independent non-executive Directors have reviewed the status of the compliance by each of the Covenantors with the undertakings in the Deed of Non-competition and evaluated the effectiveness of the implementation of the Deed of Non-competition and were satisfied that, as far as they can ascertain, there is no breach by any of the Covenantors of the undertakings in the Deed of Non-competition given by them.

As of the date of this annual report, the Company is not aware of any other matters regarding the compliance of the undertakings in the Deed of Non-competition and there have not been any changes in terms of the Deed of Non-competition since the Listing of the Company.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken by the Group are set out in note 34 to the consolidated financial statements. Those related party transactions which constituted connected transactions/continuing connected transactions under the GEM Listing Rules are set out in the paragraph headed “Connected Transactions/Continuing Connected Transactions” below. These continuing connected transactions have complied with the requirements under Chapter 20 of the GEM Listing Rules.

CONNECTED TRANSACTIONS/CONTINUING CONNECTED TRANSACTIONS

One-off Connected Transactions

During the year ended 31 December 2019, the Group had not entered into any non-exempted one-off connected transactions which were subject to the reporting, annual review, announcement and/or independent shareholders’ approval requirements under the GEM Listing Rules.

Continuing Connected Transactions

During the year ended 31 December 2019, the Group has the following continuing connected transaction with a connected person which is fully exempted from independent shareholders’ approval, annual review and all disclosure requirements of Chapter 20 of the GEM Listing Rules.

Chuzhou Xiezhong Home Appliance Accessories Co., Ltd* (滁州市協眾家電配件有限公司) as tenant has entered into the following lease agreement (the “**Lease Agreement**”) with Chuzhou Genxing Powder-Coating Co., Ltd.* (滁州市互興噴塑有限公司) (formerly known as Chuzhou Genxing Clothing Co., Ltd.* (滁州市互興服裝有限公司) (“**Chuzhou Genxing**”) as landlord in relation to two factory buildings (the “**Properties**”) situated at Chuzhou City, Anhui Province, the PRC.

Details of such transaction is set out as follows:

Date of the Lease Agreement: 1 September 2017

Tenant: Chuzhou Xiezhong Home Appliance Accessories Co., Ltd* (滁州市協眾家電配件有限公司)

Landlord: Chuzhou Genxing Powder-Coating Co., Ltd.* (滁州市互興噴塑有限公司)

REPORT OF THE DIRECTORS

Location of the Properties:	(1) a factory building situated in Danzi Industrial Park* (擔子工業園), Chuzhou City, Anhui Province, the PRC; and (2) a factory building situated on No. 3290 South Ziwei Road, Chuzhou City, Anhui Province, the PRC
Size of the Properties:	Approximately 3,376.02 sq. meter, in aggregate
Term:	28 months commencing from 1 September 2017 and expiring on 31 December 2019
Monthly rent:	(1) RMB5,400 per month (exclusive of government tax, management fees and other outgoings) (2) RMB22,000 per month (exclusive of government tax, management fees and other outgoings)
Annual rent payable:	RMB328,800 (exclusive of government tax, management fees and other outgoings)

The equity interests of Chuzhou Genxing are owned by Mr. Fan Baocheng (an executive Director, the Chairman of the Board of Directors, chief executive officer and one of the Controlling Shareholders of the Company), Mr. Fan Baoyi and Ms. Fan Xiaohong as to 50%, 30% and 20% respectively. Chuzhou Genxing is an associate of Mr. Fan Baocheng and hence a connected person of the Company.

During the year ended 31 December 2019, the Properties were used by Chuzhou Xiezhong Home Appliance Accessories Co., Ltd* (滁州市協眾家電配件有限公司) as factories.

During the year ended 31 December 2019, the rental expense in relation to the Properties was RMB328,800 in aggregate. The Directors consider that it is desirable and in the interests of the Company and the Shareholders as a whole to continue renting the Properties from Chuzhou Genxing.

As the annual rent payable by the Group to Chuzhou Genxing under the Lease Agreement (exclusive of government tax, management fees and other outgoings) will be approximately RMB328,800. Given that each of the applicable percentage ratios (other than the profits ratio) for the transaction contemplated under the Lease Agreement, where applicable, calculated with reference to Rule 19.07 of the GEM Listing Rules, is expected to be less than 5% and the annual consideration is less than HK\$3 million, the transaction contemplated under the Lease Agreement fall within the de minimis threshold under Rule 20.74(1)(c) of the GEM Listing Rules and are exempted from the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

The Company confirmed that it has complied with the relevant requirements in respect of the above continuing connected transactions in accordance with Chapter 20 of the GEM Listing Rules.

REPORT OF THE DIRECTORS

FINANCIAL ASSISTANCE FROM CONTROLLING SHAREHOLDER

During the year ended 31 December 2019, the Group has the following financial assistance from controlling shareholder which is fully exempted from independent shareholders' approval, annual review and all disclosure requirements of Chapter 20 of the GEM Listing Rules.

Chuzhou Xiezhong Home Appliance Accessories Co., Ltd* (滁州市協眾家電配件有限公司) as lessee has entered into the lease agreement with Hoyun International Lease Co., Ltd.* (和運國際租賃有限公司) as leaser in relation to one plant and machinery situated at Chuzhou City, Anhui Province, the PRC.

Detail of the lease agreement is set out as follows:

Date of the lease agreement:	2 January 2019
Lessee:	Chuzhou Xiezhong Home Appliance Accessories Co., Ltd* (滁州市協眾家電配件有限公司)
Leaser:	Hoyun International Lease Co., Ltd.* (和運國際租賃有限公司)
Location of the plant and machinery:	No. 719, Shuang Ying Road, Wu Yi Industrial Park, Nanqiao Suburb, Chuzhou City, Anhui, PRC
Price of the plant and machinery:	RMB700,000 (including VAT)
Rental term:	24 months commencing from 10 January 2019 to 9 January 2021
Initial rent:	RMB210,000 payable on 10 January 2019
Monthly rent:	RMB32,200 per month from 10 January 2019 to 9 September 2019 RMB23,900 per month from 10 September 2019 to 9 May 2020 RMB12,600 per month from 10 May 2020 to 9 January 2021
Option to purchase:	RMB nil
Guarantor:	Mr. Fan

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the leaser are independent third parties and not connected with the Group and its connected persons (as defined in the Listing Rules) as at the date of this report. Save for Mr. Fan, none of the connected persons have any interest, whether directly or indirectly, in the lease agreement.

REPORT OF THE DIRECTORS

Mr. Fan has not and will not receive any form of consideration from the Group for the provision of the personal guarantee.

As Mr. Fan is a Director and controlling shareholder of the Company, the provision of the personal guarantee constitutes a connected transaction in the form of financial assistance in favour of the Group. However, as the personal guarantee is not secured by any assets of the Group, and as the Directors consider that the personal guarantee is on normal commercial terms or better, the personal guarantee is fully-exempted from the shareholders' approval, annual review and all disclosure requirements pursuant to Chapter 20 of the GEM Listing Rules.

The independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that these transactions have been entered into: (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to independent third parties (as defined under the GEM Listing Rules); and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVES OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at 31 December 2019, the interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) held by the Directors and chief executive of the Company (the "Chief Executives") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register maintained by the Company pursuant to section 352 of the SFO, or which were notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long position in the ordinary shares of HK\$0.01 each of the Company

Name of Directors	Capacity/ Nature of interests	Number of Shares interested in	Percentage of shareholdings
Mr. Fan Baocheng (Note 1)	Interest in a controlled corporation	223,650,000	53.25%
Mr. Zhou Zhen Dong (Note 2)	Interest in a controlled corporation	91,350,000	21.75%

Notes:

1. Mr. Fan Baocheng beneficially owns the entire issued share capital of Wang Mao Investments Limited. Therefore, Mr. Fan Baocheng is deemed, or taken to be, interested in all the Shares held by Wang Mao Investments Limited for the purposes of the SFO.
2. Mr. Zhou Zhen Dong beneficially owns the entire issued share capital of Season Empire Group Limited. Therefore, Mr. Zhou Zhen Dong is deemed, or taken to be, interested in all the Shares held by Season Empire Group Limited for the purposes of the SFO.

REPORT OF THE DIRECTORS

Long position in the ordinary shares of associated corporations

Name of Directors	Name of associated corporation	Capacity/ Nature of interests	Number of Shares held/ interested in	Percentage of interest in the associated corporation
Mr. Fan Baocheng	Wang Mao Investments Limited	Beneficial owner	1	100%
Mr. Zhou Zhen Dong	Season Empire Group Limited	Beneficial owner	1	100%

Save as disclosed above, as at 31 December 2019, none of the Directors or Chief Executives had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under provisions of the SFO), or pursuant to section 352 of the SFO, which would have to be recorded in the register referred to therein, or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, which would have to be notified to the Company and the Stock Exchange.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS OF THE COMPANY IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as the Directors and the Chief Executives are aware, as at 31 December 2019, other than the Directors and Chief Executives, the following persons had or were deemed or taken to have an interest and/or short position in the shares or the underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be recorded in the register of the Company required to be kept under section 336 of the SFO, or which would be, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group:

Name	Capacity/Nature of interests	Number of Shares held/ interested in	Percentage of shareholdings
Wang Mao Investments Limited	Beneficial owner	223,650,000	53.25%
Ms. Cao Lele (Note 1)	Interest of spouse	223,650,000	53.25%
Season Empire Group Limited	Beneficial owner	91,350,000	21.75%

Note:

- Ms. Cao Lele is the spouse of Mr. Fan Baocheng. For the purposes of the SFO, Ms. Cao Lele is deemed or taken to be interested in all the Shares of the Company in which Mr. Fan Baocheng has, or is deemed to have, an interest for the purposes of the SFO.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2019, the Directors were not aware of any person or corporation (other than the Directors and the Chief Executives) who had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or pursuant to section 336 of the SFO, which would have to be recorded in the register referred to therein.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the paragraphs headed "Interests and Short Positions of the Directors and Chief Executives of the Company in the Shares, Underlying Shares and Debentures of the Company or any of its Associated Corporations" and the "Share Option Scheme" in this report, at no time during the year ended 31 December 2019 and as at the end of the year ended 31 December 2019 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors and Chief Executives (including their respective spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares or underlying shares in, or debentures of, the Company or any of its associated corporation.

DIRECTORS' INTERESTS IN SIGNIFICANT TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save for those disclosed under the section headed "Connected Transactions/Continuing Connected Transactions" above and those disclosed in note 34 to the consolidated financial statements, during the year ended 31 December 2019, there was no transaction, arrangement or contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or a connected entity of that Director has or had, directly or indirectly, a material interest.

MANAGEMENT CONTRACTS

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Group's business were entered into or existed during the year ended 31 December 2019.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Directors confirm that at least 25% of the Company's issued Shares were held by the public (i.e. the prescribed public float applicable to the Company under the GEM Listing Rules) for the year ended 31 December 2019 and thereafter up to the date of this annual report.

DONATION

During the year ended 31 December 2019, the Group had not made any charitable and other donation (2018: nil) .

REPORT OF THE DIRECTORS

INTEREST OF COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, our Group has appointed Cinda International Capital Limited as the compliance adviser, which will provide advice and guidance to the Group in respect of compliance with the applicable laws and the GEM Listing Rules including various requirements relating to directors' duties and internal controls. Except for the compliance adviser agreement entered into between the Company and the compliance adviser dated 21 September 2017, neither the compliance adviser nor its Directors, employees or close associates had any interests in relation to the Company which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining entitlement to attend and vote at the annual general meeting of the Company ("**2020 AGM**"), the register of members of the Company will be closed from Thursday, 18 June 2020 to Tuesday, 23 June 2020, both days inclusive, during which period, no transfer of Shares will be registered. In order to qualify for attending and voting at the 2020 AGM, all transfer of Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Wednesday, 17 June 2020.

ANNUAL GENERAL MEETING

The 2020 AGM will be held on Tuesday, 23 June 2020. A formal notice convening the meeting will be published and despatched to the shareholders of the Company in due course.

AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2019 were audited by HLB Hodgson Impey Cheng Limited, the independent auditors of the Company, who shall retire and, being eligible, offer itself for the re-appointment at the 2020 AGM.

The Company did not change its auditors in the preceding 3 years.

On behalf of the Board

Fan Baocheng

Chairman and Chief Executive Officer
Chuzhou City, the PRC, 29 April 2020

* English translation name is for identification purpose only

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Bao Shen Holdings Limited (the “**Company**” together with its subsidiaries, collectively, “**we**”, “**us**”, “**our**” or the “**Group**”) is pleased to present our annual Environmental, Social and Governance Report (the “**Report**”) for the year ended 31 December 2019. This Report details the sustainable development policy implemented by the Group during the period from 1 January 2019 to 31 December 2019 (the “**reporting period**”) and its performance on environmental and social works. Unless otherwise stated, this ESG report contains the achievements made by Bao Shen Holdings Limited in environmental protection and social development field.

We believe that sustainable development can bring continuous and positive impact on enterprises and other shareholders. Therefore, the Company gives high value to social responsibilities and has always pursued an operating approach that is mutually beneficial to both the Company and the society. We spare no effort in sustainable development to make contribution to environmental protection and social development.

SUSTAINABLE DEVELOPMENT POLICY

In the course of preparing the Report, the Group has conducted thorough review and assessment towards its existing environmental and social policies. Our Group looks forward to making further progress in the field of environment, society, corporate governance as well as management and operation and to contributing more to the community in which it operates.

In order to achieve sustainable development, the Group has adopted following strategies:

1. achieving environmental sustainability;
2. respecting human rights and community culture;
3. maintaining communications with stakeholders;
4. supporting employees and providing a friendly working environment;
5. stringent Quality Control;
6. sustaining local community development; and
7. strengthening our commitment to customers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REPORTING SCOPE, BASIS AND LIMITATION OF THE ESG REPORT

This Report covers all subsidiaries of the Group in the People's Republic of China (the "PRC") with core business that principally engaged in the (i) stamping components manufacturing; (ii) plastic components manufacturing; (iii) spray-painting components processing and (iv) powder-coating components processing in the PRC.

In accordance with the disclosures requirements under the "comply or explain" provisions of Appendix 20 "Environmental, Social and Governance Reporting ("ESG") Guide" of the GEM Listing Rules of the Stock Exchange of Hong Kong limited, this Report covers the overall initiative and performance of the Group in environmental, social and governance aspects. In view of our disclosure of certain key performance indicators ("KPIs"), which is considered as material by the Group, during the reporting period, the Group will continue to optimize and improve the disclosure of KPIs.

The Group highly values the importance of making appropriate disclosure of corporate information to all investors and Shareholders and believes that high level of transparency is the key to building confidence with the investors. Therefore, in this Report, the Group highlighted the sustainable achievements in the following areas to give the stakeholders a better understanding of what the Group has done to protect the environment and promote social harmony:

ESG Aspects	Issues
Environment	<ul style="list-style-type: none">• Emissions• Use of resources• Production of waste
Employment and labour practices	<ul style="list-style-type: none">• Employment• Health and safety• Development and training• Labour standard
Operating practices	<ul style="list-style-type: none">• Supply chain management• Product liability• Anti-corruption
Community	<ul style="list-style-type: none">• Community investments

For details about corporate governance, please refer to the "Corporate Governance Report" set out in pages 44 to 55 of the annual report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL

Overview

The Group is a plastic and steel component processors for white goods, primarily engaging in spray-painting, powder-coating and baking enamel for steel components and spray-painting and UV-coating for plastic components and stamping of stamping components. We understand that reducing pollutant emissions and resources consumption and cutting carbon footprint are the responsibility of all enterprises. Therefore, we integrate sustainable development with our daily operation and implement various measures to mitigate the adverse effects on the environment caused by our production.

For this purpose, we have identified the following goals to reduce consumption of resources:

Goals

- Reducing carbon dioxide emissions
- Reducing consumption of resources
- Reducing production of waste

The Group's manufacturing and processing operations are subject to PRC environmental laws and regulations on air emission, solid waste emission, sewage and waste water, discharge of waste and pollutants, and noise pollution. During the reporting period, the Group has complied with all relevant laws and regulations which have significant impact on us. Such laws and regulations include but are not limited to Law of the PRC on Environmental Protection (中華人民共和國環境保護法), Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法), Law of the PRC on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法), Law of the PRC on the Prevention and Control of Pollution from Environmental Noise (中華人民共和國環境噪聲污染防治法) and Law of the PRC on the Prevention and Control of Environmental Pollution of Solid Waste (中華人民共和國固體廢物污染環境防治法), the Regulations on Environmental Protection Management of Construction Projects (建設項目環境保護管理條例) and Environmental Impact Assessment Law of the PRC (中華人民共和國環境影響評價法). During the reporting period, there were no confirmed non-compliance incidents in relation to environmental protection that have a significant impact on the Group.

Emissions

Emissions such as air pollutants and greenhouse gases (GHG) of the Group during the reporting period are mainly sourced from consumption of 1) natural gas for producing heating equipment, such as spraying and painting workshop, drying tunnel heating and drying and heating sprayed product; 2) petrol and diesel for vehicles; 3) electricity for machines; and 4) business air travel by employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In order to meet the requirement of local environmental protection bureau, the Group has prepared and submitted environmental impact assessment documents for existing production machines, and all machines have been checked and accepted and be equipped with environmental protection supporting facilities. In addition, the Group prepared equipment overhaul schedule annually. The department in charge will conduct regular overhaul and maintenance for all production machines. This is how we can improve machine efficiency, save energy and reduce emission.

As of 31 December 2019, the Group had 11 vehicles (2018: 8 vehicles), including heavy duty warehouse truck used for transportation and small passenger car, with a total driving distance of 441,144 km (2018: 353,381 km), while the fuel used amounted to 81,862.70 liters (2018: 68,719.26 liters). Natural gas consumption during the reporting period and the corresponding period in 2018 are 171,180 m³ and 306,550 m³, respectively.

In light of the nature of the business of the Group, the vehicles are mainly used to transport goods. Drivers will record the fuel consumption and total driving distance to monitor vehicle usage. In addition, in order to keep the vehicle at optimum status, we will conduct regular maintenance on vehicles, so as to improve fuel consumption efficiency, ensure road safety and minimize the emission of various air pollutants.

Major air pollutants emissions from the operation during the reporting period and the corresponding period in 2018 are as follows:

Air Pollutant Emissions		
Type of Air Pollutants	Air Pollutant Emissions (kg) 2019	Air Pollutant Emissions (kg) 2018
Sulphur Dioxide	160.13	1.11
Nitrogen Oxides	2,119.54	1,565.82
Particulate Matter	103.09	113.30

Note: In view of our first time adoption of ESG Guide starting from last year, emissions of sulphur dioxide and nitrogen oxides for use of natural gas during 2018 are not available, the Group will continue to optimize and improve the disclosures of KPIs.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The GHG emissions from the operation during the reporting period and the corresponding period in 2018 are set out below:

Type of GHG emissions	GHG Emission	
	Equivalent CO ₂ emission (ton) 2019	Equivalent CO ₂ emission (ton) 2018
Scope 1: Direct emissions	205.51	181.94
Scope 2: Indirect emissions	2,395.33	1,894.24
Scope 3: Other indirect emissions	0.44	Note 1
Total	2,601.28	Note 1
Intensity (ton/m²)	0.77	Note 1

Note: The calculation of the GHG gas is based on the "A Corporate Accounting and Reporting Standard" from The GHG Protocol.

Scope 1: Direct emissions from vehicles that are owned by the Group.

Scope 2: Indirect emissions from the generation of purchased electricity and natural gas consumed by the Group.

Scope 3: Other indirect emissions is optional disclosure that includes employee's business travel only.

Note 1: In view of our first time adoption of ESG Guide starting from last year, emissions for scope 3 and emissions for scope 2 due to use of natural gas during 2018 are not available, the Group will continue to optimize and improve the disclosures of KPIs.

USE OF RESOURCES

The Group has always been promoting sustainability by assuming the social responsibility of environmental protection in the course of business and, on the premise of minimizing the impact on the environment, creating unlimited possibilities with limited resources. In this regard, the Group attaches great importance to employees' environmental awareness, thus has put forth a number of initiatives with the goal of "green factory", educating employees about how to fully utilize the resources and save energy. The Group aims at maximizing the efficiency of our resources in commercial aspect while eliminating waste in social aspect and minimizing environmental impact of our operation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Water consumption

The Group's water consumption mainly generates from production process and daily use of employees. During the reporting period, the water used by the Group amounted to 42,775 m³ and its intensity was 12.67 m³/m² (2018: 49,159 m³ and its intensity was 14.56 m³/m²). The existing supply of water meets our daily operational needs for the purpose of domestic use and we do not have any issue in sourcing water. For the sake of saving water and reducing the pollution of waste water to the surroundings, the Group has the following management measures to educate employees on acquiring the habit of water conservation:

- Performing regular inspections, repairs, and maintenance of water equipment to avoid unnecessary leakage and water seepage problems in water equipment;
- The principle of "On when in use, off when not in use" is required for water usage in toilets and bathrooms;
- Posting promotional posters and cards in prominent areas of the workplace to remind employees of saving water; and
- The fire hydrants and pools used for fire safety are supplied with water all year round according to the fire services regulations. Meanwhile, the water level is regularly kept not too high and the water pressure is not excessive, so as to avoid water wastage arising from water overflow, which is caused by the damage of fire hoses due to excessive water pressure.

Moreover, in order to comply with Water Pollution Prevention and Control Law of the People's Republic of China (中華人民共和國水污染防治法), the Group formulates a set of waste water treatment methods, aiming to effectively control the waste water generated during the course of production. In the process of manufacturing and processing, all components should be cleansed with water before further processing. The waste water generated in this process should not be discharged into Nanqiao sewage treatment plant for centralized treatment unless it meets relevant standards and requirement imposed by local government.

Electricity consumption

The Group is committed to acting in an environmentally responsible manner through its office management and daily operation. The Group adheres to the principle of recycling and reducing, and implements green office practices to minimize the impact of businesses on the environment.

The Group has adopted following measures to save energy and electricity:

- Turn off lightings, electric appliances, machines and facilities when not in use to reducing energy consumption;
- Turn off the air conditioners and lightings during non-office hours (including lunch time) and that in idle rooms;
- Regular maintenance of office equipment such as air conditioners, computers, lights, refrigerators, etc. to ensure they are operating efficiently; and
- Printing machine in the office is set at energy-saving mode by default, and the sleep mode is automatically turned on, if not in use for a certain interval in time so as to reduce unnecessary energy consumption.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Energy consumption by the Group during the reporting period and the corresponding period in 2018 are set out below:

Type of energy	Energy Consumption	
	Energy consumed (kWh) 2019	Energy consumed (kWh) 2018
Unleaded petrol	76,793.60	Note
Diesel	711,889.37	Note
Purchased electricity	2,794,840.00	2,354,258.00
Natural gas	1,711,800.00	Note
Total	5,295,322.97	Note
Energy intensity (kWh/m²)	1,568.52	Note

Note: In view of our first-time adoption of ESG Guide starting from last year, certain consumption of energy and their intensity during 2018 are not available, the Group will continue to optimize and improve the disclosures of KPIs.

Generation of waste

Solid waste is mainly generated from our Group's daily operation and production. Such solid waste includes non-hazardous waste, including but not limited to office-use paper, and hazardous waste generated during the production process, including but not limited to used mineral oil, waste paint slag, waste paint and waste activated carbon. In order to heighten environmental awareness, we have implemented various measures, galvanizing employees to recycle office supplies and other materials and rooting out excessive consumption of unnecessary supplies.

To reduce hazardous waste, we keep monthly record on waste data for the sake of calculating and keeping track of the volume of hazardous waste disposed of. We will remind employees to use resources carefully to avoid overconsumption. Moreover, the Group has established hazardous waste warehouse to temporarily store all solid hazardous waste generated in the production process and has engaged industrial waste collectors to collect and dispose of industrial hazardous waste. When the hazardous waste reaches a certain amount, the industrial waste collector is notified to transfer such waste.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The total hazardous and non-hazardous wastes generated during the reporting period and the corresponding period in 2018 are stated as follows:

Hazardous and non-hazardous waste		
	2019 (ton)	2018 (ton)
Hazardous waste	7.04	12.52
Non-hazardous waste	0.02	1.75
Total	7.06	14.27
Intensity (ton/m²)	0.0021	0.0042

Packaging material		
	2019 (ton)	2018 (ton)
Paper	49.39	Note

Note: In view of our first-time adoption of ESG Guide starting from last year, use of packaging material during 2018 is not available, the Group will continue to optimize and improve the disclosures of KPIs.

The Environment and Natural Resources

The Group raises staff's awareness on environmental issues through education and training and enlist employees' support in improving the Group's performance, promote environmental awareness amongst the customers, business partners and shareholders and support community activities in relation to environmental protection and sustainability and evaluate regularly and monitor past and present business activities impacting upon health, safety and environmental matters. With the integration of policies mentioned in sections "Emissions" and "Use of Resource", the Group strives to minimise the impacts to the environment and natural resources.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL

Employment and Labour Practices

Employment

The Group regards its employees as the cornerstone of its development, and an integral part to its sustainable development. Therefore, the Group attaches high importance to the training and welfare of its employees, and are committed to providing a working environment of job satisfaction to its employees. The Group puts much effort to ensure the statutory rights of its employees are protected and its strict compliance with a series of labour law of the PRC, including the PRC Labour Contract Law, the PRC Labour Law and the Social Insurance Law of the PRC. The Group provides competitive remuneration and good promotion opportunities to facilitate career development of its employees.

The Group has formulated its staff manual and management system of human resources and remuneration according to relevant labour regulations, covering human resources policies and working conditions, such as recruitment and promotion procedures, trainings, performance appraisals, remuneration and benefits, working hours, vacations and other leaves (marriage leave, compassionate leave and maternity leave).

During the reporting period, the Group strictly complied with labour laws of the PRC and relevant regulations, and had not been involved in any event of breach of laws and regulations relating to employment relationship, which had a significant impact on the Group.

Below is a detailed breakdown of our employees by gender, age group, employment category and regions as at 31 December 2019 and 2018:

	2019		2018	
	Number of staff	% of total	Number of staff	% of total
By gender				
Male	133	44	124	44
Female	170	56	159	56
Total	303	100	283	100
By age group				
Below 25	11	4	6	2
25 to 29	30	10	29	10
30 to 39	51	17	58	20
40 to 49	113	37	103	37
Above 50	98	32	87	31
Total	303	100	283	100

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

	2019		2018	
	Number of staff	% of total	Number of staff	% of total
By employment category				
Normal	292	96	–	–
Middle	10	3	–	–
Senior	1	1	–	–
Total	303	100	–	–
By regions				
Hong Kong	–	–	2	1
PRC	303	100	281	99
Total	303	100	283	100

* All employees are permanent staff

During the reporting period, there are 80 employees left the Group (2018: 61 employees left). Below is a detailed breakdown of our employees turnover rate by gender and age group as at 31 December 2019 and 2018:

	2019	2018
Turnover rate by gender		
Male	22%	20%
Female	30%	23%
Turnover rate by age group		
Below 25	27%	17%
25 to 29	43%	38%
30 to 39	35%	24%
40 to 49	20%	15%
50 or above 50	23%	23%

To attract and retain talents

The Group upholds the operational philosophy of optimally using all available talents and resources and sticks to the employment principle based on the abilities and morality of an employee. Main criteria for employment include morality, knowledge, abilities and track record of employees so as to make best use of and retain talents.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group provides employees with fair and equitable remuneration and benefits based on employees' personal track record, experience and market benchmark. The Group has formulated a set of performance appraisal mechanism, in which appropriate remuneration adjustment is made annually based on job performance of an employee to reduce turnover rate. To effectively evaluate and optimize the career life for its employees, the Group also assists employees to analyze their personal career development direction according to their own conditions and guide them to complete the employees' career development planning form to establish goals and strategies of their career life.

Health and Safety

We have complied with all material applicable PRC laws and regulations in relation to employee health and safety, including the Work Safety Law of the PRC. We have complied with all material applicable PRC laws and regulations in relation to employee health and safety. We had not had any incidents, claims or complaints which had materially and adversely affected our operations. Taking occupational health and safety of employees as one of our prime responsibilities, we have established relevant safety policies and provided training to our new staff. We have compiled safety manuals and distributed to our employees and set out regulations on safety management which our staffs are required to comply with. We carry out regular safety checks on our manufacturing and processing lines and equipment to ensure that such manufacturing and processing lines and equipment are safe for use. Furthermore, all of our employees are provided with work place safety trainings.

Our safety work policy is "safety first with prevention". By including the occupational health and safety code in the Employee Handbook and conducting daily training and safety inspection, we aim to enhance employees' safety awareness and reduce the occurrence of industrial accidents. Before operating equipment or vehicles, employees shall attend relevant operation trainings to obtain work license or operation license. Employees at the workshop must wear labour protection appliances, such as protective glasses for operating drilling machine and spot welding. Before the maintenance worker commences his work, specific safety procedures must be abided by, such as cutting off the power. Those procedures are commonly known as lockout or tagout warning.

We have emergency procedures for unexpected accidents in place. For example, if an employee has an accident, the accident shall be reported to the head of the department or the general manager immediately and then the human resources department will be notified within the subsequent 8 hours. As all the employees of the human resources department have attended the training on the relevant emergency procedures, they can take effective measures to avoid the accident expanding and preserve the accident scene.

Fire safety management

We organize a fire drill semi annually according to the Fire Drill Plan. After the end of the fire drill, a Summary Report on Fire Drill will be prepared to record the fire drill results and review items, so as to ensure employees familiar with all the escape routes and enhance their ability to make immediate response. In addition, employees of the production workshop shall be responsible for checking the fire equipment monthly and filling in the Check Sheet of Fire Equipment.

During the reporting period, there were no material non-compliance cases noted in relation to health and safety laws and regulations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Development and Training

We regard our employees as the most precious assets, and their quality is the guarantee of our future. We put people first, take the investment in staff development and training as our primary task, and establish a complete set of training courses, systems and personal development plans for employees. Through a series of training courses, we can assist employees to improve their professional skills, personal quality and foreign language level, further enhance their working ability and give full play to their potential.

The Group always puts great emphasis on talent training and believes that employees' skill and experience are essential to promoting the long-term development of the Group. Continuing education is one of the effective ways to maintain employees' competitiveness in the industry. Therefore, the Group annually formulates annual training plan with an aim to enhance employees' performance through effective training, counselling and in-service development. During the reporting period, we provided trainings for employees from the production department on production operation and quality standards, trainings for employees from the quality control department on equipment repair and maintenance, and trainings for employees from the material control department on warehouse management procedures.

Statistics in respect of development and training for the year ended 31 December 2019 is set out below:

Employee trained by gender

Male	83%
Female	78%

Employee trained by employment category

Normal	79%
Middle	100%
Senior	100%

The average training hours for employees by gender and employment category during the reporting period and the corresponding period in 2018 are as follows:

	2019 Hours per employee	2018 Hours per employee
By gender		
Male	0.20	6.77
Female	0.13	6.54
By employment category		
Normal	0.08	6.84
Middle	2.00	5.29
Senior	4.00	8.00

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Criteria of employment

The Group endeavours to protect human rights, creating a workplace of respect, sincerity and fairness for its employees and customers, and comply with all relevant laws and regulations in relation to criteria of employment, including but not limited to the Labor Law of the PRC (《中華人民共和國勞動法》).

The Group prohibits the use of forced labour and child labour, and lists important notes of recruitment process in policies and procedure of human and administration department. The Group has stringent requirements for shortlisting employees. In recruiting candidates for positions below management level, the Group requests job applicants to provide identity card, academic certificate of their highest level, professional certificates and employment separation certificate regarding their former jobs for verifying their identity.

If the management finds illegal employment of child labour or forced labour within the Company, their employment contract will be terminated immediately by the Company. After inquiry into the cause and finding out persons held responsible, the Company will impose appropriate punishment on those in violation of the regulations. No employment of forced labour and child labour occurred in the Group during the reporting period.

Operation Management

Supply chain management

Our major raw materials include steel, steel parts, plastic parts, oil paint and paint powder. The quality and reliability of our stamping components and peripheral components highly depend on the quality of raw materials we source. Stable supply of quality raw materials is considered as one of the keys to our success of our business. We maintain stable business relationships with our suppliers.

We maintain long-term good cooperation relationships with our suppliers. Three of our five largest suppliers had been our supplier for more than three years. Leveraging on the established long-term business relationships with our key suppliers, we are able to source quality raw materials to match with our prescribed standards for production at reasonable terms with acceptable credit periods. Most of our suppliers are located in Anhui province or other nearby provinces in the PRC, such close proximity to our key suppliers assures us of prompt delivery and lower transportation costs.

We have generally maintained at least three different raw materials suppliers for procurement of each type of our major raw materials. Such suppliers shall make quality inspections on the samples provided by suppliers and fill in the Supplier Evaluation Form (供方評價表) in accordance with the Supplier Management System (供應商管理制度), to ensure the Company's preliminary quality assessment on suppliers for initial cooperation.

Thus, we believe there are no significant environmental and social risks for our management decision on supply chain management during the reporting period.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Product liability

Provision of high-quality services and products

Our customers generally are component processors and manufacturers of prominent white goods Brands. We take pride in our long-term business relationships with our customers.

The quality, function and safety of our products and services are of critical importance to our customers. We strictly comply with the applicable laws, regulations and quality standards with regard to the health and safety of the products and services provided and labels, such as the Product Quality Law of the PRC (中華人民共和國產品質量法), the Interim Measures for the Supervision and Administration of Energy Conservation and Emission Reduction at Central Enterprises (中央企業節能減排監督管理暫行辦法), the Law of the PRC on Promoting Clean Production (中華人民共和國清潔生產促進法). In addition, to further standardize quality management work and to continuously improve on product's quality, we obtained the certification of Quality Management Systems – Requirements (ISO 9001:2015), and based on that requirement formulated and implemented the production and painting of home appliance accessories (metal stamping parts), production of home appliance accessories (injection parts) and management procedure of polishing.

We sell products and provide services to our customers through direct sales model which does not involve any issues related to product advertising.

Quality control

Product quality is a crucial factor to our success. As we strive to produce high quality products, we implement stringent quality control measures at each key stage of our manufacturing and processing to ensure our products meet the standards required by our customers. Our quality control team possesses over 20 years of experience in quality control in the relevant industry, and is responsible for ensuring that raw materials, semi-finished and finished products manufactured and processed by us pass through our quality control procedures and meet our standards. Our quality control team monitors our manufacturing and processing process and conducts quality and sample testing to ensure that our stamping components and peripheral components can meet the requirements of our customers. In recognition of our quality control system, we have obtained ISO 9001:2015 in relation to our quality management system.

Our manufacturing and processing for both stamping components and peripheral components begin with inspection of raw materials. All raw materials including incoming raw materials such as steel, steel parts, plastic parts, oil paint and paint powder are subject to on-site inspection on a sampling basis and raw materials which do not meet our standards will be returned to the suppliers.

During the production and processing, inspectors check the production workshops every two hours, and record the results on Inspection Record (巡檢檢驗記錄). In addition, inspectors make sampling inspections on finished products on batches, and record the results on Finished Product Inspection Report (成品入庫檢驗報告), only qualified products could be packaged and shipped to the warehouse. We organize an evaluation group to identify unqualified products and communicate with customers in accordance with Evaluation Regulation on Unqualified Products (不合格品評審規定).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Complaint mechanism

If customers are not satisfied with the quality of our products or services, they may lodge formal complaints, and we will respond promptly and conduct internal surveys and studies to seek the solution to the problem. Our management will contact the customers directly in respect of such issues.

Protecting customer's privacy and intellectual property rights

We attach great importance to the protection of intellectual property rights and the achievements of our research and development colleagues. We rely upon a combination of patents, copyrights and trademarks, trade secrets, confidentiality policies and other contractual arrangements to protect our intellectual property rights. In addition, we protect our trade secrets by entering into either confidentiality agreements or trade secrets protection agreements with our suppliers and employees.

The information needed to be kept confidential by the Group is mainly about new products which have not been released, namely confidential project. Once a new confidential project is started, only authorized staff could access to such information, other staff including management in charge of the confidential project are not available for review. Design drawings and images must be stored in a special computer, which could not be connected with Internet. The sending and receiving of messages and dates can only be connected to other special computers via specialized cable.

It is also clearly stated in the staff manual that staff must strictly abide by the confidentiality of the Group, and shall not disclose confidential information of the Group to unrelated staff in the Group or persons on the outside. If the disclosure of confidential information of the Group results in losses of the Group and customers, the Group will penalize according to internal stringent procedures or pursue legal responsibilities to protect the interests of the Group and its customers.

The USB ports of the batch of computers will also be locked so that staff cannot take the confidential information away without authorization. In addition, in order to keep the confidentiality of the information about customer products, the Group has appointed certain dedicated persons to be responsible for enhancing the security of the information system.

In respect of production plants, if the production project is classified as a confidential project as required by the customer, the production plant will be isolated, and unauthorized and non-productive personnel will be prohibited entering. Even authorized personnel shall be required to produce documents of certification to security guards and if necessary, be searched for any unreleased new products. Such measures will not be abolished until the official release of the product by the customer.

During the reporting period, there are no disputes between our Group and our customers in respect of the quality of products produced by us and there were no cases of non-compliance against laws and regulations related to products responsibilities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Anti-Corruption

Honesty, integrity and fair competition are core values held by all of our directors and staff. We prohibit any form of bribery and corruption, and directors and staff shall not request, accept or provide any bribery during the course of businesses. The Group strictly complies with relevant laws and regulations including Prevention of Bribery Ordinance (防止賄賂條例) and Anti-Corruption and Bribery Law of the People's Republic of China (中華人民共和國反貪污賄賂法), and constantly monitors the compliance with relevant laws and regulations by the management and staff.

The Group aims to encourage and assist whistleblowers to disclose information related to misconduct, fraud and violations through confidential reporting channels as far as possible. We will handle the reports carefully and deal fairly and appropriately with the concerns of whistleblowers. We provide reporting channels for employees to report possible misconduct and assure whistleblowers that we will protect them and oppose any unfair disciplinary action or victimization that is actually reported. We ensure that all whistleblowers who report truthfully and appropriately will be treated fairly. In addition, we will ensure that employees are not subject to unfair dismissal, injury or improper disciplinary action.

The Group was not aware of any violation of laws and regulations related to bribery that have material impact on our business during the reporting period.

Community Investment

The Group understands that corporate development relies on the support of all sectors of society. While developing the company, the Group also demonstrates its spirit of giving back to society. We will know more about the needs of our community, ensure that we take into account the interests of the community in our daily operations, and strive to find the direction of community investment, so as to invest more resources in the community in the coming year. At the same time, the Group also encourages employees to participate in community activities to support and care for society.

CORPORATE GOVERNANCE REPORT

The Company is committed to achieve and maintain high standards of corporate governance to safeguard the stakeholders' interests and to enhance their confidence and support. For the year ended 31 December 2019 (the “**Year**”), the Company has adopted and complied with the code provisions of the Corporate Code (“**CG Code**”) as set out in Appendix 15 to the GEM Listing Rules except the deviation from CG Code provision A.2.1. The board (the “**Board**”) of Directors will review and continue to enhance the Company's corporate governance standards as the Directors and the management of Group recognise the significance of sound corporate governance to the long-term and continuing development of the Group. Therefore, the Board is committed to upholding good corporate standards and procedures for the best interests of the shareholders of the Company (the “**Shareholders**”).

The Board is pleased to report that the Group was in compliance with the code provisions of the CG Code during the year ended 31 December 2019, except where otherwise stated.

CHAIRMAN AND CHIEF EXECUTIVE

CG Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Fan Baocheng (“**Mr. Fan**”) is the chairman of the Board and the chief executive officer of our Company. In view of Mr. Fan being one of the founders of the Group and has been operating and managing Chuzhou Xiezhong Home Appliances Accessories Co., Ltd.* (滁州市協眾家電配件有限公司), the operating subsidiary of the Company since 2010, the Board believes that it is in the best interest of the Group to have Mr. Fan taking up both roles for effective management and business development. The Board believes that the Company has already had a strong corporate governance structure in place to ensure effective overseeing of management.

THE BOARD

Responsibilities of the Board

The Board has the responsibility for leadership and control of the Group. They are collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board is accountable to the Shareholders for the strategic development of the Group with the goal of maximizing long-term shareholder value, while balancing broader stakeholder interests. The Board has delegated the day-to-day responsibilities to the executive Directors and senior management of the Company who will meet regularly to review the financial results and performance of the Group as well as to make financial and operational decisions for the implementation of strategies and plans approved by the Board. The Board is also responsible to communicate with shareholders and regulatory bodies and, where appropriate, will make recommendations to shareholders on final dividends and approve the declaration of any interim dividend.

The Company has arranged appropriate insurance coverage on the liabilities of the Directors in respect of any legal actions taken against the Directors arising out of corporate activities. The insurance coverage is reviewed on annual basis.

CORPORATE GOVERNANCE REPORT

Corporate Governance Functions

The Board is responsible for, among others, performing the corporate governance duties as set out in paragraph D.3.1 of the CG Code, which includes:

- (a) to develop and review the Group's policies and practices on corporate governance and make recommendations;
- (b) to review and monitor the training and continuous professional development of the Directors and senior management;
- (c) to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Directors and employees; and
- (e) to review the Group's compliance with the CG Code and disclosure in the corporate governance report.

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

COMPOSITION OF THE BOARD

The Board currently consists of five members including two executive Directors and three independent non-executive Directors. In compliance with Rules 5.05(1) and (2) and Rule 5.05A of the GEM Listing Rules, the Company has appointed three independent non-executive Directors, representing more than one-third of the Board and at least one of them has appropriate professional qualifications, or accounting or related financial management expertise. The Board is of the view that the Board comprises members with diversified background and industry expertise to oversee and operate the Company efficiently and safeguard the interests of various stakeholders of the Company.

EXECUTIVE DIRECTORS

Executive Directors are responsible for making major decision, formulating the Group's overall strategic plan, overseeing the Group's overall business development and setting policy. They are also responsible to ensure proper risk management and internal control system is in place and the Group's business conforms to applicable laws and regulations.

Executive Directors

Mr. Fan Baocheng (Chairman and chief executive officer)

Mr. Zhou Zhen Dong

CORPORATE GOVERNANCE REPORT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Independent non-executive Directors are responsible for supervising and providing independent judgment to the Board.

Independent Non-executive Directors

Mr. Liang Chi
Mr. Ho Ka Chun
Mr. Chan Chun Chi

All independent non-executive Directors are professionals with well recognised experience and expertise to bring valuable advice to the Board. Mr. Ho Ka Chun and Mr. Chan Chun Chi possess the appropriate professional qualifications, accounting and related financial management expertise as required under Rule 5.05(2) of the GEM Listing Rules. None of the independent non-executive Directors has any business or financial interests with the Company and all independent non-executive Directors confirmed their independence to the Group as at 31 December 2019 in accordance with Rule 5.09 of the GEM Listing Rules. The Company considers all the independent non-executive Directors to be independent in accordance with the independence requirements set out in Rule 5.09 of the GEM Listing Rules.

RELATIONSHIP AMONG BOARD MEMBERS

There is no financial, business, family or other material or relevant relationship among members of the Board. The biographical details of each of the Directors are set out in the section headed “Biographical details of Directors and Senior Management” of this annual report.

BOARD DIVERSITY POLICY

Pursuant to the code provision A.5.6 of the CG Code, the Company is required to adopt a board diversity policy. The Board has adopted the board diversity policy (the “**Board Diversity Policy**”) on 31 March 2018 with an aim to achieve diversity in the Board in order to have a balance of skills, experience and diversity of perspectives in accordance with the business nature of the Company. In designing the Board’s composition, board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against selection criteria. The diversity policy will be reviewed annually by the nomination committee of the Company, and where appropriate, revisions will be made with the approval from the Board.

BOARD MEETINGS

Pursuant to code provision A.1.1 of the CG Code, the Board should meet regularly and Board meetings should be held at least four times a year. Additional meeting would be arranged if and when required. Directors may participate either in person or through electronic means of communications. Directors are free to contribute and share their views at meetings and major decisions will only be taken after deliberation at Board meetings. Directors who are considered to have conflict of interests or material interests in the proposed transactions or issues to be discussed will not be counted in the quorum of meeting and will abstain from voting on the relevant resolutions. Full minutes are prepared after the meetings and the draft minutes are sent to all Directors for their comments on the final version of which are endorsed in the subsequent Board meeting.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2019, seven board meetings were held and the attendance records are as follows:

Name of Director	Meetings attended/ Eligible to attend
Executive Directors	
Mr. Fan Baocheng	7/7
Mr. Zhou Zhen Dong	7/7
Independent Non-executive Directors	
Mr. Liang Chi	7/7
Mr. Ho Ka Chun	7/7
Mr. Chan Chun Chi	7/7

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

The Company established its nomination committee (the “**Nomination Committee**”) on 31 March 2018. The nomination committee has from time to time identified individuals suitably qualified to become Board members and make recommendations to the Board.

Each of the executive Directors and independent non-executive Directors has entered into a contract of appointment with the Company, which may be terminated on whichever is earlier of (i) the date of expiry of the term; (ii) removal of a director for any reason pursuant to the articles of association of the Company (the “**Articles of Association**”) or any other applicable law; or (iii) either the Company or the Director giving to the other not less than one month’s notice in writing in accordance with the term of the contract.

In accordance with Article 108 of the Articles of Association, at each annual general meeting, one-third of the Directors for the time being, or, if the number is not three or a multiple of three, the number nearest to but not less than one third, shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

NOMINATION POLICY

The Board has adopted a Nomination Policy on 28 December 2018 which sets out the criteria and process in the nomination and appointment of directors of the Company, aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and to ensure the Board’s continuity and appropriate leadership. The Nomination Committee shall identify candidates who are qualified/suitable to become a member of the Board and to make recommendations to the Board on the selection of candidates nominated for directorships. The selection of candidates will be based on a range of selection criteria as set out in the Nomination Policy, including but not limited to, character and integrity, qualification, potential contributions the candidate can bring to the Board in terms of qualifications, skill, experience, independence and gender diversity, the candidate’s willingness and ability to devote adequate time to discharge duties as a member of the Board.

CORPORATE GOVERNANCE REPORT

For the appointment of directors, the Nomination Committee will first identify individual(s) suitably qualified to become Board members and assesses the independence of the proposed independent non-executive director(s). Then, the Nomination Committee will make recommendation to the Board for the Board to consider, having regard to the Board Diversity Policy and the Nomination Policy. The Board will confirm the appointment of the suitable candidate or recommend the candidate to stand for election at a general meeting of the Company. The candidate(s) who is/are appointed by the Board to fill a casual vacancy or as an addition to the Board will be subject to re-election by shareholders of the Company at the next annual general meeting after initial appointment in accordance with the Articles of Association.

For the re-appointment of directors, the Nomination Committee will also consider the retiring directors based on the Board Diversity Policy and the Nomination Policy, and assess their independence before the Nomination Committee makes recommendation to the Board to consider. After the Board considers each retiring director, the Board will recommend the suitable retiring director(s) to stand for re-election at the annual general meeting in accordance with the Articles of Association. The Shareholders will approve the re-election of directors at the annual general meeting.

The Nomination Committee shall review the structure, size, composition (including skills, knowledge, experience and length of service) of the Board on a regular basis at least annually and diversity of the Board to ensure that it has a balance of expertise, skills and experience and diversity of perspective appropriate to the requirements for the business of the Company.

BOARD COMMITTEES

The Board has established three Board committees, namely, the remuneration committee, the Nomination Committee and the audit committee, in compliance with the GEM Listing Rules and for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference, which are posted on the GEM website and on the Company's website at www.baoshen.com.hk. All the Board committees should report to the Board on their decisions or recommendations.

REMUNERATION COMMITTEE

A remuneration committee (the "**Remuneration Committee**") was established on 31 March 2018 with its terms of reference (which has been revised and adopted by the Board on 28 December 2018) in compliance with paragraph B.1.2 of the CG Code. The Remuneration Committee consists of three members, namely, Mr. Ho Ka Chun, Mr. Liang Chi and Mr. Chan Chun Chi, all being independent non-executive Directors. Mr. Ho Ka Chun currently serves as the chairman of the Remuneration Committee.

The Remuneration Committee has been charged with the responsibility of making recommendations to the Board on the Company's policy and structure for the remuneration of all Directors and senior management of the Company and on the establishment of a formal and transparent procedure for developing remuneration policy. With reference to the terms of reference of the Remuneration Committee, the duties of the Remuneration Committee, among others, are as follows:

- (a) to review and make recommendations to the Board on the Company's policy and structure for remuneration of the Directors and senior management of the Company;
- (b) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management of the Group;

CORPORATE GOVERNANCE REPORT

- (c) to make recommendations to the Board on the remuneration of non-executive Directors;
- (d) to review and approve compensation payable to executive Directors and senior management of the Group for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive with the market practice;
- (e) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;
- (f) to operate the Company's share option scheme or other incentive scheme as they apply to, and recommend to the general meeting(s) of shareholders, grants of options to be made to Directors and senior management.

During the year ended 31 December 2019, members of the Remuneration Committee and attendance record of each member are set out below:

Name of Director	Meetings attended/ Eligible to attend
Independent Non-executive Directors	
Mr. Ho Ka Chun (<i>chairman</i>)	1/1
Mr. Liang Chi	1/1
Mr. Chan Chun Chi	1/1

NOMINATION COMMITTEE

The Nomination Committee with its terms of reference (which has been revised and adopted by the Board on 28 December 2018) in compliance with paragraph A.5.2 of the CG Code. The Nomination Committee comprises Mr. Liang Chi, Mr. Ho Ka Chun and Mr. Chan Chun Chi, all being independent non-executive Directors. Mr. Liang currently serves as the chairman of the Nomination Committee.

With reference to its terms of reference, the primary duties of the Nomination Committee, among others are as follows:

- (a) to formulate nomination policy for the Board's consideration and implement the Board's approved nomination policy;
- (b) to review the structure, size, composition and diversity (including the skills, knowledge, experience and length of service) of the Board with the Board Diversity Policy at least annually, and to make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- (c) to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorship and senior management for the Board's approval;
- (d) to assess the independence of independent non-executive Directors and to review the independent non-executive Directors' annual confirmations on their independence; and to make disclosure of its review results in the corporate governance report;

CORPORATE GOVERNANCE REPORT

- (e) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular, the chairman and the chief executive of the Company;
- (f) to review the Board Diversity Policy and the progress on achieving the objectives set for implementing the said Policy.

During the year ended 31 December 2019, members of the Nomination Committee and attendance record of each member are set out below:

Name of Director	Meetings attended/ Eligible to attend
Independent Non-executive Directors	
Mr. Liang Chi (<i>Chairman</i>)	1/1
Mr. Ho Ka Chun	1/1
Mr. Chan Chun Chi	1/1

AUDIT COMMITTEE

An audit committee (the “**Audit Committee**”) was established on 31 March 2018 with its terms of reference (which has been revised and adopted by the Board on 28 December 2018) in compliance with Rule 5.28 to Rule 5.33 of the GEM Listing Rules and paragraphs C.3.3 and C.3.7 of the CG Code. The Audit Committee consists of three members, namely, Mr. Chan Chun Chi, Mr. Liang Chi and Mr. Ho Ka Chun, all being independent non-executive Directors. Mr. Chan Chun Chi currently serves as the chairman of the Audit Committee.

With reference to the terms of reference of the Audit Committee, the primary duties of the Audit Committee, among others, are as follows:

- (a) to be primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the Company’s external auditor, and to approve the remuneration and terms of engagement of the Company’s external auditor;
- (b) to review and monitor the external auditor’s independence and objectivity and the effectiveness of the audit process in accordance with the applicable standards;
- (c) to develop and implement policy on engaging the Company’s external auditor to supply non-audit services;
- (d) to monitor integrity of the Company’s financial statements and the annual report and accounts, half-year reports and quarterly reports, and to review significant financial reporting judgments contained in them;
- (e) to discuss the risk management and internal control system with management of the Group to ensure that the management of the Group has performed its duty to have effective systems; and

CORPORATE GOVERNANCE REPORT

- (f) to review the financial and accounting policies and practices of the Group, to provide advice and comments to the Board on matters related to corporate governance and to ensure compliance with the laws and regulations relevant to the Group.

The Company has complied with Rule 5.28 of the GEM Listing Rules that at least one of the members of the Audit Committee (which must comprise a minimum of three members and must be chaired by an independent non-executive Director) is an independent non-executive Director who possesses appropriate qualifications or accounting or related financial management expertise.

Four Audit Committee meetings were held during the year ended 31 December 2019 to review, assess and comment on the consolidated quarterly, interim and final results of the Group. The Audit Committee has also reviewed the risk management and internal control system of the Group, the continuing connected transaction(s) carried out by the Group and the compliance with the Deed of non-competition in the section headed "Report of the Directors" of this annual report. The Audit Committee is of the opinion that the consolidated financial statements of the Group for the year ended 31 December 2019 have complied with applicable accounting standards and GEM Listing Rules and that adequate disclosures have been made. There is no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditors. The Audit Committee has recommended to the Board that HLB Hodgson Impey Cheng Limited be nominated for re-appointment as the independent auditors of the Company at 2020 AGM.

During the year ended 31 December 2019, members of the Audit Committee and attendance record of each member are set out below:

Name of Director	Meetings attended/ Eligible to attend
Independent Non-executive Directors	
Mr. Chan Chun Chi (<i>Chairman</i>)	4/4
Mr. Liang Chi	4/4
Mr. Ho Ka Chun	4/4

ACCOUNTABILITY AND AUDIT

The Directors acknowledged their responsibilities to prepare the consolidated financial statements of the Group and other financial disclosure required under the GEM Listing Rules and the management has provided such explanation and information to the Board to enable it to make an informed assessment of the financial and other Board decisions. As at 31 December 2019, the Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern. The Directors believed that they have selected suitable accounting policies and applied the consistently, made judgement and estimates that are prudent and reasonable and ensured the consolidated financial statements are prepared on a going concern basis.

The responsibility of the external auditor is to form an independent opinion and based their audit on those consolidated financial statements prepared by the Board and to report their opinion to the Shareholders. The independent auditor's report by external auditor, HLB Hodgson Impey Cheng Limited, about their reporting responsibility on the consolidated financial statements of the Group is set out in the independent auditors' report on pages 56 to 60 of this annual report.

CORPORATE GOVERNANCE REPORT

DIRECTORS' TRAINING AND DEVELOPMENT

Pursuant to the code provision A.6.5 under Appendix 15 to the GEM Listing Rules, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. For the year ended 31 December 2019, all Directors participated in continuing professional development regarding their duties and responsibilities as a director of a listed company which included reading materials.

The Group will from time to time provide briefings to all Directors to refresh their duties and responsibilities. The Directors are also encouraged to attend relevant training courses provided by legal advisers and/or any appropriate institutions.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the required standard set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct (the “**Code of Conduct**”) regarding securities transactions by the Directors in respect of the Shares. The Company has made specific enquiry to all Directors and all of them confirmed that they have fully complied with the required standard of dealings set out in the Code of Conduct from the Listing Date to up to the date of this annual report.

COMPANY SECRETARY

Mr. Tsoi Ka Shing was appointed as the company secretary of the Company on 31 March 2018. Please refer to the section “Biographical details of Directors and Senior Management” in this annual report for his biographical information. During the year ended 31 December 2019, Mr. Tsoi has undertaken no less than 15 hours of relevant professional training in accordance with Rule 5.15 of the GEM Listing Rules.

INDEPENDENT AUDITORS' REMUNERATION

The amount of fees charged by the Company's external auditor, HLB Hodgson Impey Cheng Limited, generally depends on the scope and volume of the external auditors' work performed.

For the year ended 31 December 2019, the remuneration paid or payable to the external auditors of the Company, HLB Hodgson Impey Cheng Limited, in respect of the audit and non-audit services were as follows:

Services rendered	Remuneration paid/payable HK\$'000
Audit services	
– Statutory audit services	618

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the strategic objectives of the Group and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems.

The Group's risk management framework sets out the process of identification, evaluation and management of the principal risks affecting the business. The Group has adopted a set of internal control measures to address various potential operational, financial and legal risk identified in relation to the operation, including but not limited to procurement management, inventory management, information disclosure control, IT management and other various financial control and monitor procedures.

The Board is responsible for reviewing the effectiveness of the Group's risk management and internal control systems through regular meetings with the management. In addition, the Audit Committee with professional advices and opinions from the external internal control consultant of the Company is responsible for ensuring the sufficiency and effectiveness of the Group's risk management and internal control systems through regular inspection and monitoring. Mr. Fan, an executive Director, has been appointed as the compliance officer and is responsible for reviewing the compliance policies and procedures of the Group annually. Mr. Fan will also be responsible for updating the compliance policies and procedures of the Group to ensure that they are up to date in accordance with the applicable regulatory requirements.

The risk management framework, coupled with the internal controls, ensures that the risk associated with different divisions of the Group are effectively controlled and in line with the Group's appetite. However, the Group's risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objective, and can only provide reasonable and not absolute assurance against material misstatement or loss.

As the corporate and operation structure of the Group is relatively not complex and a separate internal audit department may divert resources of the Group, the Group currently does not have an internal audit department. However, the Group engaged an external internal control consultant, APEC RISK MANAGEMENT LIMITED, to conduct a review on the internal control system of the Group during the Year. The review covered certain operational procedures and included recommendations for improvement and strengthening of the internal control system of the Group. No significant control failings or weakness have been identified by the external internal control consultant during the review. The Board considered the internal control system effective and adequate and no significant areas of concern which might affect Shareholders were identified.

DIVIDEND POLICY

The Company has set up a dividend policy (the "**Dividend Policy**") on 28 December 2018 with an aim to strike a balance between maintaining sufficient capital to develop and operate the business of the Group and rewarding the Shareholders of the Company. According to the Dividend Policy, in deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account the following factors:

- (a) the Company's operating results, actual and expected financial performance;
- (b) retained earnings and distributable reserves of the Company and each of the members of the Group;

CORPORATE GOVERNANCE REPORT

- (c) the level of the Group's debts to equity ratio, return on equity and the relevant financial covenants;
- (d) any restrictions on payment of dividends that may be imposed by the Group's lenders;
- (e) the Group's expected working capital requirements, capital expenditure requirements and future expansion plans;
- (f) the Group's liquidity position;
- (g) general economic conditions, business cycle of the Group's business and other internal and external factors that may have an impact on the business or financial performance and position of the Company; and
- (h) any other factors that the Board may deem appropriate and relevant.

The declaration and payment of dividend by the Company is also subject to any restrictions under the Companies Laws of the Cayman Islands, any applicable laws, rules and regulations and the Articles of Association. The declaration and payment of future dividend under the Dividend Policy are subject to the Board's determination that the same would be in the best interests of the Group and the Shareholders of the Company as a whole. The Board will review the Dividend Policy from time to time and may exercise at its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time as it deems fit and necessary.

COMMUNICATION WITH AND RIGHTS OF THE SHAREHOLDERS

Communications with the Shareholders and Investor Relations

The Company has adopted a shareholders' communication policy (the "**Shareholders' Communication Policy**") with the objective of ensuring that the shareholders and potential investors are provided with ready, equal and timely access to balanced and understandable information about the Company (including the financial performance, strategic goals and plans, material developments, governance and risk profile), in order to enable the shareholders to exercise their rights in an informed manner, and to allow the Shareholders and potential investors to engage actively with the Company.

In accordance with the Shareholders' Communication Policy, the Company has established a range of communication channels between itself and its Shareholders and potential investors. These include, information of the Company will be communicated to the Shareholders and potential investors mainly through the Company's financial reports (quarterly, interim and annual reports), answering questions through the annual general meetings and other general meetings that may be convened, as well as the publication of notices, announcements and circulars on the websites of the Stock Exchange and the Company.

Procedures for the Shareholders to convene an extraordinary general meeting

The following procedures for the Shareholders to convene an extraordinary general meeting are subject to Article 64 of the Articles of Association and the applicable legislation and regulation.

CORPORATE GOVERNANCE REPORT

According to Article 64 of the Articles of Association, extraordinary general meetings of the Company shall be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

At any general meeting, a resolution put to the vote of the meeting shall be decided by poll save that the chairman of the meeting may, pursuant to the GEM Listing Rules, allow a resolution to be voted by a show of hands.

Procedures for putting forward proposals by Shareholders at Shareholders' Meetings

Shareholders may include a resolution to be considered at an extraordinary general meeting. The requirements and procedures are set out above in the paragraph headed "Procedures for the Shareholders to convene an extraordinary general meeting".

Enquiries of Shareholders

Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited.

Should there be any enquiries and concerns from Shareholders, they may send in their written enquiries to the Board by addressing them to the principal place of business of the Company in Hong Kong under Part 16 of the Companies Ordinance (located at Room 1603, 16th Floor, China Building, 29 Queen's Road Central, Central, Hong Kong) by post for the attention of the Board and/or the Company Secretary. Shareholders are reminded to lodge their questions together with their detailed contact information for the prompt response from the Company if it deems appropriate.

SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

Save for the adoption of the amended and restated Memorandum and Articles of Association on 31 March 2018, for the purpose of the listing of the Shares of the Company on the GEM of the Stock Exchange, there had been no significant changes in the constitutional documents of the Company during the year ended 31 December 2019.

INDEPENDENT AUDITORS' REPORT



31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE MEMBERS OF BAO SHEN HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Bao Shen Holdings Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 61 to 127, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSAs”) issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditors’ responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA’s *Code of Ethics for Professional Accountants* (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

How our audit addressed the key audit matter

Impairment assessment of trade receivables

Refer to Notes 4 and 18 to the consolidated financial statements

We identified impairment assessment of trade receivables as a key audit matter as significant management estimates and judgements are required in the determination of the outcome of impairment losses under the expected credit losses model.

As at 31 December 2019, the Group had gross trade receivables of approximately RMB44,451,000 and provision for impairment of approximately RMB642,000.

In general, the credit terms granted by the Group to the customers ranged between 60 to 180 days. Management performed periodic assessment on the recoverability of the trade receivables and the sufficiency of provision for impairment based on information including ageing of the trade receivables, historical settlement records, subsequent settlement status, expected timing and amount of realisation of outstanding balances, and on-going trading relationships with the relevant customers. Management also considered forward looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the impairment assessment.

Our procedures in relation to impairment assessment of trade receivables mainly included:

- Checking, on a sample basis, the ageing profile of the trade receivables as at 31 December 2019 to the underlying financial records and post year-end settlements to bank receipts;
- Inquiring of management for the status of each of the material trade receivables past due as at year end and corroborating explanations from management with supporting evidence, such as understanding on-going business relationship with the customers based on trade records, checking historical and subsequent settlement records of and other correspondence with the customers; and
- Assessing the appropriateness of the expected credit loss provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and assessing the reasonableness of the assumptions, including both historical and forward-looking information, used to determine the expected credit losses.

INDEPENDENT AUDITORS' REPORT

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITORS' REPORT

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

INDEPENDENT AUDITORS' REPORT

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

The engagement director on the audit resulting in this independent auditors' report is Lo Kin Kei.

HLB Hodgson Impey Cheng Limited

Certified Public Accountants

Lo Kin Kei

Practising Certificate Number: P06413

Hong Kong, 29 April 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	5	89,099	92,375
Cost of sales		(77,394)	(69,692)
Gross profit		11,705	22,683
Other income and gains	6	4,878	7,809
Selling and distribution expenses		(3,618)	(3,400)
Administrative expenses		(10,745)	(11,283)
Finance costs	7	(2,452)	(2,681)
(Loss)/profit before tax		(232)	13,128
Income tax expense	8	(1,113)	(2,687)
(Loss)/profit for the year	9	(1,345)	10,441
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translating foreign operations		1,545	1,632
Other comprehensive income for the year		1,545	1,632
Total comprehensive income for the year		200	12,073
(Loss)/profit for the year attributable to owners of the Company		(1,345)	10,441
Total comprehensive income for the year attributable to owners of the Company		200	12,073
Basic and diluted (losses)/earnings per share (RMB cents)	13	(0.32)	2.69

The accompanying notes form an integral part of these consolidated financial statements. Details of dividends paid and proposed are disclosed in Note 12 to the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment	14	30,900	29,190
Right-of-use assets	15	9,653	–
Prepaid lease payments	16	–	9,102
Deferred tax assets	25	160	30
		40,713	38,322
Current assets			
Inventories	17	16,511	11,191
Prepaid lease payments	16	–	218
Trade and other receivables	18	51,385	48,066
Pledged bank deposits	20	–	913
Cash and bank balances	20	38,032	33,963
		105,928	94,351
Total assets		146,641	132,673
Current liabilities			
Trade and other payables	21	32,471	24,985
Amount due to a related party	19	82	–
Bank borrowings	22	27,324	18,650
Lease liabilities	23	164	–
Finance lease obligation	24	–	1,588
Current tax liabilities		2,666	3,716
		62,707	48,939
Net current assets		43,221	45,412
Total assets less current liabilities		83,934	83,734

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Non-current liabilities			
Deferred tax liabilities	25	51	51
		51	51
Net assets		83,883	83,683
Capital and reserves			
Equity attributable to owners of the Company			
Share capital	26	3,364	3,364
Reserves	27	80,519	80,319
Total equity		83,883	83,683

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 29 April 2020 and signed on its behalf by:

Mr. Fan Baocheng
Director

Mr. Zhou Zhen Dong
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Share capital RMB'000 (Note 26)	Share premium RMB'000 (Note 26)	Other reserve RMB'000 (Note 27(b))	Translation reserve RMB'000	PRC statutory reserve RMB'000 (Note 27(a))	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2018	-	24,519	(9,070)	272	1,271	23,481	40,473
Profit for the year	-	-	-	-	-	10,441	10,441
Exchange differences on translating foreign operations	-	-	-	1,632	-	-	1,632
Profit and total comprehensive income for the year	-	-	-	1,632	-	10,441	12,073
Shares issued pursuant to the capitalisation issue	2,520	(2,520)	-	-	-	-	-
Shares issued under share offer	844	39,685	-	-	-	-	40,529
Shares issuance costs	-	(9,392)	-	-	-	-	(9,392)
Transfer from retained earnings	-	-	-	-	887	(887)	-
Balance at 31 December 2018 and 1 January 2019	3,364	52,292	(9,070)	1,904	2,158	33,035	83,683
Profit for the year	-	-	-	-	-	(1,345)	(1,345)
Exchange differences on translating foreign operations	-	-	-	1,545	-	-	1,545
Profit and total comprehensive income for the year	-	-	-	1,545	-	(1,345)	200
Transfer from retained earnings	-	-	-	-	756	(756)	-
Balance at 31 December 2019	3,364	52,292	(9,070)	3,449	2,914	30,934	83,883

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

Notes	2019 RMB'000	2018 RMB'000
Cash flows from operating activities		
(Loss)/profit before tax	(232)	13,128
Adjustments for:		
Amortisation of prepaid lease payments	–	218
Depreciation of right-of-use assets	561	–
Depreciation of property, plant and equipment	3,072	3,125
Provision for impairment losses on trade receivables	520	9
Net losses on disposals of property, plant and equipment	5	1
Interest income	(40)	(63)
Finance costs recognised in profit or loss	2,452	2,681
	6,338	19,099
Movements in working capital:		
Increase in inventories	(5,320)	(2,318)
(Increase)/decrease in trade and other receivables	(3,836)	259
Increase/(decrease) in trade and other payables	7,480	(6,261)
Increase in amount due to a related party	82	–
	4,744	10,779
Cash generated from operations	4,744	10,779
Interest paid	(576)	(293)
Income tax paid	(2,293)	(2,265)
	1,875	8,221
Net cash generated from operating activities	1,875	8,221
Cash flows from investing activities		
Proceeds on disposals of property, plant and equipment	48	60
Payments for property, plant and equipment	(5,126)	(9,856)
Decrease in amount due from a director	–	32
Withdrawal of pledge bank deposits	913	4,272
Placement of pledge bank deposits	–	(3,875)
Interest received	40	63
	(4,125)	(9,304)
Net cash used in investing activities	(4,125)	(9,304)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Cash flows from financing activities			
Proceeds from issue of share		–	40,529
Share issuance cost		–	(9,392)
Decrease in amounts due to related parties		–	(160)
Interest paid		(1,876)	(2,388)
Repayment of finance lease obligation		–	(2,076)
Repayment of lease liabilities		(2,027)	–
Proceeds from bank borrowings		34,324	14,350
Repayment of bank borrowings		(25,650)	(23,400)
Net cash generated from financing activities		4,771	17,463
Net increase in cash and cash equivalents		2,521	16,380
Cash and cash equivalents at the beginning of year		33,963	15,965
Effect of foreign exchange rate changes		1,548	1,618
Cash and cash equivalents at the end of year		38,032	33,963
Analysis of balances of cash and cash equivalents			
Cash and bank balances	20	38,032	33,963

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL

Bao Shen Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 14 December 2015 as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares have been listed on the GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) with effect from 23 April 2018. Its parent and ultimate holding company is Wang Mao Investments Limited (“Wang Mao”), a company incorporated in the British Virgin Islands (the “BVI”) and wholly owned by Mr. Fan Baocheng (“Mr. Fan”).

The address of the Company’s registered office is PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The address of the Company’s principal place of business in the People’s Republic of China (the “PRC”) is No. 719, Shuang Ying Road, Wu Yi Industrial Park, Nanqiao Suburb, Chuzhou City, Anhui, the PRC. The Company is an investment holding company. The Group is principally engaged in plastic and steel component manufacturing and processing (including (i) stamping components manufacturing; (ii) spray-painting components processing; (iii) powder-coating components processing; and (iv) plastic components manufacturing) in the PRC.

Items included in the financial statements of each of the Group’s subsidiaries are measured using the currency of the primary economic environment in which the respective entity operates (the “functional currency”). The functional currency of the Group’s operating subsidiaries is RMB. The consolidated financial statements is presented in RMB, which is different from the functional currency of the Company (i.e. Hong Kong dollars (“HK\$”). The choice of presentation currency is to better reflect the currency that mainly determines economic effects of transactions, events and conditions of the Group.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycles

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases* (“HKAS 17”), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

HKFRS 16 Leases (Continued)

As a lessee (Continued)

	Note	1 January 2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018		329
Less: commitments relating to leases exempt from capitalisation:		
– short-term leases with remaining lease term ending on or before 31 December 2019		(329)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16		–
Add: Obligations under finance leases recognised at 31 December 2018	(b)	1,588
Lease liabilities as at 1 January 2019		1,588
Analysed as		
Current		1,588

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Notes	Right-of-use assets RMB'000
Reclassified from prepaid lease payments	(a)	9,320
Amounts included in property, plant and equipment under HKAS 17		
– Assets previously under finance leases	(b)	4,238
		13,558
By class		
Leasehold land		9,320
Plant and machinery		4,238
		13,558

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

HKFRS 16 Leases (Continued)

As a lessee (Continued)

Notes:

- (a) Upfront payments for leasehold lands in the PRC for own used properties were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to approximately RMB9,102,000 and approximately RMB218,000 respectively were reclassified to right-of-use assets.
- (b) In relation to assets previously under finance leases, the Group reclassified the carrying amounts of the relevant assets which were still under lease as at 1 January 2019 amounting to approximately RMB4,238,000 as right-of-use assets. In addition, the Group reclassified the finance leases obligation of approximately RMB1,588,000 to lease liabilities at 1 January 2019.

There was no impact of transition to HKFRS 16 on the retained earnings as at 1 January 2019.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	Carrying amounts previously reported at 31 December 2018 RMB'000	Adjustments RMB'000	Carrying amounts under HKFRS 16 at 1 January 2019 RMB'000
Non-current Assets			
Property, plant and equipment	29,190	(4,238)	24,952
Prepaid lease payments	9,102	(9,102)	–
Right-of-use assets	–	13,558	13,558
Current Assets			
Prepaid lease payments	218	(218)	–
Current Liabilities			
Finance lease obligation	1,588	(1,588)	–
Lease liabilities	–	1,588	1,588

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts ¹
Amendments to HKFRS 3	Definition of a Business ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁴
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ⁴

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

² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 January 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the *Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of “obscuring” material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from “could influence” to “could reasonably be expected to influence”; and
- include the use of the phrase “primary users” rather than simply referring to “users” which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group’s annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based payment*, leasing transactions that are within the scope of HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

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

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

The principal accounting policies are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

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

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

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

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Revenue recognition

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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

Revenue from the sale of stamping components, spray-painting components, powder-coating components and plastic components directly to the customers is recognised at the point that the control of the finished products has passed to the customers, which is primarily upon the delivery of the products to the customers.

Leasing (before application of HKFRS 16 on 1 January 2019)

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

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (before application of HKFRS 16 on 1 January 2019) (Continued)

The Group as lessee (Continued)

When a sale and leaseback results in a finance lease, any difference on sale is deferred and recognised over the lease term.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land for own use

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

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statements of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (upon application of HKFRS 16 in accordance with transitions in note 2)

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of premises that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (upon application of HKFRS 16 in accordance with transitions in note 2) (Continued)

The Group as a lessee (Continued)

Right-of-use assets (Continued)

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

When the Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property, plant and equipment.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (upon application of HKFRS 16 in accordance with transitions in note 2) (Continued)

The Group as a lessee (Continued)

Lease liabilities (Continued)

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Foreign currencies

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

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each of the reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

Borrowing costs

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

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

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Government grants

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statements of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

Depreciation is recognised so as to write off the cost of assets (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of tangible and intangible assets other than goodwill *(Continued)*

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets

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

- the financial asset is held within a business model whose objective is to collect contractual cash flows;
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9/ initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Amortised cost and interest income

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

Receivables classified as at FVTOCI

Subsequent changes in the carrying amounts for receivables classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these receivables are recognised in other comprehensive income and accumulated under the heading of FVTOCI reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to other comprehensive income without reducing the carrying amounts of these receivables. When these receivables are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Impairment of financial assets

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, deposit, other receivables, pledged bank deposits and bank balances). The amount of ECL is updated at the end of each reporting period to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 18 and 30 for further details.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Significant increase in credit risk

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtors;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default; (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Definition of default

The Group considers an event of default occurs when (i) there is a breach of financial covenants by the counterparty; or (ii) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower; or
- a breach of contract, such as a default or past due event; or
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

Write-off policy

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Measurement and recognition of ECL

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

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

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

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

Derecognition of financial assets

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

Financial liabilities including trade and other payables contract liabilities, bank borrowings, lease liabilities and finance lease obligation are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

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

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

- (b) the party is an entity where any of the following conditions applies:
- (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

Cash and cash equivalents

For the purpose of consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are ready convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts, if any, which are repayable on demand and form an integral part of the Group's cash management.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Impairment of receivables

The Group records impairment of receivables based on an assessment made by management on the expected credit losses of trade and other receivables. Impairment assessment requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact both the carrying value of trade and other receivables and the impairment charge in the period in which such estimate has been changed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. REVENUE AND SEGMENT INFORMATION

HKFRS 8 *Operating Segments* requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the executive directors of the Company, being the chief operating decision maker, for the purpose of resources allocation and performance assessment. On this basis, the Group's has determined that it only has one operating segment which is a plastic and steel components processor (including (i) stamping components manufacturing; (ii) spray-painting components processing; (iii) powder-coating components processing; and (iv) plastic components manufacturing) in the PRC.

An analysis of revenue by products is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from customer and recognised at point in time		
Peripheral components		
– Spray-painting peripheral components	27,341	40,010
– Powder-coating peripheral components	29,610	32,621
Stamping components	22,545	19,744
Plastic components	9,603	–
	89,099	92,375

Geographical information

The Company is domiciled in the Cayman Islands with the Group's major operations in the PRC. All external revenue of the Group during the years ended 31 December 2019 and 2018 are attributable to customers incorporated in the PRC, the place of domicile of the Group's operating entities. Substantially all the non-current assets of the Group are located in the PRC.

Information about major customers

Revenue from customers individually contributing over 10% of the total revenue of the Group for the years ended 31 December 2019 and 2018 were as follows:

	2019 RMB'000	2018 RMB'000
Customer A	30,006	15,577
Customer B	N/A ¹	11,222
Customer C	23,398	25,157

¹ The customer did not contribute over 10% or more to the Group's total revenue in the respective year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

6. OTHER INCOME AND GAINS

	2019 RMB'000	2018 RMB'000
Interest income on bank deposits	40	63
Net losses on disposals of property, plant and equipment	(5)	(1)
Net sales of moulds and scrap	507	276
Government grants (Note)	4,334	6,255
Others	2	–
Proceeds from insurance claims	–	1,216
	4,878	7,809

Note: There are no unfulfilled conditions or contingencies relating to these grants.

7. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest on bank borrowings	1,718	1,819
Interest on finance lease	–	309
Interest on lease liabilities	117	–
Finance costs arising on early redemption of note receivables	576	293
Costs of guarantees on bank borrowings	41	260
	2,452	2,681

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

8. INCOME TAX EXPENSE

	2019 RMB'000	2018 RMB'000
Current tax		
PRC Enterprise Income Tax ("EIT")		
— Current year	1,243	2,689
Deferred tax	(130)	(2)
Total income tax recognised in profit or loss	1,113	2,687

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits during the years ended 31 December 2019 and 2018. No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group had no assessable profits arising in or derived from Hong Kong for the years ended 31 December 2019 and 2018.

PRC subsidiary is subject to PRC EIT at 25% for the years ended 31 December 2019 and 2018.

Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdiction.

The tax charge for the years ended 31 December 2019 and 2018 can be reconciled to profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2019 RMB'000	2018 RMB'000
(Loss)/profit before tax	(232)	13,128
Tax at the statutory tax rates	343	3,575
Tax effect of expenses not deductible for tax purpose	770	562
Others	—	(1,450)
Income tax expense for the year	1,113	2,687

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

9. (LOSS)/PROFIT FOR THE YEAR

(Loss)/profit for the year has been arrived at after charging:

	2019 RMB'000	2018 RMB'000
Employee benefits expenses (including directors' emoluments (Note 10):		
Salaries, allowance and other benefits in kind	18,065	14,731
Contributions to defined contribution plan	4,739	3,309
Total employee benefits expense	22,804	18,040

	2019 RMB'000	2018 RMB'000
Auditors' remuneration	554	557
Amortisation of prepaid lease payments (included in administrative expenses)	–	218
Depreciation of property, plant and equipment	3,072	3,125
Depreciation of right-of-use assets (included in cost of sales and administrative expenses)	561	–
Net foreign exchange losses	1,155	–
Provision for impairment loss on trade receivables	520	9
Operating lease rentals in respect of rented premises (included in cost of sales and administrative expenses)	–	329
Expenses related to short-term lease (included in cost of sales and administrative expenses)	329	–
Cost of inventories recognised as an expense	77,020	69,187
Listing expenses (including in administrative expenses)	–	3,240

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the directors of the Company for the years ended 31 December 2019 and 2018 were as follows:

	Other emoluments				Total RMB'000
	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to defined contribution plan RMB'000	
Year ended 31 December 2019					
Executive directors					
Mr. Fan (Note (i))	-	399	-	37	436
Mr. Zhou Zhen Dong ("Mr. Zhou")	-	211	-	-	211
Independent non-executive directors					
Mr. Liang Chi (Note (ii))	-	85	-	-	85
Mr. Ho Ka Chun (Note (ii))	-	106	-	-	106
Mr. Chan Chun Chi (Note (ii))	-	106	-	-	106
	-	907	-	37	944
Year ended 31 December 2018					
Executive directors					
Mr. Fan (Note (i))	-	265	-	36	301
Mr. Zhou Zhen Dong ("Mr. Zhou")	-	152	-	-	152
Independent non-executive directors					
Mr. Liang Chi (Note (ii))	-	61	-	-	61
Mr. Ho Ka Chun (Note (ii))	-	76	-	-	76
Mr. Chan Chun Chi (Note (ii))	-	76	-	-	76
	-	630	-	36	666

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

10. DIRECTORS' EMOLUMENTS (Continued)

Notes:

- (i) Mr. Fan is also the chief executive of the Company and his emoluments disclosed included those for services rendered by him as the chief executive.
- (ii) Mr. Liang Chi, Mr. Ho Ka Chun, and Mr. Chan Chun Chi were appointed as independent non-executive directors of the Company on 31 March 2018.

None of the directors waived any emoluments during the years ended 31 December 2019 and 2018. In addition, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2018: two) were directors of the Company for the years ended 31 December 2019 whose emoluments are included in the disclosures in Note 10 above. The emoluments of the remaining three (2018: three) individuals for the year ended 31 December 2019 respectively were as follows:

	2019 RMB'000	2018 RMB'000
Salaries and other benefits in kind	1,273	396
Contributions to defined contribution plan	151	69
	1,424	465

Their emoluments were all within nil to HK\$1,000,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

12. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during 2019, nor has any dividend been proposed since the end of the reporting period (2018: nil).

13. (LOSSES)/EARNINGS PER SHARE

	2019	2018
(Loss)/profit attributable to owners of the Company (in RMB'000)	(1,345)	10,441
Weighted average number of ordinary shares for the purpose of basic earnings per share	420,000,000	387,780,822
Basic (losses)/earnings per share (in RMB cents)	(0.32)	2.69

For the year ended 31 December 2019 and 2018, the calculation of the basic (losses)/earnings per share attributable to owners of the Company was based on (i) the (loss)/profit attributable to owners of the Company and (ii) the weighted average number of ordinary shares issued during the year.

Diluted (losses)/earnings per share is equal to basic (losses)/earnings per share as there were no dilutive potential ordinary shares in issue during the year ended 31 December 2019 (2018: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
Balance at 1 January 2018	17,992	16,440	2,196	232	115	36,975
Additions	2,909	3,120	–	470	3,357	9,856
Disposals	–	(77)	–	–	–	(77)
Transfer	–	25	–	–	(25)	–
Balance at 31 December 2018	20,901	19,508	2,196	702	3,447	46,754
Adoption of HKFRS 16	–	(10,240)	–	–	–	(10,240)
Balance at 1 January 2019 (restated)	20,901	9,268	2,196	702	3,447	36,514
Additions	–	3,992	141	106	887	5,126
Transfer from right-of-use assets	–	10,240	–	–	–	10,240
Disposals	–	(55)	–	–	–	(55)
Balance at 31 December 2019	20,901	23,445	2,337	808	4,334	51,825
Accumulated depreciation						
Balance at 1 January 2018	6,070	6,341	1,915	129	–	14,455
Depreciation expense	874	2,069	99	83	–	3,125
Eliminated on disposals	–	(16)	–	–	–	(16)
Balance at 31 December 2018	6,944	8,394	2,014	212	–	17,564
Adoption of HKFRS 16	–	(6,002)	–	–	–	(6,002)
Balance at 1 January 2019 (restated)	6,944	2,392	2,014	212	–	11,562
Depreciation expense	1,096	1,710	76	190	–	3,072
Transfer from right-of-use assets	–	6,293	–	–	–	6,293
Eliminated on disposals	–	(2)	–	–	–	(2)
Balance at 31 December 2019	8,040	10,393	2,090	402	–	20,925
Carrying amounts						
Balance at 31 December 2019	12,861	13,052	247	406	4,334	30,900
Balance at 31 December 2018	13,957	11,114	182	490	3,447	29,190

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment, after taking into account of their estimated residual value, are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of the term of the lease, and 20 years
Plant and machinery	10%–20%
Motor vehicles	25%
Furniture and equipment	33.33%

As at 31 December 2019, certain of the Group's property, plant and equipment with an aggregate carrying amount of approximately RMB12,861,000 (2018: RMB13,957,000) have been pledged to secure certain bank borrowings granted to the Group.

As at 31 December 2018, the carrying amounts of plant and machinery of the Group include amounts of approximately RMB4,238,000, in respect of assets held under finance leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

15. RIGHT-OF-USE ASSETS

	Leasehold land RMB'000	Plant and machinery RMB'000	Total RMB'000
As at 1 January 2019			
Carrying amount	9,320	4,238	13,558
As at 31 December 2019			
Carrying amount	9,102	551	9,653
For the year ended 31 December 2019			
Depreciation charge	218	343	561
For the year ended 31 December 2019			
Expense relating to short-term leases			329
Total cash outflow for leases			2,391
Addition to right-of-use assets			603

The above right-of-use assets are depreciated on a straight-line basis over their estimated useful life or lease term as follows:

Leasehold land	over the lease terms of 50 years
Plant and machinery	10%–20%

As at 31 December 2019, the Group's right-of-use assets amounted to approximately RMB9,653,000 were located in the PRC.

As at 31 December 2019, the Group's right-of-use assets with the aggregate carrying amounts of approximately RMB9,102,000 have been pledged to secure certain bank borrowings granted to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

16. PREPAID LEASE PAYMENTS

	2018 RMB'000
Analysed for reporting purposes as:	
Current assets	218
Non-current assets	9,102
	<hr/> 9,320

As at 31 December 2018, the Group's prepaid lease payments with the aggregate carrying amounts of approximately RMB9,320,000 have been pledged to secure certain bank borrowings granted to the Group.

17. INVENTORIES

Inventories in the consolidated statements of financial position comprise:

	2019 RMB'000	2018 RMB'000
Raw materials	4,916	3,993
Work-in-progress	5,445	2,453
Finished goods	2,960	3,134
Moulds and consumables	3,190	1,611
	<hr/> 16,511	<hr/> 11,191

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

18. TRADE AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	44,451	41,740
Less: Provision for impairment losses on trade receivables	(642)	(122)
	43,809	41,618
Note receivables (Note (i))	266	333
Deposits, prepayments and other receivables	7,310	6,115
Total	51,385	48,066

Note:

- (i) Note receivables are received from customers under ordinary course of business. All of them are bank acceptance notes with a maturity period within six months.

An aging analysis of trade receivables based on the revenue recognition date was as follows:

	2019 RMB'000	2018 RMB'000
0 – 90 days	41,536	37,441
91 – 180 days	2,534	4,299
Over 180 days	381	–
	44,451	41,740

The credit terms granted to customers are varied and are generally the result of negotiations between individual customers and the Group. The credit period was ranging from 60 days to 180 days upon the issue of invoices to its customers for the year ended 31 December 2019 and 2018. No interest is charged on overdue receivables.

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately RMB2,505,000 (2018: approximately RMB4,299,000) which are past due as at the reporting date. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

18. TRADE AND OTHER RECEIVABLES (Continued)

Impairment assessment on trade receivables subject to ECL model

The Group applies the simplified approach to provide for ECL prescribed by HKFRS 9. The debtors are grouped under a provision matrix based on shared credit risk characteristics. For the year ended 31 December 2019, additional provision of approximately RMB520,000 (2018: additional provision of approximately RMB9,000) was made against the gross amounts of trade receivables.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2019 and 2018 are set out in Note 30.

19. AMOUNT DUE TO A RELATED PARTY

	2019 RMB'000	2018 RMB'000
Amount due to a related party		
滁州市互興噴塑有限公司(Chuzhou Genxing Powder-Coating Co., Ltd*) ("Chuzhou Genxing") (Note)	82	–

Note: Chuzhou Genxing was controlled by Mr. Fan.

The amount due to a related party is unsecured, non-interest bearing and has no fixed terms of repayment.

* English translation name is for identification purpose only.

20. CASH AND BANK BALANCES/PLEDGED BANK DEPOSITS

Pledged bank deposits represent deposits pledged to banks to secure note payables granted to the Group (Note 21). Deposits amounting to approximately RMB913,000 as at 31 December 2018 and are classified as current assets. The pledged bank deposits will be released upon the settlement of relevant note payables. Pledged bank deposits are denominated in RMB, the functional currency of the group entities.

The Group's cash and bank balances with aggregate amounts of approximately RMB17,376,000 (2018: RMB9,399,000), at 31 December 2019, were denominated in RMB which is not a freely convertible currency in the international market. The government of the PRC has implemented foreign exchange control and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the government of the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

21. TRADE AND OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	22,302	15,380
Other payables and accruals	10,163	8,690
Contract liabilities	6	2
Note payables	–	913
	32,471	24,985

The following is an aged analysis of trade payables based on the invoice date:

	2019 RMB'000	2018 RMB'000
0 – 90 days	11,871	8,774
91 – 180 days	6,768	5,067
181 – 365 days	2,787	880
Over 365 days	876	659
	22,302	15,380

The trade payables are non-interest bearing and generally ranging from 30 days to 180 days.

As at 31 December 2018, note payables were secured by a charge over the Group's pledged bank deposits.

As at 31 December 2019, contract liabilities amounting to approximately RMB6,000 (2018: approximately RMB2,000).

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

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the period	2	35

Contract liabilities represent cash received from customers in advance for which the goods are yet to be delivered, until the revenue recognised on the relevant contract exceeds the amount of the deposit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

22. BANK BORROWINGS

	2019 RMB'000	2018 RMB'000
Bank borrowings – secured:		
Fixed rate	27,324	18,650
Carrying amounts of bank borrowings that are repayable within one year from the end of the reporting period shown under current liabilities	27,324	18,650

During the year ended 31 December 2019, the bank borrowings bear interest at 6.09% (2018: ranging from 7.40% to 8.08%) per annum.

At 31 December 2018, the bank borrowings were secured by a charge over the Group's property, plant and equipment, prepaid lease payments and the corporate guarantee given by the third party. The borrowings were denominated in RMB.

At 31 December 2019, the bank borrowings were secured by a charge over the Group's property, plant and equipment, right-of-use assets and the corporate guarantee given by the third party. The borrowings were denominated in RMB.

23. LEASE LIABILITIES

	2019 RMB'000
Lease liabilities payable:	
Within one year (shown under current liabilities)	164

The lease liabilities was denominated in RMB.

As at 31 December 2019, the Group's lease liabilities relating to plant and machinery are secured by:

- (a) the lessor's title to the leased assets, details of carrying amounts of such assets are disclosed in note 15;
- (b) personal guarantees amounting to respective outstanding minimum lease payment by Mr. Fan and a third party.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

24. FINANCE LEASE OBLIGATION

The Group leased certain of its plant and machinery under finance lease. The lease term is three years for the year ended 31 December 2018. Interest rates underlying all obligations under finance leases are 8.91% per annum for the year ended 31 December 2018.

In November 2016, certain plant and machinery was under finance lease in form of sale and leaseback arrangements. There was no disposal gain or loss recognised for the transaction as the fair value was not significant different to the carrying amount of the relevant plant and machinery. At the end of the lease period, if no default occurs during the lease period, the ownership of the equipment shall be automatically transferred to the Group at nil consideration.

A mortgage agreement in relation to the abovementioned plant and machinery was entered into between the finance leasing corporation and Chuzhou Xiezhong Home Appliance Accessories Co., Ltd* (滁州市協眾家電配件有限公司) ("Xiezhong"), an indirect wholly-owned subsidiary of the Company.

	2018 RMB'000
Minimum lease payments	
Within one year	1,658
Less: future finance charges	(70)
<hr/>	
Present value of lease obligation	1,588
<hr/>	
Present value of minimum lease payments	
Amount due for settlement within a year (shown under current liabilities)	1,588
<hr/>	
Total present value of lease obligation	1,588
<hr/>	

Finance lease obligation was denominated in RMB. The finance lease obligation was secured by a refundable performance security.

* English translation name is for identification pupose only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

25. DEFERRED TAX ASSETS/LIABILITIES

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

	2019 RMB'000	2018 RMB'000
Deferred tax assets	160	30
Deferred tax liabilities	(51)	(51)
	109	(21)

The following is the deferred tax assets/liabilities recognised and movements thereon during the years ended 31 December 2019 and 2018:

	Provision for loss allowance on trade receivables RMB'000	Withholding tax RMB'000	Total RMB'000
Balance at 1 January 2018	28	(51)	(23)
Credited to profit or loss (Note 8)	2	–	2
Balance at 31 December 2018 and 1 January 2019	30	(51)	(21)
Credited to profit or loss (Note 8)	130	–	130
Balance at 31 December 2019	160	(51)	109

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of the profits earned by the PRC subsidiary from 1 January 2008 onwards. Deferred taxation has not been provided in the consolidated financial statements in respect of temporary differences attributable to the profits earned by the PRC subsidiary amounting to approximately RMB35,045,000 (2018: approximately RMB32,262,000) as at 31 December 2019 as the Group is able to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

26. SHARE CAPITAL

The Company

	Number of shares	Amounts HK\$
Authorised		
Ordinary shares at HK\$0.01 each at 1 January 2018	38,000,000	380,000
Increase in authorized share capital	1,962,000,000	19,620,000
<hr/>		
At 31 December 2018, 1 January 2019 and 31 December 2019	2,000,000,000	20,000,000
<hr/>		
Issued and fully paid		
Ordinary shares at HK\$0.01 each at 1 January 2018	10,000	100
Shares issued pursuant to the capitalisation issue	314,990,000	3,149,900
Shares issued under the Share Offer	105,000,000	1,050,000
<hr/>		
At 31 December 2018, 1 January 2019 and 31 December 2019	420,000,000	4,200,000
<hr/>		
		RMB'000
Shown on the statements of financial position at 31 December 2018 and 2019		3,364
<hr/>		

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 14 December 2015 with an initial authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each and 1 share was issued thereafter.

Pursuant to the written resolutions passed by the shareholders of the Company on 31 March 2018, the authorised share capital of the Company was increased from HK\$380,000 to HK\$20,000,000 by the creation of a further 1,962,000,000 new shares of HK\$0.01 each, ranking *pari passu* with the existing share in all respects.

Pursuant to the written resolutions passed by the shareholders of the Company on 31 March 2018, the directors of the Company were authorised to capitalise an amount of HK\$3,149,990 standing to the credit of the share premium account of the Company and to appropriate such amount as capital to pay up in full at par 314,990,000 shares for allotment and issue to the persons whose names appear on the register of members of the Company at the close of business on 31 March 2018 in proportion to their then existing shareholdings in the Company, each ranking *pari passu* in all respects with the existing shares then in issue (the "Capitalisation Issue").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

26. SHARE CAPITAL (Continued)

On 23 April 2018, 105,000,000 ordinary shares of HK\$0.01 each were issued at a price HK\$0.48 per share by the way of share offer. On the same day, the Company was listed on GEM of the Stock Exchange. The proceeds of HK\$1,050,000 representing the par value of the shares were credited to the Company's share capital. The remaining proceeds of HK\$49,350,000, before issuing expenses, were credited to the share premium account.

27. RESERVES

(a) PRC statutory reserve

Pursuant to the PRC Company Law, a company shall retain 10% of the profits as the company's statutory reserve funds when the company distributes the profits after tax of the then financial year, and the retention can be stopped upon the company's statutory reserve funds has accumulated up to 50% of the registered capital of the Company.

According to the Regulations for the Implementation of the Law of the PRC on Sino-foreign Equity Joint Ventures, an enterprise shall, after payment of income tax in compliance with the PRC Enterprise Income Tax Law, retain reserve funds, staff incentive, and welfare funds and enterprise development funds from profits after tax at such proportion at the discretion of the board of directors of the enterprise.

As stipulated by the relevant laws and regulations for foreign invested enterprises in the PRC, the wholly-owned foreign enterprise is required to maintain statutory reserve which is non-distributable. Appropriations to such reserves are made out of net profit after payment of income taxes on the profits pursuant to the tax laws of China annually but must not be less than 10% of the net profit after tax, until such reserves reach 50% of the registered capital.

(b) Other reserve

Other reserve of the Group represents the difference between the amount of consideration paid by the Group for the acquisition of Xiezhong and the amount of paid-up capital of the aforesaid subsidiary acquired pursuant to the Corporate Reorganisation.

28. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund ("MPF") Scheme under rules and regulations of MPF Schemes Ordinance for all its employees in Hong Kong. The assets of the Schemes are held separately from those of the Group, in funds under the trustees.

The employees of the Group's subsidiary in the PRC are members of a state-managed retirement benefit plan operated by the government of the PRC. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

The total expenses recognised in the consolidated statements of profit or loss and other comprehensive income amounted to approximately RMB4,739,000 (2018: RMB3,309,000) for the year ended 31 December 2019 and represented contributions payable to these plans by the Group at rates specified in the rules of plans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

29. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the years ended 31 December 2019 and 2018.

The capital structure of the Group consists of net debt (which includes borrowings net of cash and cash equivalents) and equity attributable to owners of the Company (comprising issued share capital and reserves).

Adjusted debt-to-equity ratio

Management of the Group reviews the capital structure regularly taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through the issuance of new shares, raise of borrowings or repayment of the existing borrowings.

The adjusted debt-to-equity ratios at the end of each of the reporting period were as follows:

	2019 RMB'000	2018 RMB'000
Debts (Note (i))	27,488	21,151
Cash and cash equivalents	(38,032)	(33,963)
Net debt	(10,544)	(12,812)
Equity (Note (ii))	83,883	83,683
Adjusted debt-to-equity ratio	N/A	N/A

Notes:

- (i) Debt comprises note payables, bank borrowings and lease liabilities/finance lease obligation as detailed in Notes 21, 22, 23 and 24 respectively.
- (ii) Equity includes all capital and reserves attributable to owners of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

30. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The Group

	2019 RMB'000	2018 RMB'000
Financial assets		
Financial assets at amortised cost		
– Trade receivables	43,809	41,618
– Note receivables	266	333
– Deposits and other receivables	4,372	2,940
– Pledge bank deposits	–	913
– Cash and bank balances	38,032	33,963
	86,479	79,767
Financial liabilities		
Amortised cost	60,035	45,221

(b) Financial risk management objectives and policies

The Group's major financial instruments include deposits, trade and other receivables, pledged bank deposits, cash and bank balances, trade and other payables, amount due to a related party, bank borrowings, lease liabilities and finance lease obligation. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The management has been monitoring these risk exposures to ensure appropriate measures are implemented on a timely and effective manner so as to mitigate or reduce such risks.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks throughout the years ended 31 December 2019 and 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

30. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Foreign currency risk management

As the assets and liabilities of the Group are mainly denominated in the respective group entities' functional currency at 31 December 2019 and 2018, the management does not expect significant foreign currency exposure in relation to the exchange rate fluctuation between the respective group entities' functional currency and other currencies and the Group's income and operating cash flows are substantially independent of changes in foreign currency exchange.

Interest rate risk management

The Group is exposed to fair value interest rate which relates primarily to its fixed-rate bank borrowings, lease liabilities and finance lease obligation.

The Group currently does not have interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Price risk management

As the Group did not have any financial assets classified as financial assets at fair value through profit or loss at the end of each of the reporting period, the Group is not exposed to significant price risk.

Credit risk management

Credit risk refers to the risk that the Group's counterparties default on their contractual obligation resulting in financial losses to the Group. The Group's credit risk is primarily attributable to trade and other receivables, pledged bank deposits and bank balances. The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position at the end of each of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

30. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk management (Continued)

In order to minimise the credit risk on trade receivables, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The credit quality of the debtors is assessed based on their financial position, past experience and other factors. The Group has policies in place to ensure credit terms are granted to reliable debtors. In addition, the Group reviews the recoverable amount of each individual trade debt by weekly basis and debt instrument at the end of each of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group considers that the credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies or with good reputation. The Group is also subject to concentration of credit risk arising from its trade receivables as 71% (2018: 62%) of these receivables are due from the Group's largest five customers as at 31 December 2019.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information.

The Group uses four categories for those receivables which reflect their credit risk and how the loss provision is determined for each of those categories. These internal credit risk ratings are aligned to external credit ratings.

The Group's internal credit risk grading comprises the following categories:

Category	Group definition of category	Basis for recognition of ECL
Performing	There have low risk of default and has not been any significant increase in credit risk since initial recognition	12-month ECL
Doubtful	There have been significant increase in credit risk since initial recognition	Lifetime ECL – not credit impaired
Default	There is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

30. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk management (Continued)

Trade receivables

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected credit loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit loss. It considers available reasonable and supportive forwarding-looking information.

	Lifetime expected credit loss rate	Gross carrying amount RMB'000	Lifetime expected credit loss RMB'000	Net carrying amount RMB'000
As at 31 December 2019				
Trade receivables	1.4%	44,451	642	43,809
As at 31 December 2018				
Trade receivables	0.3%	41,740	122	41,618

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

30. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk management (Continued)

Trade receivables (Continued)

The movement in the provision of impairment losses on trade receivables is as follow:

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach:

	Lifetime ECL (not credit impaired) RMB'000
As at 1 January 2018	113
Impairment losses recognised	9
<hr/>	
As at 31 December 2018 and 1 January 2019	122
Impairment losses recognised	520
<hr/>	
As at 31 December 2019	642

The increase in gross carrying amount of trade receivables with days past due over 90 days has contributed to the increase in loss allowance of approximately RMB292,000.

The creation and release of provision for impaired trade receivables have been included in “administrative expenses” in the consolidated statement of profit or loss and other comprehensive income. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

30. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk management (Continued)

Other receivables

As at 31 December 2019 and 2018, the internal credit ratings of the financial assets included in other receivables were performing. Accordingly, management has measured the loss allowances of these financial assets at 12-month ECL as they have low risks of default and the counterparties have strong capacities to meet their contractual cash flow obligations in the near term. Loss allowances of these financial assets were not material as at 31 December 2019 and 2018.

Note receivables

The Group accepts bank acceptance bills issued by major banks in the PRC which were assigned high credit rating by international credit rating agencies and considers that the credit risk associated with such bank acceptance bills to be insignificant.

Pledge bank deposits and bank balances

The credit risk for pledged bank deposits and bank balances is considered not material as such amounts are placed in reputable banks with high credit rating assigned by international credit rating agencies. There has been no recent history of default in relation to these banks and thus the risk of default is regarded as low.

Liquidity risk management

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents and banking facilities deemed adequate by management to finance the Group's operations and mitigate the effects of unexpected fluctuations in cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

30. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk management (Continued)

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, the maturity analysis for non-derivative financial liabilities is prepared based on the scheduled repayment dates.

	Weighted average interest rate %	On demand or less than 1 year RMB'000	More than 1 year but less than 2 years RMB'000	Total undiscounted amount RMB'000	Total carrying amount RMB'000
At 31 December 2019					
Trade and other payables	–	32,465	–	32,465	32,465
Bank borrowings	6.09	27,602	–	27,602	27,324
Lease liabilities	3.38	196	–	196	164
		60,263	–	60,263	59,953
At 31 December 2018					
Trade and other payables	–	24,983	–	24,983	24,983
Bank borrowings	7.69	19,024	–	19,024	18,650
Finance lease obligation	8.91	1,658	–	1,658	1,588
		45,665	–	45,665	45,221

(c) Fair value measurements of financial instruments

Management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

The Group has no financial instruments measured at fair value subsequent to initial recognition on a recurring basis throughout the years ended 31 December 2019 and 2018.

During the years ended 31 December 2019 and 2018, there were no transfers of fair value measurements between level 1 and level 2 and no transfers into or out of level 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

31. COMMITMENTS

(a) Operating lease commitments as lessee

At 31 December 2018, the Group had operating lease commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 RMB'000
Within one year	329

Operating leases relate to warehouse and premises with lease terms of 3 years. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

(b) Capital commitments

The Group had the following capital commitments not provided for in respect of property, plant and equipment at the end of each of the reporting period as follows:

	2019 RMB'000	2018 RMB'000
Contracted but not provided for: – Property, plant and equipment	3,648	1,531

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

32. LIST OF SUBSIDIARIES

Details of the subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below.

Name of company	Date and place of incorporation/ establishment	Issued and fully paid share capital/paid-up capital	Equity interest attributable to the Company as at 31 December		Principal activities
			2019	2018	
Wealthy Square Developments Limited ("Wealthy Square")	28 September 2015, the British Virgin Islands (the "BVI")	1 ordinary share of US\$1	100% (directly)	100% (directly)	Investment holding in Hong Kong
Dragon Shiner Development Limited ("Dragon Shiner")	24 July 2015, Hong Kong	HK\$1	100% (indirectly)	100% (indirectly)	Investment holding in Hong Kong
Xiezhong	16 November 2010, PRC	RMB5,000,000	100% (indirectly)	100% (indirectly)	Plastic and steel component manufacturing and processing (including (i) stamping components manufacturing; (ii) spray-painting components processing; (iii) powder-coating components processing; and (iv) plastic components manufacturing) in the PRC

None of the subsidiaries had issued any listed securities at the end of the reporting period. The Group had no subsidiaries which have material non-controlling interest for the years ended 31 December 2019 and 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

33. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure banking facilities granted to the Group or borrowings of the Group:

	2019 RMB'000	2018 RMB'000
Prepaid lease payments	–	9,320
Right-of-use assets	9,102	–
Property, plant and equipment	12,861	13,957
Pledge bank deposits	–	913
	21,963	24,190

34. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed in Notes 19 and 23 in the consolidated financial statements, the Group entered into the following significant related party transactions during the years ended 31 December 2019 and 2018:

- (i) As at 31 December 2019, the lease liabilities relating to plant and machinery is secured by personal guarantee by Mr. Fan.
- (ii) The Group also entered into the following significant related party transactions with related parties based on the term mutually agreed by both parties during the years ended 31 December 2019 and 2018:

Name of related party	Nature of transaction	2019 RMB'000	2018 RMB'000
Chuzhou Genxing	Leases of factories	329	329

(iii) Compensation of key management personnel

The directors of the Company are identified as key management personnel of the Group and the remuneration of key management during the reporting period is set out in Note 10.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

35. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 31 March 2018 as to attract and retain the best available personnel and to provide additional incentive to the eligible participants under the Scheme.

Under the Scheme, the directors of the Company may at their absolute discretion and subject to the terms of the Scheme, grant options to employees (full-time and part-time), directors, substantial shareholders, consultants, advisors, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group, to subscribe for shares of the Company. The eligibility of any participants to the grant of any options shall be determined by the directors from time to time on the basis of participant's contribution or potential contribution to the development and growth of the Group.

Under the Scheme, the maximum number of shares issuable upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company as from the adoption date must not in aggregate exceed 10% of all the shares in issue upon the date on which the shares are listed and permitted to be dealt in the Stock Exchange. The 10% limit may be refreshed at any time by obtaining approval of the Company's shareholders in general meeting provided that the total number of Company's shares which may be issued upon exercise of all options to be granted under the Scheme and any other share options schemes of the Company must not exceed 10% of the Company's shares in issue as at the date of approval of the refreshed limit. The aggregate number of the Company's shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed 30% of the Company's shares in issue from time to time. No options may be granted under the Scheme or any other share options schemes of the Company if this will result in the limit being exceeded.

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) under the Scheme or any other share option schemes of the Company in any 12-month period up to date of grant shall not exceed 1% of the shares of the Company in issue. Where any further grant of options to a participant under the Scheme would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such participant (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by shareholders of the Company in general meeting with such participant and his/her close associates abstaining from voting.

No share options were granted since the adoption of the Scheme and there were no share option outstanding as at 31 December 2019 and 2018.

36. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2019 were approved for issue by the Board of Directors on 29 April 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

37. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2019 RMB'000	2018 RMB'000
Non-current assets		
Investment in a subsidiary	–	–
Current assets		
Prepayments	210	197
Amount due from subsidiaries	33,859	33,744
Bank balances	17,927	20,685
	51,996	54,626
Total assets	51,996	54,626
Current liabilities		
Accruals	276	571
Amount due to a subsidiary	–	5
	276	576
Net current assets	51,720	54,050
Total assets less current liabilities	51,720	54,050
Net assets	51,720	54,050
Capital and reserves		
Equity attributable to owners of the Company		
Share capital	3,364	3,364
Reserves	48,356	50,686
Total equity	51,720	54,050

The financial statements were approved and authorised for issue by the Board of Directors on 29 April 2020 and signed on its behalf by:

Mr. Fan Baocheng
Director

Mr. Zhou Zhen Dong
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

37. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

Movement in the Company's reserves

	Share premium RMB'000	Translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2018	24,519	439	(1,788)	23,170
Loss and total comprehensive expense for the year	–	2,911	(3,168)	(257)
Shares issued pursuant to the capitalisation issue (Note 26)	(2,520)	–	–	(2,520)
Share issued under share offer (Note 26)	39,685	–	–	39,685
Share issuance cost	(9,392)	–	–	(9,392)
Balance at 31 December 2018 and 1 January 2019	52,292	3,350	(4,956)	50,686
Loss and total comprehensive expense for the year	–	2,040	(4,370)	(2,330)
Balance at 31 December 2019	52,292	5,390	(9,326)	48,356

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

38. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows as cash flows from financing activities.

	Amount due to a related party RMB'000	Bank borrowings RMB'000	Finance lease obligation RMB'000	Total RMB'000
At 1 January 2018	160	27,700	3,664	31,524
Financing cash flows	(160)	(11,129)	(2,385)	(13,674)
Financing costs recognised	–	2,079	309	2,388
At 31 December 2018	–	18,650	1,588	20,238

	Bank borrowings RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2019	18,650	1,588	20,238
New lease entered	–	603	603
Financing cash flows	6,956	(2,144)	4,812
Financing costs recognised	1,718	117	1,835
At 31 December 2019	27,324	164	27,488

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

39. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into new lease agreement for the use of plant and machinery for two years. On the lease commencement, the Group recognised approximately RMB603,000 of right-of-use assets and approximately RMB603,000 lease liabilities.

40. SUBSEQUENT EVENTS

- (i) Since early 2020, the epidemic of Coronavirus Disease (the “COVID-19 outbreak”) has spread across the PRC and other countries, and it has affected business and economic activities to some extent.

Pending the development of the COVID-19 outbreak subsequent to the date of these financial statements, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of these financial statements.

The directors will keep continuous attention on the situation of the COVID-19 outbreak and react actively to its impact on the financial position and operating results of the Group.

- (ii) On 15 April 2020, Xiezhong, an indirectly wholly-owned subsidiary of the Company, sold a number of machineries to a third party at a consideration of RMB2,400,000 and the third party at the same time lease back the machineries to Xiezhong.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five years, as extracted from the published consolidated financial statements or the Prospectus of the Company is set out below.

Results of the Group for the year ended 31 December

	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Revenue	89,099	92,375	97,324	79,167	55,683
(Loss)/profit before tax	(232)	13,128	6,018	11,765	8,759
Income tax expense	(1,113)	(2,687)	(1,845)	(3,201)	(2,192)
(Loss)/profit for the year	(1,345)	10,441	4,173	8,564	6,567

Assets and liabilities of the Group as at 31 December

	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Non-current assets	40,713	38,322	33,040	32,757	32,646
Current assets	105,928	94,351	73,653	70,112	39,673
Total assets	146,641	132,673	106,693	102,869	72,319
Current liabilities	62,707	48,939	58,734	39,075	37,844
Non-current liabilities	51	51	7,401	21,939	17,375
Net assets	83,883	83,683	40,558	41,855	17,100