intron 英恒

INTRON TECHNOLOGY HOLDINGS LIMITED
英恒科技控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 1760

2018 ANNUAL REPORT

CONTENTS

FINANCIAL SUMMARY

For the Year Ended 31 December

	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Revenue	**2,016,690**	1,473,484	1,150,173	732,262
Gross Profit	**449,800**	309,011	241,387	191,681
Gross Profit margin (%)	**22.3%**	21.0%	21.0%	26.2%
Profit before tax	**182,934**	139,269	110,752	102,679
Profit attributable to the owners of the parent	**162,274**	122,406	93,796	87,384

As at 31 December

	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Total assets	**1,972,656**	958,990	703,339	449,318
Total liabilities	**829,918**	530,800	360,585	206,556
Equity attributable to the owners of the parent	**1,142,738**	428,190	342,137	242,339

Notes: The summary of the consolidated results and financial position of Intron Technology Holdings limited (the "**Company**") and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2015, 2016 and 2017 are extracted from the prospectus of the Company dated 29 June 2018 (the "**Prospectus**").

No financial information of the Group for the year ended 31 December 2014 has been published.

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Luk Wing Ming *(Chairman and Co-CEO)*
Mr. Chan Cheung Ngai *(Co-CEO)*
Mr. Chan Ming
Mr. Ng Ming Chee

Independent non-executive Directors

Mr. Jiang Yongwei
Mr. Yu Hong
Mr. Tsui Yung Kwok

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1008-10, 10/F Delta House
3 On Yiu Street, Shatin
New Territories, Hong Kong

JOINT COMPANY SECRETARIES

Ms. Tsang Chi Ka
Mr. Wong Yu Kit

AUTHORIZED REPRESENTATIVES

Mr. Ng Ming Chee
Mr. Wong Yu Kit

AUDIT COMMITTEE

Mr. Tsui Yung Kwok *(Chairman)*
Mr. Jiang Yongwei
Mr. Yu Hong

REMUNERATION COMMITTEE

Mr. Jiang Yongwei *(Chairman)*
Mr. Yu Hong
Mr. Luk Wing Ming

NOMINATION COMMITTEE

Mr. Chan Cheung Ngai *(Chairman)*
Mr. Jiang Yongwei
Mr. Tsui Yung Kwok

AUDITOR

Ernst & Young
Certified Public Accountants

COMPLIANCE ADVISER

First Shanghai Capital Limited

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

Bank of China
Bank of Shanghai
Bank of China (Hong Kong) Limited
BNP Paribas
Hang Seng Bank Limited

STOCK CODE

1760

WEBSITE

www.intron-tech.com

LETTER TO SHAREHOLDERS

Luk Wing Ming
Chairman and Co-CEO

Chan Cheung Ngai
Co-CEO

Dear Shareholders,

2018 (the “**Year**”) has been a challenging year for the automotive industry in the People’s Republic of China (the “**PRC**”). Total sales volume was 28.08 million during the Year, representing a drop of 2.8% year-on-year, its first negative growth since 1990 according to the data published by the China Association of Automobile Manufacturers (“**CAAM**”). Sales volume of vehicles in the PRC recorded a year-on-year decline in the second half of 2018, which was affected by various negative factors such as a possible slowdown in economic growth, the withdrawal of the preferential tax policy and the drop of consumer confidence.

Despite the market downturn, the Group managed to deliver an outstanding performance in 2018 with our competitive advantages established over a decade: including a comprehensive portfolio of solutions, strong research and development (“**R&D**”) capabilities, a complete product roadmap and solid relationships with customers, suppliers and business partners, led by our veteran management team with extensive industry experience. The Group recorded satisfactory growth in both revenue and profit during the Year.

In 2018, sales of new energy vehicles continued to maintain rapid growth. According to the data published by CAAM, sales volume of new energy vehicles in the PRC surged 61.7%, reaching 1.26 million in 2018. As early as 2009, the Group had taken the initiative and successfully developed its first New Energy Vehicle Solution. The resulting first-mover advantage has enabled the Group to capture a strong market share and achieve continuous rapid growth that outperformed the market over the years. In 2018, the New Energy Vehicle segment recorded a revenue increase of 102% year-on-year, remaining as the Group’s major growth driver.

Apart from the New Energy Vehicle segment, the Group’s Body Control, Safety and Powertrain Solutions segment and Industrial Solutions segment had also recorded year-on-year growth, driving further rapid expansion of the Group’s business. Despite the overall sluggish environment in the automotive market in the PRC, the Group’s Body Control, Safety and Powertrain Solutions segments nonetheless continued to grow, demonstrating our market leadership and the wide recognition by customers and the market of our quality products and services.

In 2018, the Group's subsidiary in the PRC was awarded with: "Growing Giant of Technology in Shanghai 上海市科技小巨人" and "The 30th Anniversary of Shanghai Technology Business Incubation – Star Startup 上海科技企業孵化器30年－明星科創企業" by the Shanghai Science and Technology Committee in September and was designated as a "Shanghai Xuhui District Enterprise Technology Centre 上海市徐匯區企業技術中心" in November. These accolades demonstrated the high recognition by the industry and local authorities on the Group's R&D capabilities as well as its industry-leading technologies.

R&D has been the cornerstone that underpinned the Group's success since its establishment. During the Year, the Group continued to devote substantial efforts to develop its R&D capability. The Group's investment in R&D increased by 60% year-on-year, and the number of R&D professionals rose by 80% to 415, accounting for 65% of the Group's total staff. In 2018, the Group established an R&D system that complies with Automotive SPICE and ISO26262 requirements to fulfill the increasing market demand. We also created innovative R&D workflows for system solutions and has nurtured a pioneering R&D culture as the solutions service providers in the industry. These initiatives have laid a strong foundation for the Group's long-term development.

In 2018, the Group's R&D team has achieved technology breakthroughs in multiple areas. For the Motor Control Unit ("**MCU**") solution products, the Group has started to develop new generation motor control technology solutions for customers during the Year, and the solution is expected to be extensively applied in new energy vehicle models of multiple renowned PRC brands in 2019 and 2020.

For the Vehicle Control Unit ("**VCU**") solution products, the Group has successfully developed a ASIL-C-compliant VCU product platform during the Year. The Group's engineering service team will assist customers to complete the system upgrade of related product technology in the coming year. Moreover, the Group is actively seeking expansion to Vehicle Dynamic Domain Controller for new energy vehicles in order to meet market demand of high-end vehicles and autonomous driving models.

For the Battery Management System ("**BMS**") solution products, the Group has successfully developed an ASIL-C-compliant BMS product platform, and is supporting customers for mass production. The product is expected to be extensively applied in new energy vehicle models owned by a number of PRC brands in 2019 and 2020.

For the Advanced Driver-assistance System ("**ADAS**") area, we have completed the 1st-generation millimeter-wave radar solution and started small batch assembly for key customers in 2018. As the overall development cycle of ADAS is relatively long, we are expecting a product high-growth period in 2020 and 2021. Furthermore, the Group has established a self-developed domain controller platform solution for autonomous driving system during the Year. We are currently seeking for further product development and system integration in the coming year. The product is expected to be launched to the market on a large scale in 2020 or 2021 after comprehensive road testing is completed.

Although the PRC automotive market faced short-term fluctuation during the Year, the market is huge and the industry is still in the popularisation stage with significant growth potential in the future. In particular, the new energy vehicle market will continue to be a key driver for the automotive industry as a whole.

In January 2019, the National Development and Reform Commission, Ministry of Industry and Information Technology and several ministries jointly issued the "Implementation Plan for Further Optimising Supply, Promoting Steady Consumption Growth and Promoting the Formation of a Strong Domestic Market (2019)《進一步優化供給推動消費平穩增長促進形成強大國內市場的實施方案(2019年)》", stating that the government will continue to optimise the subsidy structure of the new energy vehicle industry and further encourage the development of high-tech new energy vehicles. The Group will follow the state policy trends and will continue to devote substantial efforts to the R&D in the new energy vehicle area.

Looking ahead, the Group's priority will continue to focus on its R&D. We will closely monitor the latest market trends and continue to develop our core technologies, to maintain our competitive advantages and better embrace future market opportunities. Furthermore, the Group will actively look for acquisition and strategic alliances opportunities to further strengthen its business foundation and extend its business presence. With the aim of gaining dominant market share and driving the Group's long-term business growth, the Group ultimately, is devoted to provide satisfactory returns to the shareholders of the Company (the "**Shareholders**").

APPRECIATION

On behalf of the Board (the "**Board**") of the Directors (the "**Director(s)**"), we would like to express our gratitude to our Shareholders, business partners, customers and suppliers for their unwavering support over the years, and our appreciation to our management team and staff for their diligence and contributions to the Group.

Luk Wing Ming
Chairman and Co-Ceo

Chan Cheung Ngai
Co-Ceo

MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY

The operating environment was full of challenges for the year ended 31 December 2018. As automotive sales volume in the PRC recorded decline starting from the second half of 2018, reversing its earlier uptrend, and the annual automotive sales volume retrogressed for the first time since 1990. Despite the difficult environment, the Group has delivered total revenue growth of 37% year-on-year, capitalising on the Group's competitive strengths and mainly driven by the year-on-year strong revenue growth of 102% in its New Energy Vehicle business. In addition, the Group's businesses from Body Control, Safety and Powertrain recorded 4% to 19% year-on-year growth, and the Industrial segment surged by 65%. During the Year, the Group's gross profit rose by 46% from the prior year. Profit for the year was 33% higher than last year. Net profit margin was 8.0%. Excluding one-off Listing expenses, profit for the year was 40% higher than a year ago, and net profit margin was 9.0%. In 2018, the Group continued to invest resources into R&D, comprising 5.9% of total revenue for the Year, to ensure its leading presence in the field.

BUSINESS REVIEW

Although the overall PRC automotive market experienced negative growth in 2018, nonetheless the new energy vehicle market continued to grow rapidly. As a fast-growing automotive electronics solutions provider in the PRC, the Group's performance benefited from the accelerating growth of New Energy Vehicle business in the Year. Capitalising on its successful business model and industry-leading competitive strengths, the Group delivered remarkable performance that outperformed the overall market. For the year ended 31 December 2018, the Group's revenue climbed by 37% year-on-year to RMB2,016.7 million, and gross profit margin went up to 22.3%. Backed by the satisfactory revenue growth and improved cost structure, the Group's profit for the year amounted to RMB162.3 million, representing a gain of 33%.

The Group continued to deliver strong growth for its Industrial segment in 2018, which was mainly attributable to the rapid development of big data and cloud server market. During the Year, the segment's revenue increased by 65% from last year to RMB231.6 million.

During the Year, the Group's key customers continued to comprise automotive makers and brands that manufacture motors vehicles ("**OEMs**") in the PRC, including the top ten renowned Chinese new energy passenger vehicles brands, such as BYD and BAIC BJEV.

New Energy Vehicle Solutions

Segmental revenue from New Energy Vehicle Solutions amounted to RMB713.4 million, representing a substantial increase of 102% from last year. This segment remained as the Group's major growth driver. According to the figures published by the CAAM, approximately 1.26 million new energy vehicles were sold in the PRC in 2018, representing 61.7% more than the year before. Being a leading major player in this segment, the Group's revenue from its New Energy Vehicle Solutions business continuously outperformed the industry in general.

Body Control, Safety and Powertrain Solutions

Amidst the challenging environment of domestic automotive market, the Group's businesses of Body Control, Safety and Powertrain solutions maintained steady growth during the Year. This is primarily due to the growing demand of automotive electronics solutions despite the declining conventional vehicle market during the Year. Meanwhile, due to the continuous pressure to optimise production costs, OEMs will continue to accelerate their localisation process, in which the Group provides value added solutions.

During the Year, the Group's Body Control, Safety and Powertrain Solutions businesses recorded growth of 9%, 4% and 19% respectively from the prior year.

Industrial Solutions

The Group's industrial-related application solutions business mainly includes power supply solutions designed for high-performance CPUs and graphics processors in cloud servers. In 2018, segmental revenue rose by 65% from last year to RMB231.6 million, mainly due to the business growth of cloud computing and big data service providers, generating high demand for the Group's quality product solutions.

In summary, as at 31 December 2018, the Group had provided 180 solutions to customers, representing an increase of 22 solutions compared to last year. Delivering high quality solutions has enabled the Group to stand out and gain market share and establish a leading presence in the field.

Since its establishment, R&D has been a key component of the Group's business model. The Group continued to devote major efforts to R&D investment during the Year. In order to provide timely professional technical services and to work closely with the OEMs, the Group has established R&D centres in Beijing, Changchun, Wuhan and Hangzhou in 2018, a step towards multi-location R&D facilities. The Group has also started on the R&D expansion project in Nanjing during the Year, and is planning to further expand its R&D facilities in Shanghai, Guangzhou, Chengdu, Wuhan and Chongqing in 2019. In 2018, the Group's R&D expenses rose by 60% year-on-year to RMB119.5 million, RMB44.8 million more than the previous year, accounted for 5.9% of annual revenue. As at 31 December 2018, the Group had 415 full-time R&D-related professionals, making up 65% of its total number of employees. As at 31 December 2018, the Group secured 49 patents and 89 software copyrights, increased by 12 and 20 respectively over last year.

Following its business development strategy, the Group is undergoing expansion plans to gradually extend its geographic reach. As at 31 December 2018, the Group has presences reaching 14 major cities in Greater China including Hong Kong, Shanghai, Beijing, Guangzhou, Shenzhen, Changchun, Xi'an, Nanjing, Hangzhou, Wuhan, Xiamen, Changsha, Chongqing and Chengdu. Other than R&D expansion, the Group expanded its facilities in Shanghai and Guangzhou during the Year.

Outlook

Although the PRC automotive industry has declined since the second half of 2018, CAAM forecasted similar total sales volume of 28.1 million units of automotive vehicles in 2019 compared to 2018 (source: “Forecast Report on China Automotive Market 2019 (2019年中國汽車市場預測報告)”). According to the report, the sales volume of new energy vehicles is expected to reach 1.6 million in 2019, representing a 27.4% increase year-on-year. Capitalising on the continuous market growth potential in this segment, the Group foresees its New Energy Vehicle Solutions will continue to be the growth driver for the Group’s performance in 2019.

In addition to New Energy Vehicle Solutions, the Group positions ADAS as the next area of growth. The Group has increased R&D investment in this area, made progress in developing a variety of related products and working with customers to conduct quality and safety validation. The market demand for ADAS solutions is growing steadily and the Group expects to deliver revenue of its ADAS-related product solutions when OEMs start mass production in the coming future.

The Company’s issued ordinary shares (the “**Shares**”) have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 12 July 2018 (the “**Listing Date**”) (the “**Listing**”). The Listing has not only provided capital for business development, but also facilitated expansion into capital markets and enhanced the Group’s reputation, thereby laying a solid foundation for its future business development.

Looking ahead, although the overall market environment will remain challenging, given its years of industry experience, substantial R&D investment and a sound business foundation, the Group will continue to deliver business growth and generate consistent returns for the Shareholders of the Company.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2018, total revenue increased by 37% or RMB543.2 million from RMB1,473.5 million recorded last year to RMB2,016.7 million. The growth was mainly driven by the sales increase of the Group's solutions, in particular applications in the New Energy category.

The following table sets out the Group's revenue breakdown by product category during the indicated year.

	31 December 2018 RMB'000	31 December 2017 RMB'000	Increase
New Energy	**713,381**	353,274	102%
Body Control	**381,416**	349,912	9%
Safety	**362,366**	347,152	4%
Powertrain	**219,457**	183,935	19%
Industrial	**231,624**	140,443	65%
Rendering of Services & Others	**108,446**	98,768	10%
Total	**2,016,690**	1,473,484	37%

Gross Profit

Gross profit for the year ended 31 December 2018 increased by 46% year-on-year to RMB449.8 million, which was mainly due to the increase in revenue resulting from sales growth in product solutions, in particular applications in the New Energy category. The Group's overall gross profit margin for the year ended 31 December 2018 increased to 22.3%.

Other Income and Gains

The Group's other income and gains mainly included bank interest income, government grants and others. For the year ended 31 December 2018, other income and gains increased by 31% to RMB20.6 million. Among which, government grants increased by RMB6.2 million when compared to last year which offset part of the impact of the absence of net exchange gains during the Year.

Sales and Distribution Expenses

Sales and distribution expenses mainly consist of salaries and benefits for staff, transportation and insurance costs, maintenance and repair expenses, travelling expenses, office utility expenses, business entertainment and marketing expenses and depreciation costs. During the Year, the Group's sales and distribution expenses amounted to RMB46.3 million, representing an increase of 37% or RMB12.5 million when compared with 2017, in line with revenue growth of 37%.

Administrative Expenses

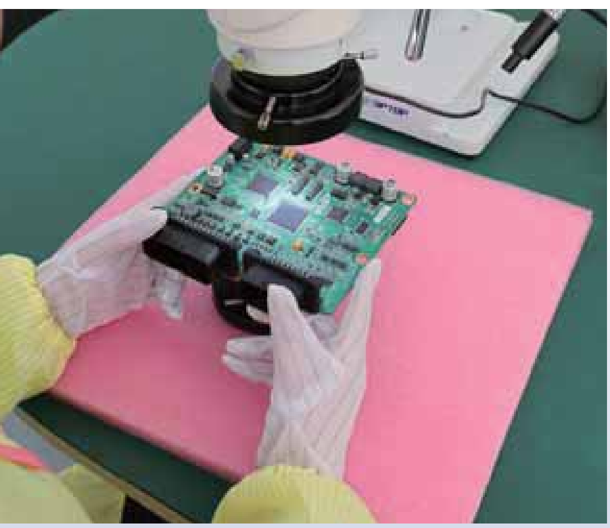
Administrative expenses mainly consist of (a) R&D expenses and (b) other administration expenses including salaries and benefits for the management, administrative and financial personnel, administrative costs, depreciation expenses relating to property, plant and equipment used for administrative purposes, amortisation expenses for the management information system, other taxes and levies, and the Listing expenses.

During the Year, administrative expenses amounted to RMB199.7 million, representing an increase of 59% year-on-year. Among which, (a) R&D expenses increased by 60% to RMB119.5 million, which was mainly attributable to the increase in headcount of the R&D team from 230 in last year to 415; and (b) Other administrative expenses increased by 58% due to the Listing expenses of RMB18.5 million generated in 2018, a rise in salary expenses of RMB9.4 million as a result of an increase in staff headcount and a surge in rentals of newly-added facilities of RMB2.5 million.

The Group continued to invest in its R&D for future business development, total R&D expenses in 2018 reached 5.9% of total revenue, compared to 5.1% in 2017. Other than R&D expenses and one-off Listing expenses, increase in other additional administrative expenses in 2018 are in the similar proportion with the revenue growth during the Year.

Other Expenses

Other expenses mainly consist of net exchange losses. These expenses increased 42% to RMB15.2 million during the Year. Other expenses mainly constituted net exchange losses, while in 2017, the Group incurred losses on investment and disposal of derivative financial instruments and loss on disposal of a subsidiary.



Finance Costs

During the Year, finance costs amounted to RMB26.3 million, representing an increase of 69% when compared with 2017. The increase was mainly due to the increase in trade financing to support business growth.

Income Tax Expense

During the Year, income tax expense was RMB20.7 million, a growth of 22% year-on-year. Effective tax rate in 2018 was lower than 2017 due to the PRC policy allowing additional tax deduction for R&D expenses.

Profit for the Year

As a result of the above factors, the Group's profit for the Year increased by 33% from RMB122.4 million recorded for the year ended 31 December 2017 to RMB162.3 million for the year ended 31 December 2018. Without considering one-off Listing expenses, the Group's profit for the Year increased by 40% when compared with last year.

LIQUIDITY AND FINANCIAL RESOURCES

During the Year, the Group maintained a satisfactory liquidity position supporting business growth. As at 31 December 2018, the Group had cash and cash equivalents of RMB625.7 million (31 December 2017: RMB92.3 million), among which RMB381.4 million was denominated in USD, RMB196.0 million was denominated in HKD, RMB43.6 million was denominated in RMB, RMB4.7 million was denominated in other currencies.

The Group recorded net current assets of RMB1,080.3 million (31 December 2017: RMB388.8 million). Capital expenditure for the Year was RMB27.3 million, which was mainly used for purchasing equipment for R&D.

As at 31 December 2018, the gearing ratio of the Group was 13% (31 December 2017: 48%), which represents net debt divided by the total equity plus net debt. Net debt includes interest-bearing bank and other borrowings, trade payables, other payables and accruals, less cash and cash equivalents and pledged deposits.

The Group increased its bank loans mainly for securing capital for its business development. At as 31 December 2018, the Group had bank loans amounting to RMB374.7 million (31 December 2017: RMB169.3 million), among which RMB337.5 million was denominated in USD, RMB35.3 million was denominated in RMB and RMB1.9 million was denominated in HKD. The Group actively manages its debt maturity profile based on its cash flow and refinancing ability. All the bank loans were repayable within one year or on demand.

The annual effective interest rate of the bank and other borrowings during the Year ranged from 3.5% to 5.2% (2017: 3.0% to 5.4%).

USE OF PROCEEDS FROM LISTING

The net proceeds from the Listing (including the partial exercise of over-allotment option) of HK$766.7 million (equivalent to approximately RMB655.4 million), after deducting the underwriting fees, commissions and expenses payable by us have been and will be utilized in that same manner, proportion and the expected timeframe as set out in the Prospectus under the section headed "Future Plans and Use of Proceeds". The table below sets out the planned applications of the net proceeds and actual usage up to 31 December 2018:

Use of proceeds	**Planned applications** (RMB million)	**Percentage of total net proceeds** (%)	**Actual usage up to 31 December 2018** (RMB million)	**Unutilized net proceeds as at 31 December 2018** (RMB million)
1. For the expansion of R&D capabilities	196.6	30	27.1	169.5
2. For the enhancement of R&D infrastructure	196.6	30	18.6	178.0
3. For the acquisitions of R&D capabilities	196.6	30	5.0 *(Note 1)*	191.6
4. General working capital	65.6	10	65.6	0
Total	655.4	100	116.3	539.1

Note:

1. On 28 December 2018, the Group acquired 100% equity interest in Wuxi Maxdone Electronics Technology Company Limited (無錫麥道電子科技有限公司) ("**Wuxi Maxdone**") from an independent third party at a total consideration of RMB5 million (the "**Acquisition**"). Wuxi Maxdone is engaged in the R&D and related business on embedded control electronics products and devices. The Acquisition was made as part of the Group's strategy to strengthen its service platform in the PRC. As all the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Acquisition were below 5%, the Acquisition was not a notifiable transaction under Chapter 14 of the Listing Rules.

CAPITAL COMMITMENT

As at 31 December 2018, the Group had capital commitments contracted, but not provided for, amounting to RMB12.3 million (31 December 2017: RMB1.6 million).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Save for those in relation to the Reorganisation set out in the section headed "Reorganisation" of the Prospectus, the Group did not have any other material investments, material acquisitions or disposals of subsidiaries, associates and joint ventures during the Year.

CONTINGENT LIABILITIES

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

FOREIGN EXCHANGE EXPOSURE

The Group primarily operates in the PRC with a mixed currency revenue source. It is therefore exposed to foreign currency risk arising from fluctuations in exchange rates between RMB and other currencies in which it conducts its business. The Group is subject to foreign currency risk attributable to its bank balances, trade and other receivables and payables as well as bank loans that are denominated in currencies other than RMB. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position. The Group also mitigates loss caused by foreign exchange fluctuations through cost transfer by adjusting prices offered to customers and considers entering into supplemental foreign exchange forward contracts when necessary.

During the Year, the Group entered into a few foreign exchange forward contracts to hedge related risk. The Group will closely monitor the change in foreign exchange rates to manage currency risks and evaluate necessary actions as required.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group had 640 employees (31 December 2017: 375 employees). The Group's labour costs (including salaries, bonuses, pension and welfare but excluding directors' and co-chief executives' remuneration) were RMB120.5 million, accounting for 6.0% of its revenue in the Year.

The Group provides attractive salary packages, including competitive basic salary plus annual performance bonus, as well as arranging on-going special training to employees to facilitate their promotion within the organisation and enhance their loyalty to the Company. The Group's employees are subject to regular work performance appraisal to evaluate their promotion prospects and salary. The latter is decided with reference to market practice and the performance, qualifications and experience of the individual employee as well as the results of the Group.

As at 31 December 2018, the Group had not issued or allotted any awarded shares. On 21 January 2019, the Group announced the grant of share options to eligible employees under the share option scheme adopted on 22 June 2018 to enhance the attractiveness of the Company's salary packages as well as motivate employees to deliver better performance.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Luk Wing Ming (陸穎鳴), aged 49, is a co-founder and an executive Director of the Company. Mr. Luk is also our Chairman and co-CEO responsible for our strategic development and business operations. Mr. Luk also holds positions in other members of our Group as follows: he is a director of Shanghai Intron Electronics Company Limited, Intron Technology (China) Limited and Evertronics Technology (China) Company Limited; a supervisor of Shanghai G-Pulse Electronics Technology Company Limited and Beijing Maichuang Zhiheng Renewable Energy Technology Company Limited; and the legal representative, the executive director and the general manager of Intron Intelligent Technology (Shanghai) Company Limited.

Mr. Luk has over 20 years of working experience, including 17 years of experience in automotive electronics. Prior to our founding in 2001, Mr. Luk worked in Array Electronics (China) Ltd., a semiconductor distributor, from February 1996 to January 2001. He was initially a sales executive and was then promoted to strategic marketing manager. Mr. Luk graduated with a Master of Business Administration degree from China Europe International Business School, the PRC and a Bachelor of Engineering in materials engineering from Shanghai Jiaotong University, the PRC.

Mr. Chan Cheung Ngai (陳長藝), aged 46, is a co-founder and an executive Director of the Company. Mr. Chan is also our co-CEO responsible for our overall strategic planning and business development. Mr. Chan also holds positions in other members of our Group as follows: he is the legal representative and the executive director of Shanghai G-Pulse Electronics Technology Company Limited; a director of Beijing Maichuang Zhiheng Renewable Energy Technology Company Limited and Intron Technology (China) Limited and a supervisor of Intron Intelligent Technology (Shanghai) Company Limited. Since the early stage of our Group's development, Mr. Chan has been involved in the product design process and has been named as an inventor in a number of our patents, including the patent for an electric control board of machine oil pressure sensor of engine (patent number: ZL 03 2 55715.9) and an automobile instrument comprehensive checking device (patent number: ZL 2009 2 0209166.9). As the executive director of Shanghai G-Pulse Electronics Technology Company Limited, Mr. Chan also oversees its research and development function.

Since the establishment of our Group, we have taken a number of key strategic directions under Mr. Chan's vision to develop our Group into a leading player in the industry focused on providing high-quality engineering services to customers. Under Mr. Chan's leadership, we first set up a dedicated engineering function to develop automotive electronics solutions for OEMs, and we have since then significantly expanded our research and development capabilities, established relationships with key business partners, and shifted our focus to areas such as new energy which has exhibited rapid growth.

Mr. Chan has over 20 years of working experience, including 17 years of experience in automotive electronics. Prior to setting up our Group in 2001, Mr. Chan had about six years of experience in sales with Array Electronics Limited, a company engaged in distribution of electronic devices. Mr. Chan joined Array Electronics Limited in March 1994 as a sales engineer and was promoted to his last position as a sales manager in 1998. In the same year, Mr. Chan was transferred to Array Electronics (China) Limited to work in the Shanghai office of Array Electronics.

Mr. Chan Ming (陳銘), aged 49, is our general manager and an executive Director, and is responsible for marketing and business development of our Group. Mr. Chan graduated with a Bachelor of Engineering (majoring in Electronic and Electrical Engineering) from the University of Birmingham, the United Kingdom in 1992. Mr. Chan also obtained a Master of Business Administration from the University of Wales, the United Kingdom in 1994. Mr. Chan has more than 20 years of experience in electronic components industry. Mr. Chan's career began as a sales engineer for Array Electronics Limited where he worked from 1993 to 1994. Prior to joining our Group in 2005, Mr. Chan worked with DMX Technologies (Hong Kong) Limited, a networks solutions provider, from 2001 to 2004 as senior regional sales manager.

Since joining our Group, Mr. Chan has been overseeing our team responsible for developing our relationships with suppliers and customers, including domestic automotive OEMs in the PRC and their Tier 1 suppliers. Mr. Chan also manages our team of field application engineers.

Mr. Ng Ming Chee (黃晞華), aged 53, is our chief financial officer and an executive Director of our Company. Mr. Ng is responsible for financial and public relations matters of our Group. Mr. Ng was also a joint company secretary of the Group until 25 March 2019.

Mr. Ng graduated with a Bachelor of Commerce from the University of Western Australia in 1987 and a Master of Business Administration from the Henley Management College/Brunel University in the United Kingdom in 2003. Mr. Ng was admitted as a Certified Practising Accountant from the Australian Society of Certified Practising Accountants in November 1995, and as a Certified Public Accountant from the Hong Kong Institute of Certified Public Accounts in July 2018.

Prior to joining our Group, Mr. Ng had over 30 years of experience in finance. He has worked as chief financial officer, finance director or finance controller for multiple corporations spanning different industries, including film production company Shanghai Oriental DreamWorks Culture Media Co., Ltd. (December 2014 to October 2016), technology solutions provider Telstra (August 2013 to December 2014), credit services provider Fullerton Investment & Credit Guarantee Co., Ltd. (September 2010 to August 2013), orthopaedic products manufacturer Trauson Holdings Company Limited (November 2009 to September 2010), sports promotion company NBA Sports and Culture Development (Beijing) Co., Ltd. (November 2008 to April 2009), subsidiaries of advertising company Publicis Groupe (July 2004 to November 2008), and computer components manufacturer Intel China Ltd. (April 2001 to March 2003). Mr. Ng's career began as a consultant for Coopers & Lybrand Management Consultants Pte Ltd, a provider of accounting and consultancy services, where he worked from May 1990 to May 1993. Until 2001, Mr. Ng worked as financial managers/controller of various fast-moving consumer goods manufacturers.

Independent non-executive Directors

Mr. Jiang Yongwei (江永瑋), aged 48, is an independent non-executive Directors (the "**INED(s)**") of the Company. Mr. Jiang graduated with a Bachelor in Metallurgy Engineering from Shanghai Jiaotong University, the PRC in 1992.

Mr. Jiang has over 20 years of experience in the automotive industry. Since October 2013, he has been working for automotive technology solutions provider Faurecia Emission Control Technologies Development (Shanghai) Co., Ltd., where he held various positions including China division president (October 2015 to date), China division operations director (February to October 2015), and the general manager of the Wuhan plant (October 2013 to January 2015). From 2012 to 2013, Mr. Jiang worked as the general manager of Dongfeng GEFCO, a provider of logistics services for the automotive industry. From 1992 to 1994, he worked as a research and development engineer for Dongfeng Motors.

Mr. Yu Hong (余宏), aged 65, is an independent non-executive Director of the Company. Mr. Yu graduated with a Master of Business Administration from Shanghai University of Finance and Economics, the PRC in 2001. In 1984, Mr. Yu had completed a Finance course in the Shanghai College of Finance and Economics. Mr. Yu was certified as a senior economist in December 1994 by Industrial and Commercial Bank of China (Main Branch). Mr. Yu also passed the Licensing Examination for Securities and Futures Intermediaries held by the Hong Kong Securities Institute in July and September 2011. Mr. Yu has over 30 years of experience in the banking sector. He held senior management positions in various financial institutions, including as vice chairman of the board of directors of investment management company Shanghai Right Capital Co., Ltd. (August 2014 to April 2018), deputy chief executive officer and executive director of ICBC International Holdings Limited (Hong Kong) (January 2010 to February 2013), executive director and chief executive officer of Seng Heng Bank Limited (Macao) (January 2008 to October 2009), chief executive of Fortis Bank Asia HK (Hong Kong Branch) (May 2004 to October 2005), and general manager of Industrial and Commercial Bank of China Limited Tokyo Branch (November 1997 to June 2000). From February 1979 to October 1984, Mr. Yu worked as the Luwan District deputy director of People's Bank of China (Shanghai) . From October 1984 to December 1996, he worked for Industrial and Commercial Bank of China Limited (Shanghai Branch) and held various positions including section chief, deputy chief manager, and chief manager.

Mr. Tsui Yung Kwok (徐容國), aged 50, is an independent non-executive Director of the Company. Mr. Tsui graduated with a Bachelor of Business majoring in Accounting from the Curtin University of Technology in Australia in 1992 and a Master of Corporate Governance from the Hong Kong Polytechnic University in 2007.

Mr. Tsui has over 25 years of experience in the accounting and finance field. His career began as an audit accountant for Kwan Wong Tan & Fong BDO (now known as Deloitte) (December 1992 to February 1994). From February 1994 to October 2003, he worked for Ernst & Young, where his latest position was senior manager. Since November 2003, he has worked as chief financial officer and company secretary for companies listed on the Hong Kong Stock Exchange. From November 2003 to August 2004, Mr. Tsui was the chief financial officer and company secretary of Qin Jia Yuan Media Services Company Limited (stock code: 2366). From August 2004 to present, Mr. Tsui has been an executive director, chief financial officer, and company secretary (up to 1 March 2017) of Ju Teng International Holdings Limited (stock code: 3336).

Mr. Tsui has also served as an independent non-executive director of Shenguan Holdings (Group) Limited (stock code: 829), SITC International Holdings Company Limited (stock code: 1308), 361 Degrees International Limited (stock code: 1361) and Cabbeen Fashion Limited (stock code: 2030) since September 2009, September 2010, September 2012 and February 2013 respectively, the shares of which are all listed on the Hong Kong Stock Exchange.

Mr. Tsui is a member of Chartered Accountants Australia and New Zealand, CPA Australia, the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Chartered Secretaries.

SENIOR MANAGEMENT

Mr. Zhu Xinping (朱欣平), aged 41, is the deputy general manager of Shanghai Intron Electronics Company Limited. He started working as a sales engineer in February 2002 and was promoted to his current capacity in 2014. Mr. Zhu is also the legal representative of Shanghai Intron Electronics Company Limited.

Mr. Zhu graduated with a Bachelor of Electronics and Information System from Fudan University in the PRC in 2000.

Mr. Qin Chen (秦晨), aged 41, is the manager of R&D department of Shanghai Intron Electronics Company Limited. He joined the Group in September 2002 as an R&D engineer, working on automotive embedded system development. He was promoted to his current position in September 2008.

Mr. Qin graduated with a Bachelor of Electrical Engineering from Hefei University of Technology in the PRC in 1999.

Upon graduation and prior to joining our Group, Mr. Qin worked in China Electronics Technology Group Corporation (CETC) No. 21 Research institute, an electronics technology developer, as an assistant engineer from July 1999 to March 2002.

Ms. Cheng Lijuan (成麗娟), aged 51, is the deputy general manager and financial controller of Shanghai Intron Electronics Company Limited. She started working as a financial manager in August 2002, and was promoted to her current position in 2009.

Ms. Cheng graduated with a Mature Student Higher Education Bachelor in Accounting from Xi'an Jiaotong University in the PRC in 2016. She also obtained the following certificates and qualifications:

Year	Certificate or qualification	Granting authority
2008	Qualification Certificate of Statistical Work	National Bureau of Statistics of China
2005	Shanghai Personnel Management Eligibility Certificate	Shanghai Cadre Training Centre and Shanghai Talent Training Centre
2002	Certificate of Accounting Profession	Ministry of Finance of the People's Republic of China
2002	National Accounting Professional Skills Qualification Examination (Intermediate) Certificate	Shanghai Qualification Examination Centre

Prior to joining Shanghai Intron Electronics Company Limited, Ms. Cheng worked in At Commerce Ltd, as a finance manager; and Shanghai Leaderpower Ltd, a developer of office automation systems, from June 1996 to December 1998 as the sole accountant.

JOINT COMPANY SECRETARIES

Mr. Ng Ming Chee (黃晞華), resigned as the joint secretary of the Company with effect from 25 March 2019 but will continue his role as an executive Director and chief financial officer of the Company. Mr. Ng has confirmed that he has no disagreement with the Board and there is no matter relating to his resignation that needs to be brought to the attention of the Shareholders or the Stock Exchange. For the biographical details of Mr. Ng, please see the section headed "Executive Directors" above.

Ms. Tsang Chi Ka (曾芝嘉), was appointed as one of the joint company secretaries of the Company in replacement of Mr. Ng with effect from 25 March 2019. She joined the Company as an assistant to general manager in January 2016.

Ms. Tsang holds a Bachelor's of Science from University of Sydney, Master of Risk Management from University of New South Wales and Master of Corporate Governance from Open University of Hong Kong. Ms. Tsang is an associate member of the Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.

Mr. Wong Yu Kit (黃儒傑), was appointed on 5 June 2018 as one of the joint company secretaries of the Company. Mr. Wong currently serves as an assistant vice president of SWCS Corporate Services Group (Hong Kong) Limited and has over 10 years of experience in the corporate service field.

Mr. Wong obtained a Bachelor of Business Administration and Management from the University of Huddersfield and a Master of Corporate Governance from the Open University of Hong Kong. Mr. Wong is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.

REPORT OF DIRECTORS

The Directors are pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Company, together with its subsidiaries, is a fast-growing automotive electronics solutions provider in China and focuses on providing solutions targeting critical automotive electronic components applied in new energy, body control, safety and powertrain systems.

A list of the Company's subsidiaries, together with their places of incorporation, principal activities and particulars of their issued shares/paid up capital, is set out in note 1 to the consolidated financial statements in this annual report.

BUSINESS REVIEW

Overview and Performance of the Year

A review of the business of the Group during the year and a discussion and analysis on the Group's future business development are set out in the sections headed "Management Discussion and Analysis" on pages 8 to 15 of this annual report.

Environmental Policies and Performance

The Group is not subject to any significant health, safety or environmental risks. We do not operate any production facilities or transportation, as we engage third parties to transport our solution products. The Group has taken measures to promote environmental-friendliness of the workplace by encouraging paper recycling culture, water conservation measures and energy-saving culture within the Group to reduce the impact of operations on the environment and natural resources.

To the best knowledge of the Group, during the year ended 31 December 2018, the Group has complied with the relevant environmental and occupational health and safety laws and regulations and we did not have any incidents or complaints which had a material and adverse effect on our business, financial condition or results of operations during the reporting period.

Compliance with Relevant Laws and Regulations

As far as the Board is aware, 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 under review, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

BUSINESS REVIEW (CONTINUED)

Key Relationship with Stakeholders

The Group recognizes that various stakeholders including employees, customers, suppliers and Shareholders. The Group strives to achieve corporate sustainability through engaging, collaborating, and cultivating strong relationship with them.

The remuneration of employees of the Group will be based on their performance, experience and the prevailing market remuneration. The total remuneration of employees includes basic salaries and discretionary bonus. Moreover, the Group has also adopted a share option scheme. The remuneration policy of the Directors is reviewed and determined by the remuneration committee having regard to the Directors' experience, responsibilities, workload and time devoted to the Group and performance of the Group.

The Group's principal customers mainly include OEMs and their suppliers in the automotive industry. Our marketing efforts are focused on locating the nexus between our solution offerings and technical capabilities on one hand, and our business partners' development direction on the other. We have established a long-term relationship with our major customers and focus on identify and understand their requirements as demand for a particular product feature arises.

Our suppliers include manufacturers and distributors of semiconductor devices. We also engage contract manufacturers to assemble electronic components which we deliver to our customers as part of our solutions package. Good relationship with suppliers constitutes one of the essential elements of the Group's success. In order to ensure the quality of supplies which would enhance consistency in our product qualities, we have a strict system for selecting our suppliers.

The principal goal of the Group is to maximize the return to the Shareholders. The Group will focus on our core business for achieving sustainable profit growth and rewarding the Shareholders with dividend payouts taking into account the business development needs and financial health of the Group.

During the year under review, there were no material and significant dispute between the Group and its suppliers, customers and/or other stakeholders.

Key Risks and Uncertainties and Risk Management

The business operations and results of the Group may be affected by various factors, some of which are external causes and some are inherent to the business. The Board is aware that the Group is exposed to various risks and the principal risks and uncertainties are summarized below:

Our results of operations are heavily dependent on the condition of the PRC automotive industry. Any events that have an adverse effect on the demand of our customers' products could materially and adversely affect the demand for our solutions, which in turn affects our business, financial conditions and results of operations.

Our growth is dependent on our continuing ability to retain and attract qualified research and development professional personnel. Failure to retain and attract appropriate qualified professional personnel may adversely affect our business and prospects.

BUSINESS REVIEW (CONTINUED)

Key Risks and Uncertainties and Risk Management (Continued)

We are exposed to foreign exchange risks primarily because we purchase imported semiconductor devices from overseas suppliers in foreign currency such as US dollars and Euros while we generate a majority of revenue in RMB. Future movements in the exchange rate of the RMB may adversely affect our financial condition and results of operations.

The Company believes that risk management is essential to the Group's efficient and effective operation. The Company's management assists the Board in evaluating material risk exposure arising internally and externally from the Group's business, including operational risks, financial risks, regulatory risks, etc, and proactively setting up appropriate risk management and internal control mechanism which is embedded in daily operation management.

Events after Reporting Period

Significant events that have an effect on the Group subsequent to the financial year ended 31 December 2018 are set out in note 40 to the consolidated financial statements in this annual report.

DIRECTORS

The Directors during the reporting period and up to the date of this Directors' Report were:

Executive Directors

Mr. Luk Wing Ming *(Chairman and co-CEO)*
Mr. Chan Cheung Ngai *(Co-CEO)*
Mr. Chan Ming
Mr. Ng Ming Chee

Independent non-executive Directors

Mr. Jiang Yongwei
Mr. Yu Hong
Mr. Tsui Yung Kwok

Biographies of the Directors and Senior Management

The biographical details of the Directors and the senior management of the Company are set out in the section headed "Directors and Senior Management" on pages 16 to 20 of this annual report.

DIRECTORS (CONTINUED)

Service Contracts of the Directors

Each of the executive Directors has entered into a three-year service contract with the Company dated 23 June 2018 and effective from their respective appointment dates, subject to termination before expiry by either party giving not less than three months' notice in writing to the other. Each of the independent non-executive Directors has entered into a letter of appointment with the Company dated 23 June 2018 which commenced from their respective appointment dates for an initial term of three years and shall be terminable by either party giving not less than three months' notice in writing to the other.

All Directors are subject to retirement by rotation and re-election at annual general meeting, and will continue thereafter until terminated in accordance with the terms of the service agreement/letter of appointment.

In accordance with the Article 83(3) of Company's Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Shareholders after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with the Company or any member of the Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

In accordance with Article 84(1) of Company's Articles of Association, at each annual general meeting one-third of the Directors for the time being shall retire from office by rotation.

Accordingly, Mr. Luk Wing Ming, Mr. Chan Cheung Ngai and Mr. Chan Ming shall retire from office at the forthcoming annual general meeting to be held on 31 May 2019 (Friday) (the "**AGM**"). All of the retired directors, being eligible, offer themselves for re-election, at the AGM.

Remuneration of the Directors and Five Highest Paid Individuals

Details of the Directors' remuneration and the five highest paid individuals in the Group are set out in notes 8 and 9 to the consolidated financial statements in this annual report.

Employees and Remuneration Policies

A review of the employees and remuneration policies of the Group during the year are set out in the section headed "Management Discussion and Analysis" on page 15 of this annual report.

Independence of Independent Non-Executive Directors

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent in accordance with the guidelines set out in the Listing Rules.

NON-COMPETE UNDERTAKING

Mr. Luk Wing Ming and Mr. Chan Cheung Ngai hold their interests in the Company commonly through Magnate Era Limited (“**Magnate Era**”) and Zenith Benefit Investments Limited (“**Zenith Benefit**”) as well as individually through Treasure Map Ventures Limited (“**Treasure Map**”) and Heroic Mind Limited (“**Heroic Mind**”). Therefore Mr. Luk, Mr. Chan, Magnate Era, Zenith Benefit, Treasure Map and Heroic Mind are considered to be a group of controlling shareholders (as defined under the Listing Rules) (the “**Controlling Shareholders**”). The Controlling Shareholders of the Group, had entered into a Deed of non-competition in favour of the Company on 22 June 2018. The Controlling Shareholders have confirmed in writing with the Company that all have complied with the undertakings under the Deed of non-competition during the period from the date of signing the Deed of Non-competition until 31 December 2018.

The INEDs have also reviewed such confirmations on the undertakings of the Deed of Non-competition by the Controlling Shareholders during the period from the date of signing the Deed of Non-competition until 31 December 2018 and confirmed that there was no breach of undertakings in the Deed of Non-competition by the Controlling Shareholders.

DIRECTORS’ INTERESTS IN COMPETING BUSINESSES

Saved as disclosed in this annual report, as at 31 December 2018, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the business of the Group.

DIRECTORS’ MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 36 to the consolidated financial statements headed “Related Party Transactions” and the section headed “Continuing Connected Transaction” of this annual report below, no Director had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party as at 31 December 2018 or at any time during the year ended 31 December 2018.

CONTINUING CONNECTED TRANSACTION

As disclosed in the Prospectus, the following transaction of the Group constituted a continuing connected transaction for the Group for the year ended 31 December 2018. All capitalized terms used in this section shall have the same meaning defined in the Prospectus, unless otherwise specified. This continuing connected transactions also constituted a related party transaction of the Group as disclosed in note 36 to the consolidated financial statements.

Non-Exempt Continuing Connected Transaction

For the year ended 31 December 2018, the Group engaged in the continuing connected transaction with United Trinity Electronics Company Limited (無錫盛邦電子有限公司) (“**UTE**”). UTE is wholly owned by United Trinity Holdings Limited, a limited company incorporated in Hong Kong, which was in turn owned by Decisions Investment Limited and an independent third party as to 90% and 10%, respectively. Decision Investment Limited was incorporated in the BVI and owned by Mr. Luk and Mr. Chan in equal shares.

In light of the foregoing, UTE is a connected person of our Company pursuant to Rule 14A.07 of the Listing Rules.

CONTINUING CONNECTED TRANSACTION (CONTINUED)

Non-Exempt Continuing Connected Transaction (Continued)

Our Company (for itself and on behalf of other members of our Group) entered into a framework supply agreement dated 6 June 2018 with UTE for a term ending on 31 December 2020, pursuant to which our Group would offer UTE automotive electronics solutions covering design, development, testing and sourcing of semiconductors as well as smart pressure-detecting wafers to facilitate its manufacturing and/or processing of certain automobile components such as electric motor lubricant pressure sensors and engine torgue control units.

The annual caps of the consideration to be paid by UTE to our Group for the automotive electronics solutions under the framework supply agreement for 2018, 2019 and 2020 amount to RMB72,822,000, RMB82,892,000 and RMB93,834,000, respectively.

The purchase price payable by UTE to our Group has been mutually agreed following arm's length negotiations with reference to the published prices and conditions offered to our major customers. The fee of the automotive electronics solutions provided by our Group is determined on an arm's length basis in accordance with the market price of the relevant automotive electronics solutions at the time when the individual purchase order is placed. The market price is determined with (i) the price and terms quoted to no less than two independent third parties to which our Group provides similar automotive electronics solutions on normal commercial terms in the ordinary course of businesses in the regions or in proximity to the regions where such automotive electronics solutions are to be provided; or (ii) in the event that (i) is inapplicable, it shall be determined by both parties to the Framework Supply Agreement on an arm's length basis and on normal commercial terms.

Since each of the applicable percentage ratios (other than the profits ratio) under Chapter 14 of the Listing Rules in respect of the framework supply agreement is, on an annual basis, more than 5%, the transaction thereunder was subjected to reporting, annual review, announcement, circular and the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Directors confirm that the non-exempt continuing connected transaction had been entered into in the ordinary and usual course of the business of our Group and was based on normal commercial terms that are fair and reasonable and in the interests of our Company and our Shareholders as a whole. For details of the framework supply Agreement, please refer to the Prospectus "Connected Transaction" section.

For the year ended 31 December 2018, the sales made under the framework supply agreement amounted to approximately RMB42,411,000.

CONTINUING CONNECTED TRANSACTION (CONTINUED)

Non-Exempt Continuing Connected Transaction (Continued)

Confirmation of Independent Non-executive Directors

The INEDs have reviewed the above continuing connected transaction of the Company and confirmed that such transactions have been entered into:

a) in the ordinary and usual course of business of the Group;

b) on normal or better commercial terms which are not less favorable to the Group than terms available to or from (as appropriate) independent third parties; and

c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Confirmation from the Company's Independent Auditors

The Board has received a confirmation from the auditor of the Company with respect to the above continuing connected transactions and the letter stated that for the year ended 31 December 2018:

a) nothing has come to the auditor's attention that causes them to believe that the disclosed continuing connected transaction has not been approved by the Company's board of directors.

b) for transactions involving the provision of goods or services by the Group, nothing has come to the auditor's attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group.

c) nothing has come to the auditor's attention that causes them to believe that the transaction was not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

d) with respect to the aggregate amount of the continuing connected transaction set out in the attached list of the continuing connected transaction, nothing has come to the auditor's attention that causes them to believe that the disclosed continuing connected transaction has exceeded the annual cap as set by the Company.

Save as disclosed in this annual report, as of the date of this annual report, the Company had no connected transactions which fell to be disclosed in accordance with the provisions under Chapter 14A of the Listing Rules in relation to the disclosure of connected transactions.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the Shares and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to section 352 of the Securities and Future Ordinance (the "**SFO**"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to The Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), and Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) are as follows:

Name of Shareholder	Nature of Interest	Number of securities held (1)	Approximate shareholding percentage (%)
Luk Wing Ming ("**Mr. Luk**") (2)	Interest of controlled corporations	675,000,000 (L)	65.15%
Chan Cheung Ngai ("**Mr. Chan**") (3)	Interest of controlled corporations	675,000,000 (L)	65.15%
Zhang Dan (4)	Interest of spouse	675,000,000 (L)	65.15%
Zhang Hui (5)	Interest of spouse	675,000,000 (L)	65.15%

Notes:

1. The letter "L" denotes long position of the shares.

2. Mr Luk owned 50.0% of Magnate Era, 50.0% of Zenith Benefit and 100.0% of Treasure Map (all being corporate Controlling Shareholders). He is deemed under the SFO to be interested in the entirety of 675,000,000 Shares directly held by the aforesaid three holding companies.

3. Mr Chan owned 50.0% of Magnate Era, 50.0% of Zenith Benefit and 100.0% of Heroic Mind (all being corporate Controlling Shareholders). He is deemed under the SFO to be interested in the entirety of 675,000,000 Shares directly held by the aforesaid three holding companies.

4. Ms Zhang Dan is the spouse of Mr Luk. Under the SFO, Ms. Zhang Dan is deemed to be interested in the entirely of the 675,000,000 Shares in which Mr Luk is interested.

5. Ms Zhang Hui is the spouse of Mr Chan. Under the SFO, Ms Zhang Hui is deemed to be interested in the entirely of the 675,000,000 Shares in which Mr Chan is interested.

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executives of the Company are, under Divisions 7 and 8 of Part XV of the SFO, taken to be interested or deemed to have any other interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations, that are required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme on 22 June 2018 (the "**Scheme**"). The terms of the Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules and other rules and regulations.

Further details of the Scheme are set forth in the section headed "Statutory and General Information – 13. Share Option Scheme" in Appendix IV to the Prospectus.

For the year ended 31 December 2018, no share option was granted, exercised, expired or lapsed and there is no outstanding share option under the Scheme.

On 21 January 2019, the Group announced the grant of share options to eligible employees under the share option scheme adopted on 22 June 2018 to enhance the attractiveness of the Company's salary packages as well as motivate employees to deliver better performance. For details, please refer to the announcement of the Company dated 21 January 2019.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, the following persons (other than the interests of the Directors or chief executives of the Company as disclosed above) had interests or short positions in the ordinary shares of the Company or underlying shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Nature of Interest	Number of securities held (1)	Approximate shareholding percentage (%)
Magnate Era (2, 5 & 7)	Beneficial owner	525,000,000 (L)	50.67%
Zenith Benefit (3, 5 & 7)	Beneficial owner	75,000,000 (L)	7.23%
Treasure Map (4 & 5)	Beneficial owner	75,000,000 (L)	7.23%
Heroic Mind (6 & 7)	Beneficial owner	75,000,000 (L)	7.23%

Notes:

1. The letter "L" denotes long position of the shares.

2. Magnate Era is a corporate Controlling Shareholder legally and beneficially owned by both Mr Luk and Mr Chan in equal shares.

3. Zenith Benefit is a corporate Controlling Shareholder legally and beneficially owned by both Mr Luk and Mr Chan in equal shares.

4. Treasure Map is a corporate Controlling Shareholder legally and beneficially owned as to 100.0% by Mr Luk.

5. As disclosed in Notes 2 to 4 above, Mr Luk owned 50.0% of Magnate Era, 50.0% of Zenith Benefit and 100.0% of Treasure Map (all being corporate Controlling Shareholders). He is deemed under the SFO to be interested in the entirety of 675,000,000 Shares directly held by the aforesaid three holding companies.

6. Heroic Mind was a corporate Controlling Shareholder legally and beneficially owned as to 100.0% by Mr Chan.

7. As disclosed in Notes 2, 3 and 6 above, Mr Chan owned 50.0% of Magnate Era, 50.0% of Zenith Benefit and 100.0% of Heroic Mind (all being corporate Controlling Shareholders). He is deemed under the SFO to be interested in the entirety of 675,000,000 Shares directly held by the aforesaid three holding companies.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (CONTINUED)

Save as disclosed above, as at 31 December 2018, there are no other persons (other than Directors or chief executives of the Company) who had or are taken to have interests or short positions 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 which are recorded in the register required to be kept by the Company under Section 336 of the SFO, or which are notified to the Company.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, no Controlling Shareholders or their subsidiaries had a material interest, either directly or indirectly, in any contract of significance, whether for the provision of services or otherwise, to the Group to which the Company or any of its subsidiaries was a party during the reporting period.

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year ended 31 December 2018, the Group's sales to its five largest customers accounted for 33.4%, as compared to 28.3% of the Group's total revenue for the year ended 31 December 2017. The Group's sales to the largest customer accounted for 13.1%, as compared to 8.5% of the Group's total revenue for the year ended 31 December 2017.

Major Suppliers

For the year ended 31 December 2018, the Group's five largest suppliers accounted for 91.5%, as compared to 92.4% of the Group's total purchase amounts for the year ended 31 December 2017. The Group's single largest supplier accounted for 78.1%, as compared to 81.0% of the Group's total purchases for the year ended 31 December 2017.

During the year ended 31 December 2018, none of the Directors or any of their associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the number of issued shares of the Company) had any beneficial interest in the Group's five largest customers and suppliers.

MANAGEMENT CONTRACTS

During the reporting period, the Company has not entered into any contract with any individuals, firm or body corporate to manage or administer the whole or any substantial part of any business of the Group.

DIRECTORS' PERMITTED INDEMNITY PROVISION

Each Director or other officer of the Company shall be entitled to be indemnified out of the assets of Company from and against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur in or about the execution of the duties of his/her office or trusts or otherwise in relation thereto in accordance with the Articles of Association. The Company has arranged appropriate directors' liability insurance coverage for the Directors of the Group during the year ended 31 December 2018.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2018 and the Group's financial position at that date are set out in the financial statements and pages 53 to 158. The Board resolved to propose to the Shareholders in the forthcoming AGM on 31 May, 2019 (Friday) for the distribution of a final dividend of HK5.5 cents per share for the year ended 31 December 2018. The final dividend is expected to be paid on or about Friday, 5 July 2019 to the Shareholders whose names are listed in the register of members of the Company on Thursday, 13 June 2019. On the basis of the total issued share capital of 1,035,975,000 shares of the Company as of 31 December 2018, it is estimated that the aggregate amount of final dividend would be approximately HK$56.98 million. The actual total amount of final dividends to be paid will be subject to the total number of issued share capital of the Company as at the record date for determining the entitlement of the Shareholders of the Company to the final dividend. The proposal for the distribution of the final dividend above is subject to the consideration and approval of the Shareholders at the AGM.

SHARE CAPITAL

Details of movements in share capital of the Company during the reporting period are set out in note 28 to the consolidated financial statements in this annual report.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and note 29 to the consolidated financial statements in this annual report.

The Company's reserves available for distribution to the Shareholders as at 31 December 2018 amounted to RMB670.0 million.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the reporting period are set out in note 13 to the consolidated financial statements in this annual report.

USE OF PROCEEDS FROM LISTING

The net proceeds from the Listing (including the partial exercise of over-allotment option) of HK$766.7 million (equivalent to approximately RMB655.4 million), after deducting the underwriting fees, commissions and expenses payable by us have been and will be utilized in that same manner, proportion and the expected timeframe as set out in the Prospectus under the section headed "Future Plans and Use of Proceeds". The table below sets out the planned applications of the net proceeds and actual usage up to 31 December 2018:

Use of proceeds	**Planned applications** (RMB million)	**Percentage of total net proceeds** (%)	**Actual usage up to 31 December 2018** (RMB million)	**Unutilized net proceeds as at 31 December 2018** (RMB million)
1. For the expansion of research and development capabilities	196.6	30	27.1	169.5
2. For the enhancement of research and development infrastructure	196.6	30	18.6	178.0
3. For the acquisitions of research and development capabilities	196.6	30	5.0*(Note 1)*	191.6
4. General working capital	65.6	10	65.6	0
Total	655.4	100	116.3	539.1

Note:

On 28 December 2018, the Group acquired 100% equity interest in Wuxi Maxdone Electronics Technology Company Limited (無錫麥道電子科技有限公司) ("**Wuxi Maxdone**") from an independent third party at a total consideration of RMB5 million (the "**Acquisition**"). Wuxi Maxdone is engaged in the R&D and related business on embedded control electronics products and devices. The Acquisition was made as part of the Group's strategy to strengthen its service platform in the PRC. As all the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Acquisition were below 5%, the Acquisition was not a notifiable transaction under Chapter 14 of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

EQUITY-LINKED AGREEMENTS

Details of the share option scheme of the Company are set out in the section headed "Share Option Scheme" above.

Save as disclosed above, no equity-linked agreement will or may result in the Company issuing Shares or that require the Company to enter into any agreements that will or may result in the Company issuing Shares, were entered into by the Company during the Year or subsisted at the end of the Year.

AGM AND CLOSURE OF REGISTER OF MEMBERS

The AGM of the Company will be held on 31 May 2019. A notice convening the AGM is expected to be published and dispatched to the Shareholders in due course in accordance with the requirements of the Listing Rules.

For determining the qualification as members of the Company to attend and vote at the AGM, the register of members of the Company will be closed from 28 May 2019 (Tuesday) to 31 May 2019 (Friday), both dates inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, non-registered holders of Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 27 May 2019.

CORPORATE GOVERNANCE

A report on the principle corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 34 to 47 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Rule 8.08(1)(a) of the Listing Rules requires that at least 25% of the total issued capital of an issuer must be held by the public at any time. Based on the information that is publicly available and within the knowledge of the Directors, as at the date of this annual report, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the relevant laws of the Cayman Islands where the Company is incorporated which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

AUDITORS

The Company has appointed Ernst & Young as the auditor of the Company for the year ended 31 December 2018. A resolution will be proposed for approval by the Shareholders at the forthcoming AGM to re-appoint Ernst & Young as the auditor of the Company.

By Order of the Board
Intron Technology Holdings Limited
Luk Wing Ming
Chairman

Hong Kong, 25 March 2019

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is committed to upholding high standards of corporate governance practices and business ethics in the firm belief that they are crucial to improving the efficiency and performance of the Group and to safeguarding the interests of the Shareholders. The Board reviews the Company's corporate governance practices from time to time in order to meet the expectations of stakeholders and comply with increasingly stringent regulatory requirements, and to fulfill its commitment to excellence in corporate governance. Set out below are the principles of corporate governance as adopted by the Company during the year ended 31 December 2018.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standard of corporate governance to safeguard the interests of its Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the code provisions of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules as its own code of corporate governance. The CG Code has been applicable to the Company with effect from the Listing Date and was not applicable to the Company during the period from 1 January 2018 to 11 July 2018.

The Board is of the view that the Company has complied with all applicable code provisions of the CG Code since the Listing Date up till 31 December 2018, except for a deviation from the code provision A.2.1 of the CG Code, that the roles of the chairman and chief executive should be separate and should not be performed by the same individual. Mr. Luk Wing Ming, is our Chairman and co-CEO responsible for strategic development and business operations. Our Board believes that this arrangement will improve the efficiency of our decision making and execution process. Further, the Group has put in place an appropriate check-and-balance mechanism through the Board and the INEDs. In light of the above, our Board considers that the deviation from the code provision A.2.1 of the CG Code is appropriate in the circumstance of the Group.

The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board considers appropriate.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the written guidelines on no less exacting terms than the Model Code as its own code of conduct regarding securities transactions by the Directors.

As the Shares were listed on the Stock Exchange on 12 July 2018, the Model Code and written guidelines were not applicable to the Company during the period from 1 January 2018 to 11 July 2018.

Having made specific enquiry of all Directors, all of them have confirmed that they have complied with the Model Code and the written guidelines throughout the period from the Listing Date to the date of this Report. No incident of non-compliance of the written guidelines by the employees who are likely to be in possession of inside information of the Company was noted by the Company.

BOARD OF DIRECTORS

The Board oversees the Group's businesses, strategic decisions and performance and should take decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required of a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time in performing them.

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making.

As of the date of this report, the Board comprises four executive Directors and three INEDs. The composition of the Board is as follows:

Executive Directors

Mr. Luk Wing Ming *(Chairman and co-Chief Executive Officer)*
Mr. Chan Cheung Ngai *(Co-Chief Executive Officer)*
Mr. Chan Ming
Mr. Ng Ming Chee

Independent Non-executive Directors

Mr. Jiang Yongwei
Mr. Yu Hong
Mr. Tsui Yung Kwok

The biographical information of the Directors is set out in the section headed "Directors and Senior Management" on pages 16 to 20 of this annual report.

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company from time to time pursuant to the Listing Rules. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

Save as disclosed above, the Directors do not have any other financial, business, family or other material/relevant relationships with one another.

BOARD OF DIRECTORS (CONTINUED)

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

In view of Mr. Luk experience, personal profile and his roles in our Group as mentioned above and that Mr. Luk has assumed the role of chief executive officer of our Group since our commencement of business, the Board considers it beneficial to the business prospect and operational efficiency of our Group that upon Listing, Mr. Luk acts as the chairman of the Board and continues to act as the co-chief executive officer of our Company. While this will constitute a deviation from Code Provision A.2.1 of the CG Code as set out in Appendix 14 to the Listing Rules, the Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company, given that: (i) the power and authority is shared with the Company's other co-chief executive officer, Mr. Chan; (ii) decision to be made by our Board requires approval by at least a majority of our Directors and that our Board comprises three INEDs out of seven Directors, which is more than the Listing Rules requirement of one-third, and we believe that there is sufficient check and balance in the Board; (iii) Mr. Luk and the other Directors are aware of and undertake to fulfil their fiduciary duties as Directors, which require, among other things, that he acts for the benefit and in the best interests of our Company and will make decisions for our Group accordingly; and (iv) the balance of power and authority is ensured by the operations of the Board which comprises experienced and high caliber individuals who meet regularly to discuss issues affecting the operations of the Company. Moreover, the overall strategic and other key business, financial, and operational policies of our Group are made collectively after thorough discussion at both Board and senior management levels. The Board will continue to review the effectiveness of the corporate governance structure of our Group in order to assess whether separation of the roles of chairman of the Board and chief executive officer is necessary.

Independent Non-executive Directors

During the Year, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

Appointment and Re-election of Directors

Each of the Directors is engaged on a service contract (in the case of the executive Directors) or a letter of appointment (in the case of the non-executive Directors and independent non-executive Directors) for a specific term of three years, which is renewable by mutual consent and subject to the Articles of Association of the Company.

The Articles of Association provides that all Directors appointed to fill a casual vacancy or as an addition to the Board shall be subject to election by Shareholders at the next following general meeting of the Company.

Every Director (including those appointed for a specific term) shall also be subject to retirement and re-election by rotation at least once every three years at the annual general meetings of the Company under the Articles of Association of the Company.

BOARD OF DIRECTORS (CONTINUED)

Responsibilities of the Directors

The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgment on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that they remain informed and relevant for their contribution to the Board.

Every newly appointed Director has received formal, comprehensive and tailored induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Besides, meetings with senior management of the Company were also arranged.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the reporting period, the Company organized one training sessions conducted by the qualified professionals for all the Directors. Such training sessions cover a wide range of relevant topics including directors' duties and responsibilities, risk management and internal controls etc. In addition, relevant reading materials including directors' manual, legal and regulatory updates and seminar handouts have been provided to the directors for their reference and studying.

BOARD OF DIRECTORS (CONTINUED)

Continuous Professional Development of Directors (Continued)

All Directors are encouraged to attend relevant training courses at the Company's expense. The Company Secretary is responsible for keeping records of training taken by each Director.

The individual training record of each Director received during the year ended 31 December 2018 is set out below:

Name of director	Reading materials relevant to corporate governance and director's duties	Attending training session (s) relevant to corporate governance and director's duties
Executive Directors		
Mr. Luk Wing Ming *(Chairman)*	Y	Y
Mr. Chan Cheung Ngai	Y	Y
Mr. Chan Ming	Y	Y
Mr. Ng Ming Chee	Y	Y
Independent Non-executive Directors		
Mr. Jiang Yongwei	Y	Y
Mr. Yu Hong	Y	Y
Mr. Tsui Yung Kwok	Y	Y

Board Meetings and Directors' Attendance Records

The code provision A.1.1 of the CG Code prescribes that at least four regular Board meetings should be held in each year at approximately quarterly intervals with active participation of majority of directors, either in person or through electronic means of communication.

During the reporting period, the Company held two Board meetings in total. As the Company was listed on the Stock Exchange on 12 July 2018, the Company did not hold any general meetings during the reporting period. The Company will fully comply with the requirement under the code provision A.1.1 of the CG Code to convene Board meetings at least four times a year at approximately quarterly intervals.

BOARD OF DIRECTORS (CONTINUED)

Board Meetings and Directors' Attendance Records (Continued)

The attendance of the above meetings by each Director is as follows:

	Attendance/ Number of Meetings	Attendance rate
Name of Directors		
Mr. Luk Wing Ming	2/2	100%
Mr. Chan Cheung Ngai	2/2	100%
Mr. Chan Ming	2/2	100%
Mr. Ng Ming Chee	2/2	100%
Mr. Jiang Yongwei	2/2	100%
Mr. Yu Hong	2/2	100%
Mr. Tsui Yung Kwok	2/2	100%

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

The majority of the members of the Remuneration Committee, Audit Committee and Nomination Committee are independent non-executive Directors.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

BOARD COMMITTEES (CONTINUED)

Audit Committee

The Audit Committee consists of three independent non-executive Directors, namely Mr. Jiang Yongwei, Mr. Yu Hong and Mr. Tsui Yung Kwok, being the chairman of the committee, is appropriately qualified as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee are to review and supervise the financial reporting process, risk management and internal controls system of the Group, assist the Board to fulfill its responsibility over the audit, and review and approve connected transactions and to advise the Board.

The Audit Committee is also responsible for performing the functions set out in code provision D.3.1 of the CG Code. These include developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board; reviewing and monitoring the training and continuous professional development of directors and senior management of the Company; reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and directors of the Company; and reviewing the Company's compliance with the CG Code from time to time adopted by the Company and the disclosure in the corporate governance report to be contained in the Company's annual report.

The Audit Committee held two meetings during the reporting period to review and consider, in respect of the year ended 31 December 2018, the interim and annual financial results and reports, amendments to its terms of reference, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors and engagement of non-audit services.

The Audit Committee also met the external auditors once during the reporting period without the presence of the executive Directors and the management.

The attendance records of the members of the Audit Committee are as follows:

Name of Members of the Audit Committee	Attendance/ Number of Meeting(s)
Mr. Tsui Yung Kwok (Chairman)	2/2
Mr. Jiang Yongwei	2/2
Mr. Yu Hong	2/2

The Company's annual results for the year ended 31 December 2018 have been reviewed by the Audit Committee.

BOARD COMMITTEES (CONTINUED)

Remuneration Committee

The Company established the Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the CG Code. The Remuneration Committee consists of three members, namely Mr. Jiang Yongwei, Mr. Yu Hong and Mr. Luk Wing Ming. Mr. Jiang Yongwei is the chairman of the committee. The majority of the Remuneration Committee members are independent non-executive Directors.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Remuneration Committee are to review and make recommendations to the Board regarding the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management.

Due to the fact that the Company was listed on 12 July 2018, no meeting was held during the reporting period.

Since the Listing Date and up to the date of this annual report, one meeting of the Remuneration Committee was held on 25 March 2019. The attendance records of the members of the Remuneration Committee are as follows:

Name of Members of the Remuneration Committee	Attendance/ Number of Meeting(s)
Mr. Jiang Yongwei *(Chairman)*	1/1
Mr. Yu Hong	1/1
Mr. Luk Wing Ming	1/1

Pursuant to code provision B.1.5 of the CG Code, details of the remuneration of the senior management (other than Directors) by bands for the year ended 31 December 2018 is as follows:

	Number of employee(s)
RMB1,000,000 to RMB2,000,000	3

Details of the Directors' remuneration are set out in note 8 to the consolidated financial statements in this annual report.

BOARD COMMITTEES (CONTINUED)

Nomination Committee

The Nomination Committee consists of three members, namely Mr. Chan Cheung Ngai, Mr. Jiang Younwei and Mr. Tsui Yung Kwok. Mr. Chan Cheung Ngai is the chairman of the committee. The majority of the Nomination Committee members are independent non-executive Directors.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Nomination Committee are to make recommendations to our Board regarding the appointment of Directors and Board succession.

The Board has adopted a board diversity policy on 1 January 2019. A summary of the Board Diversity Policy is set out below:

Purpose:	The Board Diversity Policy aims to set out the approach to achieve diversity in the Company's Board.
Board Diversity Policy statement:	With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, the Nomination committee has primary responsibility for identifying suitably qualified candidates to become members of the Board and all Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. All appointments are based on the principle of merit-based appointment and comprehensive consideration of objective conditions, so as to select leading talents with both ability and virtue.
Measurable Objectives:	Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee has adopted a nomination policy which set out a set of nomination procedures and selection criteria for directors. The Nomination Committee shall evaluate and select candidates based on the criteria by reference to character and integrity, business experience relevant and beneficial to the Company, qualifications including professional qualifications, skills and knowledge that are relevant to the Company's business and corporate strategy, willingness to devote adequate time to discharge duties as a member of the Board and other significant commitments, present needs of the Board for particular expertise, skills or experience and whether the candidates would satisfy those needs, requirement for the Board to have independent directors in accordance with the Listing Rules and whether the candidates for independent directors would be considered independent with reference to the independence guidelines set out in the Listing Rules and the board diversity policy and any measurable objectives adopted by the Nomination Committee for achieving diversity on the Board.

BOARD COMMITTEES (CONTINUED)

Nomination Committee (Continued)

Due to the fact that the Company was listed on 12 July 2018, no meeting was held during the reporting period.

Since the Listing Date and up to the date of this annual report, one meeting of the Nomination Committee was held on 25 March 2019. The attendance records of the members of the Nomination Committee are as follows:

Name of Members of the Nomination Committee	Attendance/ Number of Meeting(s)
Mr. Chan Cheung Ngai (Chairman)	1/1
Mr. Jiang Yongwei	1/1
Mr. Tsui Yung Kwok	1/1

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems. The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

During the year ended 31 December 2018, the audit committee of the Company, through the engagement of Protiviti Shanghai Co., Ltd. ("**Protiviti**"), reviewed the adequacy and effectiveness of the Group's system of risks management and internal controls including financial, operational, compliance, risk management policies and systems established by the Company.

Risk management

The Group has conducted formal risk assessment by the management to identify and assess enterprise risks (including environmental, social and governance risks) with reference to the Group's business objectives and strategies. A risk assessment questionnaire prepared based on the Group's risk model has been circulated to senior management of the Group, together with reviews of existing risk mitigation measures and follow-up interviews as necessary, to facilitate the assessment. Action plans have been developed to further enhance the risk management capabilities of particular key risks as appropriate.

RISK MANAGEMENT AND INTERNAL CONTROLS (CONTINUED)

Internal control

The Group ensures internal controls are designed and implemented in all major aspects of the Group's operations and details of internal control activities are included in the operating policies and procedures of the Group. Based on the procedures performed by Protiviti, no significant deficiencies were identified and improvement opportunities associated with trade receivable management and human resource management processes had been submitted to the audit committee for considerations.

The audit committee also reported such findings and recommendations to the Board for the improvement of the risk management and internal control systems of the Group and the Board considered that all recommendations should be properly followed to ensure the sound and effectiveness of the risk and internal control systems of the Group can be maintained.

Internal audit function

With the assistance from Protiviti, the Group has established an internal audit function assisting the Board in maintaining an effective risk management and internal control systems by evaluating its effectiveness and efficiency and by promoting continuous improvement. The internal audit function of the Group reports directly to the Audit Committee regularly and has access to the Chairman of the Audit Committee if appropriate.

In addition, the Board had received confirmation from the management that:

– The financial records have been properly maintained and the financial statements give a true and fair view of the operations and finances of the Group; and
– The risk management and internal control systems of the Group are effective.

Based on the framework for risk management and internal control system established by the Group, the procedures performed by Protiviti and management, the Board and the audit committee admitted that through the review of risk management and internal control systems of the Group, it can evaluate and improve its effectiveness, and the Board, with the concurrence of the audit committee, considered that such systems including financial, operational and compliance were effective and adequate for the year ended 31 December 2018.

Such assessment of risk management and internal control systems will be conducted annually.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2018.

To the best knowledge of the Directors, there are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 48 to 52 of this annual report.

DIVIDEND POLICY

The Company has adopted a dividend policy on 1 January 2019 which is in accordance with the relevant provisions of the Articles of Association. Pursuant to the dividend policy, the Company may from time to time in general meeting declare dividends in any currency to be paid to the members of the Company but no dividend shall be declared in excess of the amount recommended by the Board. No dividend shall be declared or payable except out of the profits and reserves of the Company lawfully available for distribution, including share premium. No dividend shall carry interest against the Company.

The Board may, before recommending any dividend, set aside out of the profits of the Company such sums as it thinks fit as a reserve or reserves which shall, at the discretion of the Board, be applicable for meeting claims on or liabilities of the Company or contingencies or for paying off any loan capital or for equalising dividends or for any other purpose to which the profits of the Company may be properly applied, and pending such application may, at the like discretion, either be employed in the business of the Company or be invested in such investments as the Board may from time to time think fit, and so that it shall not be necessary to keep any reserves separate or distinct from any other investments of the Company. The Board may also without placing the same to reserve carry forward any profits which it may think prudent not to distribute by way of dividend.

The Board may also, without convening a general meeting, from time to time declare interim dividends as appear to the Board to be justified by the financial conditions and the profits of the Company. The Board may also pay half-yearly or at other suitable intervals to be selected by it any dividend which may be payable at a fixed rate if the Board is of the opinion that the financial conditions and the profits available for distribution justify the payment. The Board may in addition from time to time declare and pay special dividends of such amounts and on such dates and out of such distributable funds of the Company as it thinks fit. Any dividend unclaimed shall be forfeited and shall be returned to the Company in accordance with the Articles of Association and all applicable laws and regulations.

The Board will review this Policy from time to time and may adopt changes as appropriate at the relevant time.

AUDITORS' REMUNERATION

An analysis of the remuneration paid/payable to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2018 is set out below:

Service Category	**Fees Paid/Payable** RMB'000
Audit Services	1,757
Non-audit Services	–
TOTAL	1,757

JOINT COMPANY SECRETARIES

As at the date of this report, Ms. Tsang Chi Ka and Mr. Wong Yu Kit are joint company secretaries of the Company.

Mr. Ng Ming Chee resigned as the joint secretary of the Company with effect from 25 March 2019. The primary point of contact for Mr. Wong Yu Kit changed to Ms. Tsang Chi Ka with effect from the same day.

Mr. Wong Yu Kit is the assistance vice president of SWCS Corporate Services Group (Hong Kong) Limited and is responsible for advising the Board on corporate governance matters and ensuring that Board policy and procedures, and applicable laws, rules and regulations are followed.

For the year ended 31 December 2018, each of Ms. Tsang Chi Ka and Mr. Wong Yu Kit has undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Convening an Extraordinary General Meeting

Pursuant to Article 58 of the Articles of Association of the Company, extraordinary general meetings shall also be convened on the written requisition of one or more members deposited at the principal office of the Company in Hong Kong specifying the objects of the meeting and signed by the requisitionist(s), provided that such requisitionist(s) held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

Putting Forward Proposals at General Meetings

There are no provisions in the Articles of Association or the Cayman Islands Companies Law for Shareholders to move new resolutions at general meetings. The Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph. As regards proposing a person for election as a director of the Company, please refer to the "Procedures for Shareholders to Propose a Person for Election as a Director" of the Company which is posted on the Company's website.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, the Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

SHAREHOLDERS' RIGHTS (CONTINUED)

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Unit 1008-10, 10/F Delta House
3 On Yiu Street, Shatin
New Territories, Hong Kong
(For the attention of the Investor Relations Department)

Fax: + 852 3580 1876

Email: ir@intron-tech.com

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, Directors (or their delegates as appropriate) are available to meet the Shareholders and answer their enquiries.

The Company maintains a website at www.intron-tech.com as a communication platform with the Shareholders and investors, where the financial information and other relevant information of the Company are available for public access.

CONSTITUTIONAL DOCUMENTS

In preparation for the Listing, the Company has adopted the amended and restated Memorandum and Articles of Association pursuant to a special resolution passed at an extraordinary general meeting on 22 June, 2018, which became effective on the Listing Date. Since then, the Company has not made any changes to its Memorandum and Articles of Association. An up-to-date version of the Company's Memorandum and Articles of Association is also available on the websites of the Company and of the Stock Exchange.

INDEPENDENT AUDITOR'S REPORT

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

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香港中環添美道1號
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Independent auditor's report
To the Shareholders of Intron Technology Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Intron Technology Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 53 to 158, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of 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 2018, and of the 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 *Auditor's 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.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment of inventories As at 31 December 2018, the net carrying value of inventories amounted to RMB464,234,000 which represented 23.5% of the Group's total assets. The Group stated inventories at the lower of cost and net realisable value. While cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads, net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal. Allowance for inventory obsolescence is based on management's judgement using the available facts and circumstances, including but not limited to, the inventories' own physical conditions, their market selling prices and estimated selling costs of the inventories. We focused on this area as the inventories are material to the Group and the determination of allowance for slow moving and obsolete involves significant judgement and estimation from management. The Group's disclosures about impairment of inventories are included in notes 2.5, 3 and 15 to the financial statements, which also explain the accounting policies and management's accounting estimates.	We evaluated management's assessment on the impairment of inventories by checking the detailed analyses of the ageing of the inventories, and reviewing on a sample basis, market selling price after the year end, estimated selling costs of the inventories and assessing the actual and forecast usage or sale of inventories. We recalculated the expected provisions to ensure the mathematical accuracy of the calculation. We also attended physical inventory counts, on a sample basis, to ascertain the condition of the inventories and to evaluate the provision for slow moving and obsolete inventories.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Recoverability of trade receivables As at 31 December 2018, the net carrying value of the Group's trade receivables amounted to RMB563,330,000, after netting off with an impairment provision of RMB1,414,000 which represented 28.6% of the Group's total assets. The collectability of trade receivables is a key element of the Group's working capital management, which is managed on an ongoing basis by management. Upon the adoption of HKFRS 9 on 1 January 2018, impairment of trade receivables was assessed based on the expected credit loss model which requires significant judgements and estimates from the management. In assessing the expected credit loss of the trade receivables, management considered various factors such as the age of the balance, existence of disputes, recent historical payment patterns, any other available information concerning the creditworthiness of counterparties and influence from macro economy. The assessment is highly judgemental. The Group's disclosures about trade receivables are included in notes 2.5, 3 and 16 to the financial statements, which also explain the accounting policies, management's accounting estimates and the related expected credit losses.	 We evaluated management's assessment on the recoverability of the trade receivables by reviewing the detailed analyses of the ageing of the receivables and testing, on a sample basis, payments received subsequent to the year end, historical payment patterns, any disputes between the parties involved and the credit status of the counterparties where available. We also evaluated the expected credit loss provision methodology used by the Group and the estimates used to determine the expected credit losses by considering cash collection performance against historical trends.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the Management Discussion and Analysis of the Annual Report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Letter to Shareholders, the Report of Directors and the Corporate Governance Report, which are expected to be made available to us after that date.

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

When we read the Letter to Shareholders, the Report of Directors and the Corporate Governance Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our 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.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lai Chee Kong.

Ernst & Young
Certified Public Accountants
Hong Kong

25 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5	**2,016,690**	1,473,484
Cost of sales		**(1,566,890)**	(1,164,473)
Gross profit		**449,800**	309,011
Other income and gains	5	**20,601**	15,750
Selling and distribution expenses		**(46,294)**	(33,813)
Administrative expenses		**(199,696)**	(125,483)
Other expenses		**(15,223)**	(10,698)
Finance costs	7	**(26,254)**	(15,562)
Share of profit of an associate		**–**	64
PROFIT BEFORE TAX	6	**182,934**	139,269
Income tax expense	10	**(20,660)**	(16,890)
PROFIT FOR THE YEAR		**162,274**	122,379
Attributable to:			
Owners of the parent		**162,274**	122,406
Non-controlling interests		**–**	(27)
		162,274	122,379
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic and diluted		**RMB18.41 cents**	RMB16.32 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
PROFIT FOR THE YEAR	**162,274**	122,379
OTHER COMPREHENSIVE INCOME		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**5,973**	(8,290)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	**5,973**	(8,290)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of the Company	**17,332**	–
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**17,332**	–
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**23,305**	(8,290)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**185,579**	114,089
Attributable to:		
Owners of the parent	**185,579**	114,116
Non-controlling interests	**–**	(27)
	185,579	114,089

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**37,022**	17,843
Other intangible assets	14	**13,957**	14,889
Deferred tax assets	26	**9,605**	6,780
Advance payments for property, plant and equipment		**4,248**	2,733
Total non-current assets		**64,832**	42,245
CURRENT ASSETS			
Inventories	15	**464,234**	287,661
Trade and notes receivables	16	**723,395**	507,538
Prepayments, other receivables and other assets	17	**63,446**	9,042
Available-for-sale investments	19	**–**	2,000
Pledged deposits	20	**31,031**	18,252
Cash and cash equivalents	20	**625,718**	92,252
Total current assets		**1,907,824**	916,745
CURRENT LIABILITIES			
Trade payables	21	**171,502**	174,829
Other payables and accruals	22	**275,105**	159,512
Derivative financial instruments	23	**191**	–
Interest-bearing bank and other loans	24	**374,727**	168,929
Tax payable		**5,530**	23,341
Government grants	27	**456**	1,366
Total current liabilities		**827,511**	527,977
NET CURRENT ASSETS		**1,080,313**	388,768
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,145,145**	431,013

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other loans	24	–	360
Government grants	27	2,407	2,463
Total non-current liabilities		2,407	2,823
Net assets		1,142,738	428,190
EQUITY			
Equity attributable to owners of the parent			
Share capital	28	8,816	–
Reserves	29	1,133,922	428,190
Total equity		1,142,738	428,190

Mr. Luk Wing Ming
Director

Mr. Chan Cheung Ngai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Note	Attributable to owners of the parent							
		Share capital RMB'000 (note 28)	Statutory surplus reserves* RMB'000 (note 29)	Capital reserve* RMB'000 (note 29)	Exchange fluctuation reserve* RMB'000 (note 29)	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017		–	5,721	19,558	6,114	310,744	342,137	617	342,754
Profit for the year		–	–	–	–	122,406	122,406	(27)	122,379
Other comprehensive loss for the year:									
Exchange differences on translation of foreign operations		–	–	–	(8,290)	–	(8,290)	–	(8,290)
Total comprehensive income for the year		–	–	–	(8,290)	122,406	114,116	(27)	114,089
Disposal of subsidiaries		–	–	–	–	–	–	(279)	(279)
Acquisition of equity interests from the Controlling Shareholders		–	–	(1,802)	–	–	(1,802)	–	(1,802)
Acquisition of non-controlling interests		–	–	(23)	–	–	(23)	(311)	(334)
Transfer to statutory reserves		–	1,434	–	–	(1,434)	–	–	–
Dividends declared	11	–	–	–	–	(26,238)	(26,238)	–	(26,238)
At 31 December 2017		–	7,155	17,733	(2,176)	405,478	428,190	–	428,190

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Notes	Attributable to owners of the parent						
		Share capital RMB'000 (note 28)	Share premium* RMB'000 (note 29)	Statutory surplus reserves* RMB'000 (note 29)	Capital reserve* RMB'000 (note 29)	Exchange fluctuation reserve* RMB'000 (note 29)	Retained profits* RMB'000	Total equity RMB'000
At 1 January 2018		–	–	7,155	17,733	(2,176)	405,478	428,190
Effect of adoption of HKFRS 9	2.2	–	–	–	–	–	(653)	(653)
Effect of adoption of HKFRS 15	2.2	–	–	–	–	–	(1,248)	(1,248)
At 1 January 2018 (restated)		–	–	7,155	17,733	(2,176)	403,577	426,289
Profit for the year		–	–	–	–	–	162,274	162,274
Other comprehensive income for the year:								
Exchange differences on translation of the Company		–	–	–	–	17,332	–	17,332
Exchange differences on translation of foreign operations		–	–	–	–	5,973	–	5,973
Total comprehensive income for the year		–	–	–	–	23,305	162,274	185,579
Transfer of surplus reserve		–	–	4,417	–	–	(4,417)	–
Issuance of shares for initial public offering		2,440	704,905	–	–	–	–	707,345
Capitalisation of issue of share premium		6,376	(6,376)	–	–	–	–	–
Share issue expenses		–	(26,546)	–	–	–	–	(26,546)
Acquisition of equity interests from the Controlling Shareholders**		–	–	–	(10,000)	–	–	(10,000)
Dividends declared	11	–	–	–	–	–	(139,929)	(139,929)
At 31 December 2018		8,816	671,983	11,572	7,733	21,129	421,505	1,142,738

* These reserve accounts comprise the consolidated reserves of RMB1,133,922,000 (2017: RMB428,190,000) in the consolidated statement of financial position.

** Pursuant to the equity transfer agreement dated 1 February 2018 and as part of reorganization, the Controlling Shareholders transferred their 100% equity interest in Shanghai Intron Electronics Company Limited ("**Shanghai Intron**") to Intron Intelligent Technology (Shanghai) Company Limited ("**Intron China**") at the consideration of RMB10,000,000.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**182,934**	139,269
Adjustments for:			
Finance costs	7	**26,254**	15,562
Share of profit of an associate		**–**	(64)
Interest income	5	**(4,755)**	(198)
Gain on disposal of items of property, plant and equipment	5	**(166)**	(17)
Fair value gains, net:			
Derivative instruments – transactions not qualifying as hedges		**185**	–
Investment income from financial assets at fair value through profit or loss/available-for-sale investments	5	**(50)**	(48)
Depreciation	13	**9,474**	6,231
Amortisation of other intangible assets	14	**4,362**	4,226
Recognition of government grants		**(456)**	(559)
Loss on disposal of subsidiaries	6	**–**	2,819
Gain on bargain purchase	5	**(79)**	–
		217,703	167,221
Increase in inventories		**(164,363)**	(71,838)
Increase in trade and notes receivables		**(199,751)**	(200,213)
(Increase)/decrease in prepayments, other receivables and other assets		**(50,081)**	1,790
(Decrease)/increase in trade payables		**(7,163)**	43,571
Increase in other payables and accruals		**82,857**	71,082
Decrease in government grants		**(510)**	(25)
Cash (used in)/generated from operations		**(121,308)**	11,588
Interest received		**3,624**	198
Interest paid		**(26,153)**	(15,287)
Income tax paid		**(40,994)**	(14,449)
Net cash flows used in operating activities		**(184,831)**	(17,950)

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(23,031)**	(13,841)
Additions to other intangible assets		**(4,299)**	(9,040)
Purchases of financial assets at fair value through profit or loss/available-for-sale investments		**(9,500)**	(116,500)
Proceeds from disposal of financial assets at fair value through profit or loss/available-for-sale investments		**11,500**	116,000
Investment income from financial assets at fair value through profit or loss/available-for-sale investments		**50**	48
Acquisition of a subsidiary	30	**(3,059)**	–
Loans to directors		**–**	(50,775)
Repayment of loans to directors		**–**	47,963
Payment on behalf of related parties		**–**	(1,077)
Refund of payments on behalf of related parties		**–**	229
Loans to a related party		**–**	(86,746)
Repayment of loans to a related party		**–**	97,916
Receipt of government grants		**–**	1,903
Disposal of subsidiaries		**–**	244
Proceeds from disposal of items of property, plant and equipment		**188**	50
Net cash flows used in investing activities		**(28,151)**	(13,626)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**707,345**	–
Share issue expenses		**(26,546)**	–
New bank and other loans		**1,325,276**	516,473
Repayment of bank and other loans		**(1,124,879)**	(446,482)
Capital element of finance lease payments		**(357)**	(346)
Loans from related parties		**–**	860
Repayment of loans from related parties	36(a)	**(2,754)**	(5,900)
Payment to the Controlling Shareholders and entities jointly controlled by the Controlling Shareholders		**(10,000)**	(1,802)
Dividends paid		**(123,157)**	–
Increase in pledged deposits		**(11,576)**	(2,268)
Net cash flows from financing activities		**733,352**	60,535
NET INCREASE IN CASH AND CASH EQUIVALENTS		**520,370**	28,959
Effect of foreign exchange rate changes, net		**13,096**	(2,658)
Cash and cash equivalents at beginning of year		**92,252**	65,951
CASH AND CASH EQUIVALENTS AT END OF YEAR		**625,718**	92,252

	Note	2018 RMB'000	2017 RMB'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	**274,343**	92,252
Non-pledged time deposits with original maturity of less than three months when acquired	20	**351,375**	–
Cash and cash equivalents as stated in the statement of financial position and statement of cash flows		**625,718**	92,252

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 3 January 2017. The registered address of the Company is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. During the year, the Company's subsidiaries focused on developing automotive component engineering solutions for key automotive manufacturers in Mainland China.

The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 12 July 2018.

Information about subsidiaries:

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Intron Technology (China) Limited ("**Intron HK**")	Hong Kong	HK$7,500,000	100%	–	Sale of automotive and other electronic components
Evertronics Technology (China) Company Limited ("**Evertronics**")	Hong Kong	HK$10,000	–	100%	Sale of automotive and other electronic components
Shanghai Intron (上海英恒電子有限公司)**	People's Republic of China ("**PRC**")/ Mainland China	RMB10,000,000	–	100%	Research and development and sale of automotive and other electronic components
Guangzhou Intron Electronics Technology Company Limited ("**Guangzhou Intron**") (廣州英創電子科技有限公司)**	PRC/Mainland China	RMB1,000,000	–	100%	Sale of automotive and other electronic components

1. CORPORATE INFORMATION (CONTINUED)

Information about subsidiaries: (Continued)

Particulars of the Company's subsidiaries are as follows: (Continued)

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shanghai G-Pulse Electronics Technology Company Limited ("**G-Pulse**") (上海金脈電子科技有限公司)**	PRC/Mainland China	RMB50,000,000	–	100%	Research and development, and sale of automotive and other electronic components
Beijing Maichuang Zhiheng Renewable Energy Technology Company Limited ("**Beijing G-Pulse**") (北京脈創智恒新能源科技有限公司)**	PRC/Mainland China	RMB10,000,000	–	100%	Research and development of renewable electronic components
Intron China (英恒智能科技(上海)有限公司)*	PRC/Mainland China	US$3,000,000	–	100%	Investment holding
Wuxi Maxdone Electronics Technology Company Limited ("**Wuxi Maxdone**") (無錫麥道電子科技有限公司)**	PRC/Mainland China	RMB15,000,000	–	100%	Research and development and related business on embedded control electronics products and devices

* This entity is a wholly-foreign-owned enterprise under PRC law.

** These entities are limited liability enterprises established under PRC law.

During the year, the Group acquired Wuxi Maxdone from an independent third party. Further details of this acquisition are included in note 30 to the financial statements.

2.1 BASIS OF PRESENTATION

To rationalise the corporate structure in preparation for the listing of the Company's shares on the Stock Exchange, the Company underwent a group reorganization (the "**Reorganization**"), further details of which are set out in the Company's prospectus dated 29 June 2018. Pursuant to the Reorganization, the Company became the holding company of the companies now comprising the Group on 22 February 2018. As the Reorganization only involved acquisitions of companies under the common control of the Controlling Shareholders before and after the Reorganization, the consolidated financial statements for the year ended 31 December 2017 have been presented by applying the principles of merger accounting. Accordingly, the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2017 have been prepared as if the current group structure had been in existence throughout that year. The consolidated statement of financial position as at 31 December 2017 has been prepared to present the assets and liabilities of the companies now comprising the Group, as if the current group structure had been in existence at that date.

2.2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through other comprehensive income and derivative financial instruments which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

2.2 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (Continued)

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Except for the amendments to HKFRS 2, amendments to HKFRS 4, amendments to HKAS 40 and Annual Improvements 2014-2016 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRS are described below:

(a) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("**ECLs**").

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) (Continued)

Classification and measurement (Continued)

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	Notes	HKAS 39 measurement Category	Amount RMB'000	Re-classification RMB'000	ECL RMB'000	Other RMB'000	Amount RMB'000	HKFRS 9 measurement Category
Financial assets								
Available-for-sale investments		AFS[2]	2,000	(2,000)	–	–	–	N/A
To: Financial assets at fair value through profit or loss	(i)			(2,000)	–	–		
Notes receivable	(ii)	L&R[3]	76,043	–	–	–	76,043	FVOCI[1]
Trade receivables	(iii)	L&R	428,482	–	(758)	–	427,724	AC[4]
Financial assets included in prepayments, other receivables and other assets		L&R	3,678	–	–	–	3,678	AC
Financial assets at fair value through profit or loss		N/A	–	2,000	–		2,000	FVPL[5] (mandatory)
From: Available-for-sale investments	(i)			2,000	–	–		
Pledged deposits		L&R	18,252	–	–	–	18,252	AC
Deferred tax assets		N/A	–	–	–	105	105	N/A
Cash and cash equivalents		L&R	92,252	–	–		92,252	AC
Total assets			620,707	–	(758)	105	620,054	
Financial liabilities								
Trade payables		AC	174,829	–	–	–	174,829	AC
Financial liabilities included in other payables and accruals		AC	95,397	–	–	–	95,397	AC
Interest-bearing bank and other loans		AC	169,289	–	–	–	169,289	AC
Total liabilities			439,515	–	–	–	439,515	

1 FVOCI: Financial assets at fair value through other comprehensive income
2 AFS: Available-for-sale investments
3 L&R: Loans and receivables
4 AC: Financial assets or financial liabilities at amortised cost
5 FVPL: Financial assets at fair value through profit or loss

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURE (CONTINUED)

(a) (Continued)

Classification and measurement (Continued)

Notes:

(i) The Group has classified its unlisted investments previously classified as available-for-sale investments as financial assets measured at fair value through profit or loss as these non-equity investments did not pass the contractual cash flow characteristics test in HKFRS 9.

(ii) The Group has classified its notes receivable previously classified as loans and receivables as financial assets measured at fair value through other comprehensive income as these notes receivables are held within a business model with the objective of both holding to collect contractual cash flows and selling, and the contractual terms of the notes receivable give rise on specified dates to cash flows that are solely payments of principal.

(iii) The gross carrying amounts of the trade and notes receivables under the column "HKAS 39 measurement – Amount" represent the amounts after adjustments for the adoption of HKFRS 15 but before the measurement of ECLs. Further details of the adjustments for the adoption of HKFRS 15 are included in note 2.3(b) to the financial statements.

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9. Further details are disclosed in note 16 to the financial statements.

	Impairment allowances under HKAS 39 at 31 December 2017	**Re-measurement**	**ECL allowances under HKFRS 9 at 1 January 2018**
	RMB'000	RMB'000	RMB'000
Trade receivables	734	758	1,492

Impact on retained profits

The impact of transition to HKFRS 9 on retained profits is as follows:

	Retained profits
	RMB'000
Balance as at 31 December 2017 under HKAS 39	405,478
Recognition of expected credit losses for trade receivables under HKFRS 9	(758)
Deferred tax in relation to the above	105
Balance as at 1 January 2018 under HKFRS 9	404,825

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in notes 3 and 5 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.5 to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of HKFRS 15:

	Notes	**Increase/ (decrease)** RMB'000
Assets		
Inventories	(i)	1,545
Trade receivables	(i)	(3,013)
Deferred tax assets	(iii)	220
Total assets		(1,248)
Liabilities		
Contract liabilities	(ii)	5,930
Advances from customers	(ii)	(5,930)
Total liabilities		–
Equity		
Retained profits	(i), (iii)	(1,248)
		(1,248)

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) (Continued)

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the adoption of HKFRS 15. The adoption of HKFRS 15 has had no impact on other comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under HKFRS 15 and the second column shows what the amounts would have been had HKFRS 15 not been adopted:

Consolidated statement of profit or loss for the year ended 31 December 2018:

		Amounts prepared under		**Increase/**
		HKFRS 15	**Previous HKFRS**	**(decrease)**
	Notes	RMB'000	RMB'000	RMB'000
Revenue	(i)	2,016,690	2,020,864	(4,174)
Cost of sales	(i)	(1,566,890)	(1,566,516)	374
Gross profit		449,800	454,348	(4,548)
Profit before tax		182,934	187,482	(4,548)
Income tax expense	(iii)	(20,660)	(21,342)	(682)
Profit for the year		162,274	166,140	(3,866)
Attributable to:				
Owners of the parent	(iii)	162,274	166,140	(3,866)
Earnings per share attributable to ordinary equity holders of the parent				
Basic and diluted		RMB18.41 cents	RMB18.85 cents	RMB(0.44) cents

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) (Continued)

Consolidated statement of financial position as at 31 December 2018:

	Notes	Amounts prepared under HKFRS 15 RMB'000	Amounts prepared under Previous HKFRS RMB'000	Increase/ (decrease) RMB'000
Inventories	(i)	464,234	463,062	1,172
Trade receivables	(i)	723,395	731,014	(7,619)
Deferred tax assets		9,605	8,702	903
Total assets		1,972,656	1,978,200	(5,544)
Other payables and accruals	(i),(ii)	275,105	275,535	(430)
Total liabilities		829,918	830,348	(430)
Net assets		1,142,738	1,147,852	(5,114)
Retained profits		421,505	426,619	(5,114)
Total equity		1,142,738	1,147,852	(5,114)

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the statement of financial position as at 31 December 2018 and the statement of profit or loss for the year ended 31 December 2018 are described below:

(i) Consulting services

Contract revenue on the rendering of consulting services comprises the agreed contract amount. Costs of consulting services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Before the adoption of HKFRS 15, revenue from the rendering of consulting services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) (Continued)

(i) Consulting services (Continued)

Upon adoption HKFRS 15, revenue from the Group's contracts with customers for the rendering of consulting services will be recognised at the point in time when the control of the service is transferred to the customer. The timing of the amount of revenue recognised in relation to this service is later as compared to current practice.

As at 31 December 2018, the adoption of HKFRS 15 resulted in an increase in inventories of RMB1,172,000, a decrease in trade receivables of RMB7,619,000, a decrease in other payable and accruals of RMB430,000, a decrease in revenue of RMB4,174,000 and an increase in cost of sales of RMB374,000.

(ii) Consideration received from customers in advance

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as other payables. Under HKFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals.

Therefore, upon adoption of HKFRS 15, the Group reclassified RMB5,930,000 from other payables to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, RMB7,300,000 was reclassified from other payables to contract liabilities in relation to the consideration received from customers in advance for the sale of products and the provision of consulting services.

(iii) Other adjustments

In addition to the adjustments described above, other items of the primary financial statements such as tax were adjusted as necessary. Retained profits were adjusted accordingly.

(c) HK(IFRIC)-Int 22 provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKFRS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	*Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23*[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below:

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of RMB17,988,000 and lease liabilities of RMB17,988,000 will be recognised at 1 January 2019.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (Continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates (Continued)

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*

Fair value measurement

The Group measures its derivative financial instruments and unlisted investments at fair value at the end of the reporting period. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (Continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1	–	based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of year.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (Continued)

An assessment is made at the end of the reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

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

(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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties (Continued)

(b) (Continued)

(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.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Building	4.75%
Leasehold improvements	31.67%-37.50%
Plant and machinery	9.5%-33.33%
Office equipment	19.00%-33.33%
Motor vehicles	19.00%-33.33%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Patents and software

Purchased patents and software are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 3 to 10 years.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid motor vehicle lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (Continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

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

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

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

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (Continued)

Subsequent measurement (Continued)

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 Financial Instruments: presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (Continued)

Subsequent measurement (Continued)

Financial assets at fair value through profit or loss (Continued)

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (Continued)

Subsequent measurement (Continued)

Financial assets at fair value through profit or loss (Continued)

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in administrative expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (Continued)

Subsequent measurement (Continued)

Available-for-sale financial investments (Continued)

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest earned whilst holding the available-for-sale financial investments is reported as interest income, and is recognised in the statement of profit or loss as other income in accordance with the polices set out for "Revenue recognition (applicable before 1 January 2018)".

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (Continued)

General approach (Continued)

At the reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, 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 and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1	–	Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
Stage 2	–	Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
Stage 3	–	Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (Continued)

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognise a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

The Group assesses at the end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) (Continued)

Financial assets carried at amortised cost (Continued)

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to administrative expenses in the statement of profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of the reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, payables or as derivatives, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, derivative financial instruments and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends of their classification as follows:

Financial liabilities at fair value through profit or loss (policies under HKFRS 9 applicable from 1 January 2018)

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (Continued)

Subsequent measurement (Continued)

Financial liabilities at fair value through profit or loss (policies under HKAS 39 applicable before 1 January 2018)

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing bank and other borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts to hedge its foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily 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 and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the country in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right exists to set off current tax assets and current tax liabilities and the deferred taxes assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the net assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Sale of products

Revenue from the sale of products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products.

(b) Consulting services

Revenue from the provision of consulting services is recognised at the point in time when the control of the service is transferred to the customer.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (applicable from 1 January 2018) (Continued)

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Revenue recognition (applicable before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of solutions, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services (applicable from 1 January 2018)" below; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Contracts for services (applicable before 1 January 2018)

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contracts for services (applicable before 1 January 2018) (Continued)

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Employee benefits

Pension scheme

Contributions made to the government retirement benefit fund under defined contribution retirement plans are charged to the statement of profit or loss as incurred.

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations.

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The subsidiaries established and operating in Mainland China are required to provide certain staff pension benefits to their employees under existing regulations of the PRC. Pension scheme contributions are provided at rates stipulated by PRC regulations and are made to a pension fund managed by government agencies, which are responsible for administering the contributions for the subsidiaries' employees.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividends

Final dividends are recognised as a liability when they are approved by the Shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB. The functional currency of the Company is the Hong Kong dollars. The Group's presentation currency is RMB because the Group's principal operations are carried out in Mainland China. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statement of profit or loss are translated into RMB at the weighted average exchange rates for the year.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (Continued)

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

There is no significant effect on the amounts recognised in the Group's financial statements arising from the judgements, apart from those involving estimations, made by management in the process of applying the Group's accounting policies.

Estimation uncertainty

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

Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on ageing analysis for groupings of various customer segments that have similar loss patterns such as by customer type.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Provision for expected credit losses on trade receivables and contract assets (Continued)

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 16 to the financial statements.

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made for those identified obsolete and slow-moving inventories and inventories with a carrying amount higher than net realisable value. The assessment of the provision required involves management's judgement and estimates on which are influenced by assumptions concerning future sales and usage and judgements in determining the appropriate level of inventory provisions against identified surplus or obsolete items. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying amounts of inventories and the write-down/write-back of inventories in the period in which such estimate has been changed. At 31 December 2018, the carrying amount of inventories was RMB464,234,000 (2017: RMB287,661,000).

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2018 was RMB3,821,000 (2017: RMB1,565,000). The amount of unrecognised tax losses at 31 December 2018 was RMB4,268,000 (2017: RMB1,801,000). Further details are contained in note 26 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised into business units based on their products and only has one reportable operating segment. Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resources allocation and performance assessment.

Geographical information

(a) Revenue from external customers

	2018 RMB'000	2017 RMB'000
Hong Kong	**29,406**	30,644
Mainland China	**1,976,330**	1,441,915
Other countries	**10,954**	925
	2,016,690	1,473,484

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2018 RMB'000	2017 RMB'000
Hong Kong	**7,490**	2,722
Mainland China	**47,737**	32,743
	55,227	35,465

The non-current asset information above is based on the locations of the assets and excludes deferred tax assets.

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue during the year is set out below:

	2018 RMB'000	2017 RMB'000
Customer 1	**263,182**	N/A
Customer 2	**206,763**	N/A
	469,945	N/A

During the year ended 31 December 2017, no revenue from a single customer accounted for 10% or more of the total revenue of the Group.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers		
Sale of products	**1,996,758**	1,450,886
Rendering of consulting services	**19,932**	22,598
	2,016,690	1,473,484

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers

(i) Disaggregation of revenue

For the year ended 31 December 2018

Timing of revenue recognition

	RMB'000
At a point in time	
– Sale of products	1,996,758
– Rendering of consulting services	19,932
Total revenue from contracts with customers	2,016,690

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of products	**1,072**
Consulting services	**4,858**
	5,930

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (Continued)

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of products

The performance obligation is satisfied upon delivery of the products and payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required.

Consulting services

The performance obligation which is satisfied at the point in time when services are rendered and short-term advances are normally required before rendering the services. Consulting service contracts are for periods of one year or more, or are billed based on the time incurred.

The transaction price allocated to the remaining performance obligations of sale of products and consulting services (unsatisfied or partially unsatisfied) as at 31 December 2018 is as follows:

	RMB'000
Within one year	1,131,266

The remaining performance obligations are expected to be recognised within one year. The amount disclosed above does not include variable consideration which is constrained.

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

	Note	2018 RMB'000	2017 RMB'000
Other income			
Government grants (note a)		**11,756**	5,569
Bank interest income		**4,755**	198
Investment income from financial assets at fair value through profit or loss/available-for-sale investments		**50**	48
Commission income		**2,550**	–
Others		**929**	146
		20,040	5,961
Gains			
Foreign exchange gains, net		**–**	9,772
Gain on bargain purchase	30	**79**	–
Fair value gains, net:			
Derivative instruments – transaction not qualifying as hedges		**316**	–
Gain on disposal of items of property, plant and equipment		**166**	17
		561	9,789
		20,601	15,750

Note:

(a) The amount represents grants received by the subsidiaries of the Company from the local government where they reside. There are no unfulfilled conditions and other contingencies relating to these grants.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2018 RMB'000	2017 RMB'000
Cost of inventories sold		**1,557,111**	1,153,657
Cost of services provided		**9,779**	10,816
Depreciation	13	**9,474**	6,231
Amortisation of other intangible assets*	14	**4,362**	4,226
Research and development costs		**119,546**	74,710
Minimum lease payments under operating leases		**13,138**	9,026
Listing expenses		**18,493**	6,956
Auditor's remuneration		**1,757**	725
Employee benefit expense (excluding directors' and co-chief executives' remuneration (note 8)):			
Wages and salaries		**111,632**	75,842
Pension scheme contributions		**7,288**	7,288
Staff welfare expenses		**1,614**	2,240
		120,534	85,370
Foreign exchange losses/(gains), net		**14,087**	(9,772)
Reversal of impairment of trade receivables	16	**(78)**	(54)
Reversal of impairment of other receivables	17	**–**	(9)
Write-down/ (reversal of write-down) of inventories to net realisable value**		**2,650**	(1,207)
Fair value (gains)/losses, net:			
Derivative instruments			
– transactions not qualifying as hedges		**(316)**	–
Investment loss from derivative financial/instruments		**–**	7,878
Investment income from financial assets at fair value through profit or loss/available-for-sale investments		**(50)**	(48)
Bank interest income		**(4,755)**	(198)
Government grants		**(11,756)**	(5,569)
Gain on disposal of items of property, plant and equipment		**(166)**	(17)
Loss on disposal of subsidiaries		**–**	2,819
Gain on bargain purchase***	30	**(79)**	–

* The amortisation of other intangible assets for the year is included in "Administrative expenses" in the consolidated statement of profit or loss.

** Write-down/(reversal of write-down) of inventories to net realisable value is included in "Cost of sales" in the consolidated statement of profit or loss.

*** Gain on bargain purchase is included in "Other income and gains" in the consolidated statement of profit or loss.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 RMB'000	2017 RMB'000
Interest on bank borrowings	**13,803**	6,151
Interest on discounted notes receivable	**12,451**	9,411
	26,254	15,562

8. DIRECTORS' AND CO-CHIEF EXECUTIVES' REMUNERATION

Directors' and co-chief executives' remuneration for the year, disclosed pursuant to Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

Group

	2018 RMB'000	2017 RMB'000
Fees	**270**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**12,234**	10,708
Performance related bonuses	**3,852**	731
Pension scheme contributions	**60**	60
	16,146	11,499
Total	**16,416**	11,499

8. DIRECTORS' AND CO-CHIEF EXECUTIVES' REMUNERATION (CONTINUED)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows

	2018 RMB'000	2017 RMB'000
Mr. Yu Hong	81	–
Mr. Tsui Yung Kwok	108	–
Mr. Jiang Yongwei	81	–
	270	–

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

(b) Executive directors and the co-chief executives

2018

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors and co-chief executives					
Mr. Luk Wing Ming	–	3,872	856	15	4,743
Mr. Chan Cheung Ngai	–	3,616	1,027	15	4,658
Mr. Chan Ming	–	2,348	1,027	15	3,390
Mr. Ng Ming Chee	–	2,398	942	15	3,355
	–	12,234	3,852	60	16,146

8. DIRECTORS' AND CO-CHIEF EXECUTIVES' REMUNERATION (CONTINUED)

(b) Executive directors and the co-chief executives (Continued)

2017

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors and co-chief executives					
Mr. Luk Wing Ming	–	4,012	–	15	4,027
Mr. Chan Cheung Ngai	–	3,398	–	15	3,413
Mr. Chan Ming	–	1,259	731	15	2,005
Mr. Ng Ming Chee	–	2,039	–	15	2,054
	–	10,708	731	60	11,499

Mr. Luk Wing Ming and Mr. Chan Cheung Ngai were also the co-chief executives of the Company.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2017: four directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2017: one) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	**617**	534
Performance related bonuses	**950**	460
Pension scheme contributions	**80**	70
	1,647	1,064

9. FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

The number of non-director and non-co-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2018	2017
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**1**	–
	1	1

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly is not subject to income tax.

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Hong Kong charges 8.25% on assessable profits up to HK$2,000,000 and 16.5% on any part of assessable profits over HK$2,000,000.

The provision for current income tax in Mainland China is based on a statutory tax rate of 25% of the assessable profits of the PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law.

Shanghai Intron and G-Pulse are qualified as High and New Technology Enterprises and were subject to a preferential income tax rate of 15% (2017: 15%) during the year. Intron China is qualified as a small and micro enterprise and was subject to a preferential tax rate of 10% during the year.

10. INCOME TAX (CONTINUED)

Tax on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2018 RMB'000	2017 RMB'000
Current – Mainland China		
Charge for the year	**8,414**	8,735
Current – Hong Kong		
Charge for the year	**14,766**	10,359
Deferred tax (note 26)	**(2,520)**	(2,204)
Total tax charge for the year	**20,660**	16,890

A reconciliation of the tax expense applicable to profit before tax at the statutory rate in Mainland China to the tax expense at the effective tax rate is as follows:

	2018 RMB'000	2017 RMB'000
Profit before tax	**182,934**	139,269
Tax at the statutory income tax rate of 25%	**45,733**	34,817
Effect of tax rate differences in other jurisdictions	**(6,196)**	(5,029)
Preferential income tax rates applicable to certain subsidiaries	**(3,772)**	(3,801)
Additional deduction allowance for research and development costs	**(18,074)**	(8,332)
Expenses not deductible for tax	**2,330**	1,026
Income not subject to tax	**(5)**	(17)
Tax losses utilised from previous years	**–**	(651)
Tax losses not recognised	**644**	442
Recognition of tax losses from previous years	**–**	(1,565)
Tax charge at the Group's effective rate	**20,660**	16,890

11. DIVIDENDS

	2018 HK$'000	2017 HK$'000
Ordinary:		
Proposal final – HK5.5 cents (2017: Nil) per ordinary share	**56,979**	–

The proposed final dividend for the year is subject to the approval of the Company's Shareholders at the forthcoming annual general meeting.

On 18 January 2018, Intron HK declared and approved a dividend of US$6,200,000 (equivalent to RMB39,929,000) to the then shareholders. On 25 January 2018, Shanghai Intron declared and approved a dividend of RMB100,000,000 to the then shareholders.

On 3 June 2017, Intron HK declared and approved a dividend of US$3,860,000 (equivalent to RMB26,238,000) to the then shareholders.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 881,321,000 (2017: 750,000,000) in issue during the year, and assuming the capitalisation issue had been completed on 1 January 2017, as further detailed in note 28 to the financial statements.

The calculation of the basic earnings per share is based on:

	2018 RMB'000	2017 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**162,274**	122,406

	Number of shares	
	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**881,321,000**	750,000,000

The Group had no potentially diluted ordinary shares in issue during the years ended 31 December 2018 and 2017.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2017 included 200 ordinary shares and 749,999,800 shares in connection with the capitalisation issue, which were deemed to be issued as of the beginning of the year.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2018 included the weighted average of 250,000,000 and 35,975,000 ordinary shares issued in connection with the Company's initial public offering and over-allotment, and the aforesaid 750,000,000 ordinary shares.

13. PROPERTY, PLANT AND EQUIPMENT

	Building RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
31 December 2018						
At 31 December 2017 and at 1 January 2018:						
Cost	2,831	4,008	12,401	9,468	7,156	35,864
Accumulated depreciation	(2,060)	(2,143)	(4,812)	(4,200)	(4,806)	(18,021)
Net carrying amount	771	1,865	7,589	5,268	2,350	17,843
At 1 January 2018, net of accumulated depreciation	771	1,865	7,589	5,268	2,350	17,843
Additions	–	3,309	11,510	4,604	2,586	22,009
Acquisition of a subsidiary (note 30)	–	922	5,392	231	3	6,548
Disposals	–	–	(17)	(5)	–	(22)
Depreciation provided during the year (note 6)	(136)	(1,863)	(3,491)	(2,867)	(1,117)	(9,474)
Foreign exchange movement	–	18	–	24	76	118
At 31 December 2018, net of accumulated depreciation	635	4,251	20,983	7,255	3,898	37,022
At 31 December 2018:						
Cost	2,831	6,178	31,491	14,663	8,992	64,155
Accumulated depreciation	(2,196)	(1,927)	(10,508)	(7,408)	(5,094)	(27,133)
Net carrying amount	635	4,251	20,983	7,255	3,898	37,022

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Building RMB'000	Leasehold improve-ments RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
31 December 2017						
At 1 January 2017:						
Cost	2,831	2,194	6,638	8,028	7,665	27,356
Accumulated depreciation	(1,926)	(912)	(3,649)	(4,495)	(3,921)	(14,903)
Net carrying amount	905	1,282	2,989	3,533	3,744	12,453
At 1 January 2017, net of accumulated depreciation	905	1,282	2,989	3,533	3,744	12,453
Additions	–	1,814	6,310	3,822	–	11,946
Disposals	–	–	–	(30)	(3)	(33)
Disposal of subsidiaries	–	–	–	–	(84)	(84)
Depreciation provided during the year (note 6)	(134)	(1,231)	(1,710)	(2,006)	(1,150)	(6,231)
Foreign exchange movement	–	–	–	(51)	(157)	(208)
At 31 December 2017, net of accumulated depreciation	771	1,865	7,589	5,268	2,350	17,843
At 31 December 2017:						
Cost	2,831	4,008	12,401	9,468	7,156	35,864
Accumulated depreciation	(2,060)	(2,143)	(4,812)	(4,200)	(4,806)	(18,021)
Net carrying amount	771	1,865	7,589	5,268	2,350	17,843

The net carrying amount of the Group's fixed assets held under finance leases included in the total amounts of motor vehicles at 31 December 2018 was RMB590,000 (2017: RMB754,000).

None of the Group's building was pledged to secure bank loan facilities granted to the Group as at 31 December 2018 (2017: RMB771,000).

14. OTHER INTANGIBLE ASSETS

	Patents RMB'000	Software RMB'000	Total RMB'000
31 December 2018			
Cost at 1 January 2018, net of accumulated amortisation	**13,731**	**1,158**	**14,889**
Additions	**–**	**3,006**	**3,006**
Acquisition of a subsidiary (note 30)	**–**	**424**	**424**
Amortisation provided during the year (note 6)	**(3,782)**	**(580)**	**(4,362)**
At 31 December 2018	**9,949**	**4,008**	**13,957**
At 31 December 2018:			
Cost	**21,409**	**5,273**	**26,682**
Accumulated amortisation	**(11,460)**	**(1,265)**	**(12,725)**
Net carrying amount	**9,949**	**4,008**	**13,957**
31 December 2017			
At 1 January 2017:			
Cost	21,409	1,003	22,412
Accumulated amortisation	(3,896)	(161)	(4,057)
Net carrying amount	17,513	842	18,355
Cost at 1 January 2017, net of accumulated amortisation	17,513	842	18,355
Additions	–	760	760
Amortisation provided during the year (note 6)	(3,782)	(444)	(4,226)
At 31 December 2017	13,731	1,158	14,889
At 31 December 2017:			
Cost	21,409	1,730	23,139
Accumulated amortisation	(7,678)	(572)	(8,250)
Net carrying amount	13,731	1,158	14,889

Certain of the Group's patents with a net carrying amount of RMB2,292,000 (2017: RMB2,792,000) were pledged to secure bank loan facilities granted to the Group as at 31 December 2018 (note 24).

15. INVENTORIES

	2018 **RMB'000**	2017 RMB'000
Semiconductor devices and electronic components	**464,234**	287,661

16. TRADE AND NOTES RECEIVABLES

	2018 **RMB'000**	2017 RMB'000
Trade receivables	**564,744**	432,229
Notes receivable	**160,065**	76,043
	724,809	508,272
Impairment	**(1,414)**	(734)
	723,395	507,538

The Group's trading terms with its customers are mainly on credit. The credit period is generally within three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

Included in the Group's trade and notes receivables are amounts due from the Group's related parties of RMB21,796,000 as at 31 December 2018 (2017: RMB17,794,000), which are repayable on credit terms similar to those offered to the other customers of the Group.

The Group's trade receivables amounting to approximately RMB13,621,000 (2017: RMB75,831,000) was pledged to secure the bank loan facilities granted to the Group as at 31 December 2018 (note 24).

16. TRADE AND NOTES RECEIVABLES (CONTINUED)

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2018 RMB'000	2017 RMB'000
Less than 3 months	**501,426**	419,420
3 to 6 months	**56,149**	7,846
6 to 12 months	**4,079**	1,271
1 to 2 years	**1,550**	2,316
Over 2 years	**126**	642
	563,330	431,495

The movements in the loss allowance for impairment of trade receivables are as follows:

	2018 RMB'000	2017 RMB'000
At beginning of year	**734**	788
Effect of adoption of HKFRS 9	**758**	–
At the beginning of year (restated)	**1,492**	788
Impairment losses reversed (note 6)	**(78)**	(54)
At end of year	**1,414**	734

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than three years and are not subject to enforcement activity.

16. TRADE AND NOTES RECEIVABLES (CONTINUED)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

	Trade receivables ageing:				
	Less than 1 year	1 to 2 years	2 to 3 years	More than 3 years	Total
Expected credit loss rate	**0.01%**	**2.59%**	**34.15%**	**100.00%**	**0.25%**
Gross carrying amount (RMB'000)	**561,726**	**1,591**	**192**	**1,235**	**564,744**
Expected credit losses (RMB'000)	**72**	**41**	**66**	**1,235**	**1,414**

Impairment under HKAS 39 for the year ended 31 December 2017

There was no individually impaired trade receivables, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017.

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017 RMB'000
Neither past due nor impaired	419,958
Less than 3 months past due	7,319
Over 3 months past due	3,576
	430,853

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

16. TRADE AND NOTES RECEIVABLES (CONTINUED)

The Group's notes receivable was all aged within one year and was neither past due nor impaired.

As at 31 December 2018, notes receivable of RMB160,065,000 whose fair values approximate to their carrying values were classified as financial assets at fair value through other comprehensive income under HKFRS 9 and the remaining notes receivable were measured at amortised cost. The fair value changes of these notes receivable at fair value through other comprehensive income were insignificant in 2018.

At 31 December 2018, the Group endorsed certain notes receivable accepted by banks in Mainland China (the "**Endorsed Notes**") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB103,085,000 (2017: RMB37,624,000) (the "**Endorsement**"). In addition, at 31 December 2018, the Group discounted certain notes receivable accepted by certain banks in Mainland China (the "**Discounted Notes**") with a carrying amount in aggregate of RMB308,988,000 (2017: RMB185,637,000). In accordance with the Law of Negotiable Instruments in the Mainland China, the holders of the Endorsed Notes and the Discounted Notes have a right of recourse against the Group if the PRC banks default (the "**Continuing Involvement**").

In the opinion of the directors, the Group has transferred substantially all the risks and rewards relating to certain Endorsed Notes and Discounted Notes accepted by large and reputable banks with amounts of RMB87,267,000 and RMB293,641,000 as at 31 December 2018 (2017: RMB34,985,000 and RMB183,544,000) (the "**Derecognised Notes**"). Accordingly, the Group has derecognised the full carrying amounts of these Derecognised Notes and the associated trade payables settled by the Endorsed Notes.

The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase these Derecognised Notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Notes are not significant.

At 31 December 2018, the Group continued to recognise the full carrying amounts of the remaining Endorsed Notes and the associated trade payables settled with an amount of RMB15,818,000 (2017: RMB2,639,000), and to recognise the proceeds received from the discount of the remaining Discounted Notes with an amount of RMB15,347,000 (2017: RMB2,093,000) as short-term loans because the directors believe that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining Endorsed Notes and Discounted Notes.

During the year ended 31 December 2018, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Notes. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement and the discount have been made evenly during the year.

17. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018 RMB'000	2017 RMB'000
Prepayments	**27,909**	3,097
Prepayment to a related party	**1,072**	568
Prepaid expenses	**2,570**	1,699
Due from related parties	**1,132**	–
Interest receivables	**1,131**	–
Other tax recoverable	**226**	–
Deposits and other receivables	**29,406**	3,678
	63,446	9,042
Impairment allowance	**–**	–
	63,446	9,042

Due from related parties are unsecured, non-interest-bearing and repayable on demand.

The movements in the loss allowance for impairment of other receivables are as follows:

	2018 RMB'000	2017 RMB'000
At beginning of year	**–**	109
Impairment losses reversed	**–**	(9)
Amount written off as uncollectible	**–**	(100)
At end of year	**–**	–

Deposits and other receivables mainly represent rental deposits and deposits with suppliers. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied as at 31 December 2018 was close to zero.

None of the above assets is either past due or impaired. The financial assets included in the above balances are non-interest-bearing, unsecured and repayable on demand and relate to receivables for which there was no recent history of default.

18. LOANS TO DIRECTORS

Loans to directors, disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, are as follows:

Name	At 31 December 2018 RMB'000	Maximum amount outstanding during the year RMB'000	At 31 December 2017 and 1 January 2018 RMB'000	Maximum amount outstanding during the prior year RMB'000	At 1 January 2017 RMB'000	Security held
Mr. Chan Cheung Ngai	–	–	–	8,665	5,910	None
Mr. Luk Wing Ming	–	–	–	10,590	7,223	None
United Trinity Electronics Company Limited ("**UTE**")	–	–	–	19,824	11,170	None
	–		–		24,303	

The loans granted to Mr. Chan Cheung Ngai and Mr. Luk Wing Ming are unsecured, non-interest-bearing and repayable on demand. The loans granted to a company jointly controlled by Mr. Chan Cheung Ngai and Mr. Luk Wing Ming, UTE, are unsecured, non-interest-bearing and repayable within one year.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/ AVAILABLE-FOR-SALE INVESTMENTS

	2018 RMB'000	2017 RMB'000
Unlisted investments, at fair value	**–**	2,000

The above unlisted investments were wealth management products issued by banks in Mainland China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2018 RMB'000	2017 RMB'000
Cash and bank balances	**274,343**	92,252
Non-pledged time deposits with original maturity of less than three months when acquired	**351,375**	–
Pledged time deposits	**31,031**	18,252
	656,749	110,504
Less: Pledged time deposits		
– Pledged for bank borrowings (note 24)	**(31,031)**	(18,252)
Cash and cash equivalents	**625,718**	92,252

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to RMB43,621,000 (2017: RMB34,536,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods from 28 days to 6 months and earn interest at the fixed time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

Deposits amounting to RMB31,031,000 have been pledged to secure bank loans as at 31 December 2018 (2017: RMB18,252,000) (note 24).

21. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2018 RMB'000	2017 RMB'000
Less than 3 months	**156,952**	160,894
3 to 6 months	**11,753**	13,565
6 to 12 months	**2,719**	357
1 to 2 years	**65**	13
Over 2 years	**13**	–
	171,502	174,829

Included in the trade payables are trade payables of RMB349,000 (2017: RMB8,000) due to a related party which are repayable within 30 days, which represents credit terms similar to those offered by the related parties to their major customers.

The trade payables are non-interest-bearing and are normally settled within three months.

22. OTHER PAYABLES AND ACCRUALS

	Notes	2018 RMB'000	2017 RMB'000
Other payables	(a)	**169,308**	83,191
Taxes payable other than corporate income tax		**54,653**	31,124
Payroll and welfare payable		**43,351**	27,061
Contract liabilities	(b)	**7,300**	–
Payables for purchase of property, plant, equipment and other intangible assets		**493**	1,293
Dividends payable		**–**	8,164
Advances from customers		**–**	5,930
Due to related parties	(c)	**–**	2,749
		275,105	159,512

22. OTHER PAYABLES AND ACCRUALS (CONTINUED)

Notes:

(a) Other payables are non-interest-bearing and repayable on demand.

(b) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 RMB'000	1 January 2018 RMB'000
Short-term advances received from customers		
Sale of products	3,678	1,072
Consulting services	3,622	4,858
	7,300	5,930

Contract liabilities include short-term advances received to deliver products and consulting services. The increase in contract liabilities in 2018 was mainly due to the increase in amounts of new customers in relation to the sales of products.

(c) Amount due to related parties is unsecured, non-interest-bearing and repayable on demand.

23. DERIVATIVE FINANCIAL INSTRUMENTS

	2018 RMB'000	2017 RMB'000
Forward currency contracts		
Current option	191	–

The Group has entered into various forward currency contracts to manage its exchange rate exposures. These forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss. Changes in the fair value of non-hedging forward currency contracts amounting to RMB185,000 (2017: Nil) were charged to the statement of profit or loss during the year.

24. INTEREST-BEARING BANK AND OTHER LOANS

	2018		
	Effective interest rate (%)	**Maturity**	**RMB'000**
Current			
Bank loans – secured	**3.50-5.22**	**2019**	**354,005**
Bank loans – unsecured	**4.85**	**2019**	**5,000**
Discounted notes receivable	**4.00**	**2019**	**15,347**
Current portion of long term finance lease payables (note 25)	**1.80**	**2019**	**375**
			374,727

	2017		
	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans – secured	3.00-5.44	2018	166,488
Discounted notes receivable	4.85	2018	2,093
Current portion of long term finance lease payables (note 25)	1.80	2018	348
			168,929
Non-current			
Finance lease payables (note 25)	1.80	2019	360

24. INTEREST-BEARING BANK AND OTHER LOANS (CONTINUED)

	2018 RMB'000	2017 RMB'000
Analysed into:		
Bank and other borrowings repayable:		
Within one year or on demand	**374,727**	168,929
In the second year	**–**	360
	374,727	169,289

Notes:

(a) Certain of the Group's bank loans are secured by:

(i) the pledges over certain of the Group's trade receivables amounting to RMB13,621,000 as at 31 December 2018 (2017: RMB75,831,000) (note 16);

(ii) the pledges over certain of the Group's patents, which had an aggregate net carrying value of RMB2,292,000 as at 31 December 2018 (2017: RMB2,792,000) (note 14); and

(iii) the pledges over certain of the Group's time deposits amounting to RMB31,031,000 as at 31 December 2018 (2017: RMB18,252,000) (note 20).

In addition, Mr. Chan Cheung Ngai and Mr. Luk Wing Ming, the directors of the Company, have guaranteed certain of the Group's bank loans up to RMB239,114,000 at 31 December 2018. Mr. Chan Cheung Ngai and Mr. Luk Wing Ming, the directors of the Company, Ms. Zhang Hui, the spouse of Mr. Chan Cheung Ngai, Ms. Zhu Zhaoxia, the mother of Mr. Luk Wing Ming, and Mr. Lu Peixi, the father of Mr. Luk Wing Ming, have guaranteed certain of the Group's bank loans up to RMB156,488,000 at 31 December 2017.

(b) At the end of the reporting period, the borrowings of the Group denominated in RMB, US$ and HK$ amounted to RMB35,347,000 (2017: RMB62,093,000), RMB337,510,000 (2017: RMB105,773,000) and RMB1,870,000 (2017: RMB1,423,000), respectively.

25. FINANCE LEASE PAYABLES

The Group has certain finance leases for motor vehicles. These leases are classified as finance leases with maturity dates before the end of 2019. As at 31 December 2018, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments 2018 RMB'000	Minimum lease payments 2017 RMB'000	**Present value of minimum lease payments 2018 RMB'000**	Present value of minimum lease payments 2017 RMB'000
Amounts payable:				
Within one year	**382**	366	**375**	348
In the second year	**–**	366	**–**	360
Total minimum finance lease payments	**382**	732	**375**	708
Future finance charges	**(7)**	(24)		
Total net finance payables	**375**	708		
Portion classified as current liabilities (note 24)	**(375)**	(348)		
Non-current portion (note 24)	**–**	360		

26. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation RMB'000
Gross deferred tax liabilities at 1 January 2017	361
Deferred tax credited to the statement of profit or loss during the year (note 10)	(110)
Gross deferred tax liabilities at 31 December 2017 and 1 January 2018	251
Acquisition of a subsidiary (note 30)	20
Deferred tax credited to the statement of profit or loss during the year (note 10)	(15)
Gross deferred tax liabilities at 31 December 2018	256

26. DEFERRED TAX (CONTINUED)

Deferred tax assets

	Impairment of trade and other receivables RMB'000	Government grants RMB'000	Amortisation in excess of related amortisation allowance RMB'000	Losses available for offsetting against future taxable profits RMB'000	Unrealised profit attributable to the intra-group transactions RMB'000	Impairment of inventories RMB'000	Total RMB'000
Gross deferred tax assets at 1 January 2017	126	376	164	–	2,197	2,074	4,937
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	(5)	198	246	1,565	360	(270)	2,094
Gross deferred tax assets at 31 December 2017 and 1 January 2018	121	574	410	1,565	2,557	1,804	7,031
Effect of adoption of HKFRS 9	105	–	–	–	–	–	105
Effect of adoption of HKFRS 15	–	–	–	220	–	–	220
Gross deferred tax assets at 1 January 2018 (restated)	226	574	410	1,785	2,557	1,804	7,356
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	(16)	(145)	246	2,036	(35)	419	2,505
Gross deferred tax assets at 31 December 2018	**210**	**429**	**656**	**3,821**	**2,522**	**2,223**	**9,861**

26. DEFERRED TAX (CONTINUED)

Deferred tax assets (Continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2018 RMB'000	2017 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**9,605**	6,780

Deferred tax assets have not been recognised in respect of the following item:

	2018 RMB'000	2017 RMB'000
Tax losses	**4,268**	1,801

The above tax losses arising in Mainland China that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of the above item as it is not considered probable that taxable profits will be available against which the above item can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment subsidiaries established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those foreign invested subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2018, no deferred tax has been recognised for withholding taxes that would be payable on unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, these subsidiaries' fund will be retained in Mainland China for the expansion of these subsidiaries' operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totaled RMB274,681,000 as at 31 December 2018 (2017: RMB281,219,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its Shareholders.

27. GOVERNMENT GRANTS

	2018 RMB'000	2017 RMB'000
At 1 January	**3,829**	2,510
Grants received during the year	**790**	3,661
Recognised as income during the year	**(1,756)**	(2,342)
At 31 December	**2,863**	3,829
Current	**456**	1,366
Non-current	**2,407**	2,463

The grants related to the subsidies received from the government for the purpose of compensation for expenses arising from research and development and improvement of manufacturing facilities on certain special projects. Upon completion of the related projects and having passed the final assessment of the relevant government authorities, the grants related to the expense items would be recognised as other income directly in the statement of profit or loss and the grants related to an asset would be released to the statement of profit or loss over the expected useful life of the relevant asset.

28. SHARE CAPITAL

Shares

	2018 HK$'000	2017 HK$'000
Authorised:		
2,400,000,000 (2017: 38,000,000) ordinary shares of HK$0.01 each	**24,000**	380

	2018 RMB'000	2017 RMB'000
Issued and fully paid:		
1,035,975,000 (2017: 200) ordinary shares of HK$0.01 each	**8,816**	–

28. SHARE CAPITAL (CONTINUED)

Shares (Continued)

A summary of movements in the Company's share capital is as follows:

	Notes	Number of shares in issue	Share capital RMB'000
At 3 January 2017 (date of incorporation), 31 December 2017 and 1 January 2018	(a)	200	–
Capitalisation issue of shares	(b)	749,999,800	6,376
Issuance of shares on 12 July 2018	(c)	250,000,000	2,126
Over-allotment on 1 August 2018	(d)	35,975,000	314
At 31 December 2018		1,035,975,000	8,816

Notes:

(a) On 3 January 2017, one share was allotted and issued as fully-paid and at par to Kevin Butler, the initial subscriber and an independent third party. On the same day, the said one Share was transferred to Heroic Mind. On the same day, an additional 100 and 99 Shares were allotted and issued as fully-paid and at par to Treasure Map and Heroic Mind, respectively.

(b) On 22 January 2018, an additional 700 and 100 Shares were allotted and issued, as fully-paid and at par, to Magnate Era and Zenith Benefit, respectively. And on 22 June 2018, 749,999,000 ordinary shares of HK$0.01 each were allotted and issued, credits as fully paid at par, by way of capitalisation from the capital reserve account to the holders of shares whose names appear on the register of members of the Company at the close of business on 12 July 2018 in proportion to their respective shareholdings.

(c) In connection with the Company's initial public offering, 250,000,000 ordinary shares of HK$2.90 each were issued at HK$0.01 per share for a total cash consideration, before expenses, of HK$725,000,000.

(d) In connection with the Company's over-allotment, 35,975,000 additional shares were allotted at HK$2.90 each and issued at HK$0.01 per share, for a total cash consideration, before expenses, of HK$104,327,500.

29. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 57 and 58 of the financial statements.

Statutory surplus reserves

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are registered in the PRC as domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserves may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

Capital reserve

The capital reserve of the Group represents the paid-up capital of the companies comprising the Group prior to the incorporation of the Company and the reserve arising from the reorganization during the initial public offering process and difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid for acquisition of non-controlling interest in a subsidiary. Details of the movements in the capital reserve are set out in the consolidated statement of changes in equity.

Exchange fluctuation reserve

The exchange fluctuation reserve comprises all relevant exchange differences arising from the translation of the financial statements of foreign operations.

30. BUSINESS COMBINATION

On 28 December 2018, the Group acquire a 100% interest in Wuxi Maxdone from an independent third party. Wuxi Maxdone is engaged in the research and development and related business on embedded control electronics products and devices. The acquisition was made as part of the Group's strategy to strengthen its service platform in Mainland China. The purchase consideration for the acquisition was in the form of cash, with RMB5,000,000 paid at the acquisition date.

The fair values of the identifiable assets and liabilities of Wuxi Maxdone as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000
Property, plant and equipment (note 13)	6,548
Patents and licences (note 14)	424
Cash and bank balances	1,941
Inventories	2,040
Trade and notes receivables	2,096
Prepayments and other receivables	749
Trade payables	(1,606)
Other payables and accruals	(7,090)
Deferred tax liabilities (note 26)	(20)
Tax payable	(3)
Total identifiable net assets at fair value	5,079
Gain on bargain purchase recognised in other income and gains in the consolidated statement of profit or loss	(79)
Satisfied by cash	5,000

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB2,096,000 and RMB749,000, respectively. The gross contractual amounts of trade receivables and other receivables were RMB2,096,000 and RMB749,000, respectively.

No transaction cost was incurred for this acquisition.

30. BUSINESS COMBINATION (CONTINUED)

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(5,000)
Cash and bank balances acquired	1,941
Net outflow of cash and cash equivalents included in cash flows from investing activities	(3,059)

Since the acquisition, Wuxi Maxdone contributed RMB103,000 to the Group's revenue and RMB103,000 to the consolidated profit for the year ended 31 December 2018.

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

2018

	Bank and other loans RMB'000	Finance lease payables RMB'000	Amounts due to related parties RMB'000
At 1 January 2018	168,581	708	2,749
Changes from financing cash flows	200,397	(357)	(2,754)
Foreign exchange movements	5,374	24	5
At 31 December 2018	374,352	375	–

31. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Changes in liabilities arising from financing activities (Continued)

2017

	Bank and other loans RMB'000	Finance lease payables RMB'000	Amounts due to related parties RMB'000
At 1 January 2017	103,376	1,113	7,297
Disposal of subsidiaries to a related party	–	–	500
Changes from financing cash flows	69,991	(346)	(5,040)
Foreign exchange movements	(4,786)	(59)	(8)
At 31 December 2017	168,581	708	2,749

32. CONTINGENT LIABILITIES

At the end of each of the reporting periods, the Group did not have any significant contingent liabilities.

33. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank and other loans are included in note 24 to the financial statements.

34. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000	2017 RMB'000
Within one year	**10,558**	10,040
In the second to fifth years, inclusive	**10,848**	12,874
	21,406	22,914

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34 above, the Group had the following capital commitments at the end of the reporting periods:

	2018 RMB'000	2017 RMB'000
Contracted, but not provided for:		
Patents, plant and machinery	**12,313**	1,634

36. RELATED PARTY TRANSACTIONS

Details of the Group's principal related parties are as follows:

Name	Relationship
Mr. Chan Cheung Ngai	Director, the ultimate shareholder
Mr. Luk Wing Ming	Director, the ultimate shareholder
Shanghai Maibang Electronics Technology Company Limited ("**Shanghai Maibang**")	An entity jointly controlled by Mr. Chan Cheung Ngai and Mr. Luk Wing Ming
Decisions Investment Limited	An entity jointly controlled by Mr. Chan Cheung Ngai and Mr. Luk Wing Ming
United Trinity Holdings Limited ("**United Trinity**")	An entity jointly controlled by Mr. Chan Cheung Ngai and Mr. Luk Wing Ming
UTE	An entity controlled by United Trinity
Heroic Mind Limited	An entity controlled by Mr. Chan Cheung Ngai
Treasure Map Ventures Limited	An entity controlled by Mr. Luk Wing Ming
Future Domain Investment Ltd.	An entity jointly controlled by Heroic Mind Limited and Treasure Map Ventures Limited
D&E Holdings Limited	An entity controlled by Future Domain Investment Ltd.
D&E Partners Group Inc.	An entity jointly controlled by Mr. Chan Cheung Ngai and Mr. Luk Wing Ming
Trendy Success Ltd.	An entity jointly controlled by Heroic Mind Limited and Treasure Map Ventures Limited
Forever Elite Holdings Ltd.	An entity controlled by Trendy Success Ltd.
Forever Bright Technology Limited	An entity controlled by D&E Partners Group Inc.
Intron Holdings Ltd.	An entity jointly controlled by Mr. Chan Cheung Ngai & Mr. Luk Wing Ming
Motovis Inc.	An associate of D&E Partners Group Inc.
Moshi Automatic Technology (Shanghai) Co., Ltd. ("**Moshi Automatic**")	An associate of Forever Bright Technology Limited
Shanghai Yingshun Electronic Technology Co., Ltd. ("**Shanghai Yingshun**")	An entity jointly controlled by D&E Holdings Limited
Shenzhen Tuofuwei Technology Co., Ltd ("**Shenzhen Tuofuwei**")	An entity jointly controlled by Shanghai Yingshun
Shanghai Lvliang Technology Co., Ltd ("**Shanghai Lvliang**")	An entity jointly controlled by Shenzhen Tuofuwei

36. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following transactions with related parties during the year:

	Notes	2018 RMB'000	2017 RMB'000
Sales of products to:			
UTE	(i)	**42,411**	61,194
Moshi Automatic	(i)	**376**	343
		42,787	61,537
Provision of services to:			
Moshi Automatic	(i)	**10**	–
Purchases of goods and services from:			
Moshi Automatic	(ii)	**1,596**	49
Shanghai Lvliang	(ii)	**–**	80
UTE	(ii)	**–**	8
		1,596	137
Loans to directors:			
Mr. Chan Cheung Ngai	(iii)	**–**	22,849
Mr. Luk Wing Ming	(iii)	**–**	27,926
		–	50,775
Loans to a related party:			
UTE	(iv)	**–**	86,746
Loans from related parties:			
Shanghai Maibang	(iv)	**–**	600
Heroic Mind Limited	(iii)	**–**	130
Treasure Map Ventures Limited	(iii)	**–**	130
		–	860

36. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following transactions with related parties during the year: (continued)

	Notes	2018 RMB'000	2017 RMB'000
Payment on behalf of related parties:			
United Trinity		–	12
Decisions Investment Limited		–	6
Intron Holdings Ltd.		–	386
D&E Partner Group Inc.		–	6
D&E Holdings Limited		–	5
Heroic Mind Limited		–	203
Treasure Map Ventures Limited		–	203
Future Domain Investment Ltd.		–	6
Trendy Success Ltd.		–	6
Motovis Inc.		–	229
Forever Bright Technology Limited		–	11
Forever Elite Holdings Ltd.		–	4
		–	1,077
Repayments of loans to directors:			
Mr. Chan Cheung Ngai	(iii)	–	28,569
Mr. Luk Wing Ming	(iii)	–	34,917
		–	63,486
Repayment of loans to a related party:			
UTE	(iv)	–	97,916
Repayments of loans from related parties:			
Heroic Mind Limited	(iv)	**129**	–
Treasure Map Ventures Limited	(iv)	**128**	–
Shanghai Lvliang	(iv)	**300**	200
Shanghai Maibang	(iv)	**2,197**	5,700
		2,754	5,900

36. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following transactions with related parties during the year: (continued)

	Note	2018 RMB'000	2017 RMB'000
Refund of payments on behalf of related parties:			
United Trinity		–	34
Decisions Investment Limited		–	47
D&E Partner Group Inc.		–	27
D&E Holdings Limited		–	17
Heroic Mind Limited		–	214
Treasure Map Ventures Limited		–	214
Future Domain Investment Ltd.		–	16
Trendy Success Ltd.		–	16
Forever Elite Holdings Ltd.		–	10
Motovis Inc.		–	229
Forever Bright Technology Limited		–	11
Intron Holdings Ltd.		–	1,453
		–	2,288
Guarantee for:			
UTE	(v)	–	15,000

Notes:

(i) The sales of products to related parties were made according to the published prices and conditions offered to the major customers of the Group.

(ii) The purchases of goods and services from related parties were made according to the published prices and conditions offered by the related parties to their major customers.

(iii) The loans were unsecured, non-interest-bearing and repayable on demand.

(iv) The loans were unsecured, non-interest-bearing and repayable on demand or within one year.

(v) No guarantee to certain of the bank loans of UTE was provided by Shanghai Intron as at 31 December 2018 (2017: RMB15,000,000).

36. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) In addition, Mr. Chan Cheung Ngai and Mr. Luk Wing Ming, the directors of the Company, have guaranteed certain of the Group's bank loans up to RMB239,114,000 at 31 December 2018. Mr. Chan Cheung Ngai and Mr. Luk Wing Ming, the directors of the Company, Ms. Zhang Hui, the spouse of Mr. Chan Cheung Ngai, Ms. Zhu Zhaoxia, the mother of Mr. Luk Wing Ming, and Mr. Lu Peixi, the father of Mr. Luk Wing Ming, have guaranteed certain of the Group's bank loans up to RMB156,488,000 at 31 December 2017.

(c) Outstanding balances with related parties:

(i) Details of the Group's loans to/from its related parties as at 31 December 2017 and 2018 are included in notes 17 and 22.

(ii) Details of the Group's trade balances with its related parties as at 31 December 2017 and 2018 are disclosed in notes 16 and 21.

(iii) Details of the Group's loans to directors and a company jointly controlled by the directors are included in note 18.

(d) Compensation of key management personnel of the Group:

	2018 **RMB'000**	2017 RMB'000
Short term employee benefits	**13,965**	14,291
Performance related bonuses	**6,402**	–
Pension scheme contributions	**300**	268
Total compensation paid to key management personnel	**20,667**	14,559

Further details of directors' and co-chief executives' remuneration are included in note 8 to the financial statements.

The related party transactions in respect of sale of products to UTE above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the reporting period are as follows:

2018

Financial assets

	Financial assets at amortised cost RMB'000	Financial assets at fair value through other comprehensive income — Debt investments RMB'000	Total RMB'000
Trade and notes receivables	563,330	160,065	723,395
Financial assets included in prepayments, other receivables and other assets	31,669	–	31,669
Pledged deposits	31,031	–	31,031
Cash and cash equivalents	625,718	–	625,718
	1,251,748	160,065	1,411,813

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Financial liabilities at fair value through profit or loss RMB'000	Total RMB'000
Trade payables	171,502	–	171,502
Financial liability included in other payables and accruals	169,801	–	169,801
Interest-bearing bank and other borrowings	374,727	–	374,727
Derivative financial instruments	–	191	191
	716,030	191	716,221

37. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments as at the end of each of the reporting period are as follows: (continued)

2017

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Trade and notes receivables	507,538	–	507,538
Financial assets included in prepayments, other receivables and other assets	3,678	–	3,678
Available-for-sale investments	–	2,000	2,000
Pledged deposits	18,252	–	18,252
Cash and cash equivalents	92,252	–	92,252
	621,720	2,000	623,720

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	174,829
Financial liabilities included in other payables and accruals	95,397
Interest-bearing bank and other borrowings	169,289
	439,515

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

All the carrying amounts of the Group's financial instruments approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, trade and notes receivables, financial assets included in prepayments, other receivables and other assets, trade payables, financial liabilities included in other payables and accruals and short term interest-bearing bank and other loans approximate to their carrying amounts largely due to the short term maturities of these instruments.

Management has assessed that the fair values of the non-current portion of finance lease payables approximate to their carrying amounts largely due to the fact that such loans were made between the Group and an independent third party financial institution based on prevailing market interest rates.

The Group invests in unlisted investments, which represent wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

The Group enters into derivative financial instruments with banks. Derivative financial instruments, such as forward currency contracts, are measured using valuation technique similar to forward pricing model, using present value calculation. The model incorporates various market observable inputs including foreign exchange spot, forward rates and discount factor. The carrying amounts of forward currency contracts are the same as their fair values.

The fair values of the notes receivable classified as financial assets at fair value through other comprehensive income under HKFRS 9 as at 31 December 2018 have been calculated by discounting the expected future cash flows, which are the par values of the notes receivable. In addition, the notes receivable will mature within one year, thus their fair values approximate to their carrying values.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Notes receivables	–	**160,065**	–	**160,065**

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Assets measured at fair value: (Continued)

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments	–	2,000	–	2,000

Liabilities measured at fair value:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	–	191	–	191

The Group did not have any financial liabilities measured at fair value as at 31 December 2017.

During the years, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2017: Nil).

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other loans and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and notes receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

The Group's policy is to manage interest cost using a mix of fixed and floating rate debts.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
2018			
RMB	**50**	**(34)**	**(34)**
RMB	**(50)**	**34**	**34**
US$	**50**	**(305)**	**(305)**
US$	**(50)**	**305**	**305**
HK$	**50**	**(7)**	**(7)**
HK$	**(50)**	**7**	**7**
2017			
RMB	50	(50)	(50)
RMB	(50)	50	50
US$	50	(46)	(46)
US$	(50)	46	46
HK$	50	(3)	(3)
HK$	(50)	3	3

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between the RMB and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the foreign currency exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities).

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (Continued)

	Increase/ (decrease) in rate of foreign currency %	Increase/ (decrease) in profit before tax RMB'000
2018		
If RMB weakens against HK$	**5**	**(279)**
If RMB strengthens against HK$	**(5)**	**279**
If RMB weakens against US$	**5**	**17,091**
If RMB strengthens against US$	**(5)**	**(17,091)**
If RMB weakens against CHF	**5**	**165**
If RMB strengthens against CHF	**(5)**	**(165)**
If RMB weakens against EUR	**5**	**(1)**
If RMB strengthens against EUR	**(5)**	**1**
2017		
If RMB weakens against HK$	5	(15)
If RMB strengthens against HK$	(5)	15
If RMB weakens against US$	5	(6,242)
If RMB strengthens against US$	(5)	6,242
If RMB weakens against CHF	5	46
If RMB strengthens against CHF	(5)	(46)
If RMB weakens against EUR	5	(222)
If RMB strengthens against EUR	(5)	222

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

The Group trades mainly with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade and notes receivables*	–	–	–	563,330	563,330
Notes receivables**	160,065	–	–	–	160,065
Financial assets included in prepayments, other receivables and other assets	–	–	–	–	–
– Normal**	31,669	–	–	–	31,669
Pledged deposits					
– Not yet past due	31,031	–	–	–	31,031
Cash and cash equivalents					
– Not yet past due	625,718	–	–	–	625,718
	848,483	–	–	563,330	1,411,813

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 16 to the financial statements.

** The credit quality of notes receivable and the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (Continued)

Maximum exposure as at 31 December 2017

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged deposits and other receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades mainly with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different regions.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in notes 16 and 17 to the financial statements.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g., trade receivables and other financial assets) and projected cash flows from operations.

The Group maintains a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

2018

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade payables	24,656	81,035	65,811	–	171,502
Financial liabilities included in other payables and accruals	169,801	–	–	–	169,801
Interest-bearing bank and other loans	239,948	115,523	20,668	–	376,139
Derivative financial instruments	–	191	–	–	191
	434,405	196,749	86,479	–	717,633

2017

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade payables	1,395	127,128	46,306	–	174,829
Financial liabilities included in other payables and accruals	92,900	–	2,497	–	95,397
Interest-bearing bank and other loans	56,172	70,262	44,627	366	171,427
Guarantees given to banks in connection with facilities granted to UTE	15,000	–	–	–	15,000
	165,467	197,390	93,430	366	456,653

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain a strong credit rating and healthy capital ratios in order to support its business and maximise Shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to Shareholders, return capital to Shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. Net debt includes interest-bearing bank and other borrowings, trade payables, other payables and accruals, less cash and cash equivalents and pledged deposits. Capital represents equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2018 RMB'000	2017 RMB'000
Interest-bearing bank and other borrowings	**374,727**	169,289
Trade payables	**171,502**	174,829
Other payables and accruals	**275,105**	159,512
Less: Cash and cash equivalents	**(625,718)**	(92,252)
Pledged deposits	**(31,031)**	(18,252)
Net debt	**164,585**	393,126
Equity attributable to owners of the parent	**1,142,738**	428,190
Capital and net debt	**1,306,796**	821,316
Gearing ratio	**13%**	48%

40. EVENTS AFTER THE REPORTING PERIOD

On 21 January 2019, 30,678,600 share options were granted to eligible participants of the Company under the share option scheme adopted by the Company on 22 June 2018. The share options granted shall vest in the grantees in accordance with the timetable, each with an exercise period commencing from the relevant share option vesting date and ending on 31 December 2025.

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSET		
Investment in a subsidiary	**245**	245
Total non-current asset	**245**	245
CURRENT ASSETS		
Prepayments, other receivables and other assets	**166,319**	–
Cash and cash equivalents	**531,616**	21
Total current assets	**697,935**	21
CURRENT LIABILITIES		
Other payables and accruals	**(1,974)**	(382)
Total current liabilities	**(1,974)**	(382)
NET CURRENT ASSETS/(LIABILITIES)	**695,961**	(361)
TOTAL ASSETS LESS CURRENT LIABILITIES	**696,206**	(116)
NET LIABILITIES	**–**	(116)
EQUITY		
Share capital	**8,816**	–
Reserves (note)	**687,390**	(116)
TOTAL EQUITY/(NET DEFICIENCY IN ASSETS)	**696,206**	(116)

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Exchange fluctuation reserve RMB'000	(Accumulated loss)/retained profits RMB'000	Total RMB'000
At 3 January 2017 (date of incorporation)	–	–	–	–
Loss for the year	–	–	(134)	(134)
Exchange differences on translation of the Company	–	18	–	18
Total comprehensive loss for the year	–	18	(134)	(116)
At 31 December 2017 and 1 January 2018	–	18	(134)	(116)
Loss for the year	–	–	(1,809)	(1,809)
Exchange differences on translation of the Company	–	17,332	–	17,332
Total comprehensive income for the year	–	17,332	(1,809)	15,523
Issuance of shares for initial public offering	704,905	–	–	704,905
Capitalisation of issue of shares premium	(6,376)	–	–	(6,376)
Share issue expenses	(26,546)	–	–	(26,546)
At 31 December 2018	671,983	17,350	(1,943)	687,390

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2019.