



Sun.King Power Electronics Group Limited
賽晶電力電子集團有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code:580

Annual Report 2019

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CORPORATE INFORMATION

Executive Directors

Mr. Xiang Jie (*chairman of the board of directors*)
Mr. Gong Renyuan (*chief executive officer*)
Mr. Yue Zhoumin

Non-executive Directors

Mr. Yan Fuquan
Mr. Zhu Ming
Ms. Zhang Ling

Independent Non-executive Directors

Mr. Chen Shimin
Mr. Zhang Xuejun
Mr. Leung Ming Shu
Mr. Zhao Hang

Authorised Representatives

Mr. Yue Zhoumin
Ms. He Lina

Audit Committee

Mr. Chen Shimin (*chairman of the audit committee*)
Mr. Zhu Ming
Mr. Zhang Xuejun
Mr. Leung Ming Shu

Remuneration Committee

Mr. Leung Ming Shu
(*chairman of the remuneration committee*)
Mr. Chen Shimin
Mr. Zhang Xuejun
Mr. Zhao Hang

Nomination Committee

Mr. Zhang Xuejun
(*chairman of the nomination committee*)
Mr. Gong Renyuan
Mr. Chen Shimin

Investment Committee

Mr. Yan Fuquan (*chairman of the investment committee*)
Mr. Xiang Jie
Ms. Zhang Ling
Mr. Chen Shimin
Mr. Zhang Xuejun
Mr. Leung Ming Shu

Company Secretary

Ms. He Lina
Ms. Ng Ka Man (resigned on 1 April 2019)

Legal Advisers

Loeb & Loeb LLP

External Auditors

Ernst & Young

Registered Office

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Headquarters

Building 9-A
KongGangRongHuiYuan
Yuhua Road
Tianzhu Airport Industrial Zone B
Shunyi District
Beijing
People's Republic of China (the "PRC")

Principal Place of Business in Hong Kong

31st Floor, Tower Two, Times Square
1 Matheson Street
Causeway Bay
Hong Kong

Principal Share Registrar and Transfer Office

SMP Partners (Cayman) Limited
3rd Floor, Royal Bank House
24 Shedden Road, P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Banks

Bank of China Limited, Jiashan branch
China Construction Bank Corporation, Jiashan branch
China Construction Bank Corporation,
Wuxi Xishan branch

Listing Exchange Information

Place of listing: Main Board of The Stock Exchange of
Hong Kong Limited (the "Stock Exchange")
Stock code: 580

Website

www.sunking-tech.com

Dear shareholders,

In 2019, China continued to pursue the strategy of “replacement of other energy with clean energy and replacement of other energy with electricity” with a focus on vigorously developing clean energy power generation and power energy application. As one of the main industries applying the efficient and energy-saving emerging power technologies, the power electronics industry has received high attention and excellent development opportunities.

Sun.King Power Electronics Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) continued to adhere to the business philosophy of “motivating corporate development with scientific and technological innovation”, strived in advancing innovation and research and development (“**R&D**”) and made great achievements. It successfully launched new technologies and products such as DC-link capacitor for flexible direct current (“**DC**”) transmission, network impedance measurement and laminated busbar for 5G communication. The Group’s innovative technologies also made outstanding achievements in sectors such as physics research, intelligent grid, rail transportation and high voltage direct current (“**HVDC**”) transmission.

The international R&D capability of the Group has further strengthened with three international R&D teams established which comprise a power electronics technology R&D team in Switzerland, a semiconductor technology R&D team in Switzerland and a network impedance measuring technology R&D team in Germany.

The Group launched the R&D and production project (the “**IGBT Project**”) of the power semiconductor core device – insulated gate bipolar transistor (“**IGBT**”). As the core device in the field of power semiconductors, IGBT is the “CPU” in the field of electrical equipment. It plays a vital role in many high-efficient, energy-saving and innovative power application fields represented by smart grid, rail transportation, new energy vehicles, new energy power generation and frequency conversion energy saving, etc. The independent R&D and manufacturing of IGBT are important initiatives of the Group to strengthen core competitiveness and drive long-term development through innovation and R&D.

REVIEW

In 2019, as various industrial policies such as the Notice on Accelerating the Planning and Construction of a Batch of Key Projects for Power Transmission and Transformation (《關於加快推進一批輸變電重點工程規劃建設工作的通知》) and the Action Plan on Freight Growth from 2018 to 2020 (《2018-2020年貨運增量行動方案》) were gradually implemented, investment in markets such as HVDC transmission and rail transportation remained at a high level. Benefiting from this, the Group recorded revenue of RMB1,395.6 million for 2019, representing a 8.1% increase compared to the same period of last year.

However, due to the impact of decrease in the revenue of products with higher gross profit margin, in particular products for ultra-high voltage direct current (“**UHVDC**”) transmission sector (which decreased by 28.0% as compared with the same period of last year), the Group’s consolidated gross profit margin decreased to 30.4% from 33.7% in the same period of last year, and net profit decreased to RMB200.0 million from RMB210.2 million in the same period of last year.

The Group sold part of its industrial business through the disposal of its 43% equity interests in Jiujiang Sun.King Technology Co., Ltd. (九江賽晶科技股份有限公司) (“**Jiujiang Sunking**”). Following the disposal, the Group further focused on its core business, and accelerated high-end technology R&D and commercialisation. The net proceeds from the disposal of RMB193 million will be mainly used for R&D of new technologies as represented by the IGBT Project and business development.

CHAIRMAN'S STATEMENT

PROSPECTS

2019 is a year for the Group to build on past achievements.

After nearly 20 years of development, the Group has become the leader in high-end power electronics technology in China, with many leading technologies and products at home and abroad. In particular, the Group made outstanding achievements in R&D and operation in the HVDC transmission sector. The Group's operating efficiency has grown steadily with continuously enhanced R&D capabilities and increasingly stronger talent team.

Nevertheless, there is no end to technological innovation, and corporate development requires constant self-breakthrough. The Group will promote the implementation of the IGBT Project with all-out effort and strive to launch the first batch of prototypes in the first half of 2020 and complete the construction of the first production line by the end of 2020. It will also accomplish the strategic goal of creating high-end IGBT products with independent technologies as soon as possible, and make them the new driving force for the Group's long-term development.

In addition, in keeping with its corporate mission of promoting green energy development with technological innovation, the Group will continue to promote the wide usage of emerging technologies such as network impedance measurement, solid state DC and alternating current (“AC”) circuit breakers, pulse power and online monitoring in the new energy power generation, new energy vehicles, intelligent grid, rail transportation and other industrial and civil sectors.

CORONAVIRUS DISEASE (COVID-19) OUTBREAK

As the outbreak of coronavirus disease (COVID-19) is touching the heart of Chinese people, it also touches the heart of all employees of the Group. The Group resolutely follows the arrangement and requirements of the Chinese government at all levels to fight the epidemic and strictly implements measures to prevent and control the epidemic, and donated RMB1 million to the Wuhan Red Cross to fight the epidemic. The Group also implements various measures to minimise the adverse impact of the epidemic on its operation.

ACKNOWLEDGEMENTS

On behalf of the board (the “**Board**”) of directors (the “**Director(s)**”) of the Company, I would like to thank the shareholders of the Company (the “**Shareholder(s)**”), stakeholders, members of the Board and all our staff for their support and contributions. Together with the management team, I will continue to strive for better returns for the Shareholders and for greater corporate social value.

Xiang Jie
Chairman

Hong Kong, 25 March 2020

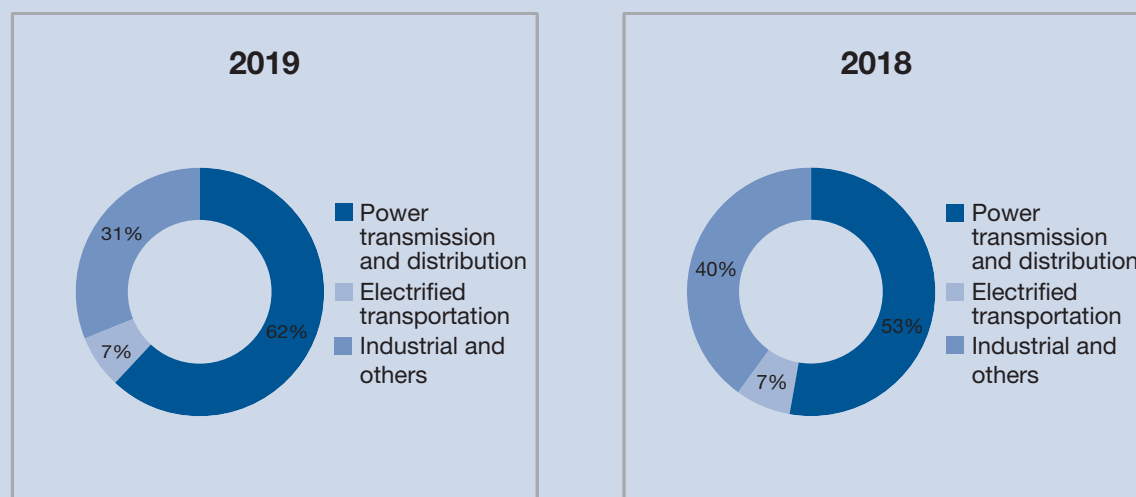
BUSINESS REVIEW

1. Performance by business sector

The Group has one reportable operating segment which is principally engaged in the manufacturing and trading of power electronic components. Management monitors the results of Group's operation as a whole for the purpose of making decisions about resources allocation and performance assessment. For analysis purpose, the Group's business performance by sector for the two years ended 31 December 2019 and 2018 are as follows:

	For the year ended 31 December			
	2019		2018	
	Revenue (RMB million)	Gross profit margin %	Revenue (RMB million)	Gross profit margin %
Power transmission and distribution	861.6	28	687.0	35
Electrified transportation	102.8	31	91.3	34
Industrial and others	431.2	35	512.2	34
Total	1,395.6	Average 30	1,290.5	Average 34

The proportion of revenue of each of the Group's business sectors was as follows:



1.1 Power transmission and distribution sector

- Market review**

Following the initiation of the “Qinghai-Henan” (青海—河南) and “Shaanbei-Wuhan” (陝北—武漢) UHVDC transmission projects at the end of 2018, the “Yazhong-Jiangxi” (雅中—江西) UHVDC transmission project and the “Yunnan-Guizhou Interconnection” (雲貴互聯) HVDC transmission project were initiated successively in the year of 2019.

Two key projects of flexible DC transmission – the experimental flexible DC grid demonstration project in Zhangbei (張北柔性直流電網實驗示範工程) (the “**Zhangbei Flexible Direct Project**”) and the demonstration project on ultra-high voltage multi-terminal DC transmission from Wudongde power station to Guangdong and Guangxi (烏東德電站送廣東廣西特高壓多端直流示範工程) (the “**Wudongde Multi-terminal DC Project**”) are progressing in an orderly manner.

In addition, offshore wind power has become a new hot spot for investment and construction in the wind power sector in the PRC in the year of 2019. Flexible DC transmission technology is the key and first class technology for offshore wind power grid. In 2019, the PRC initiated a number of flexible DC transmission projects in the offshore wind power sector, such as the Rudong offshore wind power flexible DC transmission demonstration project (如東海上風電柔性直流輸電示範項目) and the Sheyang offshore wind farm flexible DC transmission project (射陽海上風電場柔性直流輸電項目).

MANAGEMENT DISCUSSION AND ANALYSIS

In 2019, the State Grid Corporation of China proposed the comprehensive construction of the Ubiquitous Electric Power IoT, and key technologies represented by intelligent grid online monitoring have entered a period of rapid development.

- **Operating results**

The power transmission and distribution sector consists of UHVDC transmission, flexible DC transmission, and other types of power transmission and distribution.

	For the year ended 31 December		Change %
	2019	2018	
	Revenue (RMB million)		
Power transmission and distribution sector	861.6	687.0	25
UHVDC transmission	102.2	142.3	-28
Flexible DC transmission	676.6	471.9	43
Other power transmission and distribution	82.8	72.8	14

UHVDC transmission

Benefiting from the initiation of the Wudongde Multi-terminal DC Project – transmitting end (UHVDC technology), the UHVDC transmission projects – “Qinghai-Henan” (青海—河南), “Shaanbei-Wuhan” (陝北—武漢) and “Yazhong-Jiangxi” (雅中—江西) and the “Yunnan-Guizhou Interconnection” (雲貴互聯) HVDC transmission project, the Group secured abundant orders at hand in the UHVDC transmission subsector. However, order deliveries were made in a small scale in this subsector in 2019 which led to the significant decrease in revenue from this subsector.

Flexible DC transmission

In 2019, orders signed under the Wudongde Multi-terminal DC Project – receiving end (flexible DC technology) and the Zhangbei Flexible Direct Project entered the stage of large-scale delivery, under which the Group delivered 55% of the total order amount of the Wudongde Multi-terminal DC Project – receiving end (flexible DC technology) in 2019, and accumulatively delivered 58% of the total order amount as of the end of December 2019. For the Zhangbei Flexible Direct Project, the Group delivered 42% of the total order amount in 2019, and accumulatively delivered 100% of the total order amount as of the end of December 2019. The Group’s revenue in this subsector increased significantly as a result of the large-scale delivery.

Other power transmission and distribution

In 2019, businesses from the Group’s other power transmission and distribution subsector (including intelligent grid online monitoring products) generally performed well and the Group’s revenue increased slightly.

1.2 Electrified transportation sector

- **Market review**

With the gradual implementation of the Action Plan on Freight Growth from 2018 to 2020 (《2018-2020 年貨運增量行動方案》), the bidding of passenger motor units for the PRC maintained at relatively high level and the rate of localisation increased gradually. In 2019, the rail transportation vehicles subsector maintained a good development trend.

In 2019, however, as affected by further decrease in government subsidy for new energy vehicles, the production and sales volume of new energy vehicles was approximately 1,200,000 units, representing a decrease of approximately 4% as compared with 2018, which had an adverse impact on both upstream and downstream of the industry chain of new energy vehicles.

MANAGEMENT DISCUSSION AND ANALYSIS

- **Operating results**

The electrified transportation sector consists of rail transportation vehicles, rail transportation power supply system and new energy vehicles.

	For the year ended 31 December		Change %
	2019	2018	
	Revenue (RMB million)		
Electrified transportation sector	102.8	91.3	13
Rail transportation vehicles	91.6	75.8	21
Rail transportation power supply system	4.4	1.6	175
New energy vehicles	6.8	13.9	-51

Rail transportation vehicles

In 2019, the Group's sales order amount of the rail transportation vehicles subsector continued to grow and the Group's revenue in this subsector increased significantly, benefiting from the purchase volume of high-power electric locomotives and the purchase of passenger motor units maintained at high level.

Rail transportation power supply system

As this subsector is still at its demonstrative and experimental phase, the Group's sales orders in this subsector are unstable. In 2019, the Group's revenue in this sector increased significantly due to a significant development in the subsector during the year.

New energy vehicles

In 2019, as one of the major suppliers in the sector of new energy vehicles using laminated busbars, the Group's revenue in this subsector declined significantly due to a further decrease in government subsidy for new energy vehicles.

1.3 Industrial and others sector

- **Operating results**

The industrial and others sector comprises electrical equipment, new energy power generation, metal smelting, scientific research institutes and others.

	For the year ended 31 December		Change %
	2019	2018	
	Revenue (RMB million)		
Industrial and other section	431.2	512.2	-16
Electrical equipment	267.5	221.3	21
New energy power generation	48.5	29.0	67
Metal smelting	105.7	138.1	-23
Scientific research institutes and others	9.5	123.8	-92

MANAGEMENT DISCUSSION AND ANALYSIS

Electrical equipment

In 2019, due to the improvement in electrical equipment market environment and the increase in the Group's sales order amount, the Group's revenue in this subsector increased significantly.

New energy power generation

In 2019, the installed capacity of new energy power of the PRC reached approximately 0.82 billion kilowatt, representing an increase of 7.9% as compared with last year. The Group's revenue in this subsector increased significantly due to the increase in market size resulting from the Group's additional efforts in market expansion.

Metal smelting

On 28 June 2019, the Group completed the disposal of 43% equity interests in Jiujiang Sunking, which then changed from a subsidiary to an associate of the Group. As a result, the Group's revenue in this subsector decreased significantly.

Scientific research institutes and others

The progress of business development of the scientific research institutes and others subsector is somewhat erratic, which together with the impact of the change of Jiujiang Sunking from a subsidiary to an associate of the Group, led to a significant decrease in the Group's revenue in this subsector.

2. R&D

The Group adheres to the business philosophy of "motivating corporate development with scientific and technological innovation" and places great emphasis on the R&D of new technologies and R&D team building. Through innovation and R&D in two major fields, namely international leading power semiconductor and supporting device technologies, and international frontier new power technologies, we strive to promote the rapid enhancement of technological strength and business performance of the enterprise.

R&D of IGBT

In 2019, the Group initiated an independent R&D project for the core device of power semiconductor – IGBT. The Group formed excellent international R&D team and domestic technology team. All members of the international R&D team come from renowned European enterprises. The Group will fully promote the R&D project of IGBT, and achieve the goal of establishing independent high-end IGBT technologies in the PRC.

Team building

In 2019, the Group further strengthened international R&D capability through measures such as acquiring morEnergy GmbH of Germany and establishing SwissSEM Technology AG in Switzerland. Currently, the Group has three international R&D teams, including a power electronics technology R&D team in Switzerland, a semiconductor technology R&D team in Switzerland and a network impedance measuring technology R&D team in Germany.

R&D achievements

2019 was a fruitful year for R&D and innovation of the Group, which mainly include:

1. The launch of network impedance measuring technology: the world's cutting-edge and the most convenient network impedance measuring technology, which has obtained international invention patent and can be widely used in many fields such as new energy power generation, rail transportation vehicles and new energy vehicle charging systems.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Smart grid 11kV ultra-fast alternating current switchgears: which won the bidding of the United Kingdom smart grid technology demonstration project.
3. 2kA bipolar energy extraction system: which won the bidding for the high luminosity-large hadron collider project of the European Organisation for Nuclear Research, the world's largest hadron collider.
4. Wireless passive temperature measurement: which won the bidding for the UHVDC project and became the first enterprise in the PRC to apply this technology to the UHVDC field.
5. Neutral-section passing devices with alternating current switches for electrified railways: which won the bidding for the scientific research demonstration project of a railway bureau in the PRC.
6. Marine solid DC circuit breakers: which passed the DNH GL certification.
7. DC support capacitor for flexible DC transmission: which passed all tests of the standards of International Electro technical Commission, a third party authoritative organisation.
8. Laminated busbars for communication: successfully researched and developed the laminated busbars for telecommunication.

FINANCIAL REVIEW

Revenue

The revenue increased by approximately 8.1% from approximately RMB1,290.5 million for the year ended 31 December 2018 to approximately RMB1,395.6 million for the year ended 31 December 2019 primarily due to the increase in sales in flexible DC transmission and rail transportation vehicles.

Cost of sales

The cost of sales increased by approximately 13.6% from approximately RMB855.1 million for the year ended 31 December 2018 to approximately RMB971.8 million for the year ended 31 December 2019 primarily due to the increase in revenue for the year ended 31 December 2019.

Gross profit and gross profit margin

The gross profit decreased by approximately 2.7% from approximately RMB435.4 million for the year ended 31 December 2018 to approximately RMB423.8 million for the year ended 31 December 2019 primarily due to the decrease in gross profit margin.

The gross profit margin decreased from approximately 33.7% for the year ended 31 December 2018 to approximately 30.4% for the year ended 31 December 2019 primarily due to the increase in proportion of the Group's revenue contributed by sales of products with lower gross profit margin.

Selling and distribution expenses

The selling and distribution expenses increased by approximately 3.2% from approximately RMB72.6 million for the year ended 31 December 2018 to approximately RMB74.9 million for the year ended 31 December 2019 primarily due to the increase in sales.

Administrative expenses

The administrative expenses increased by approximately 26.4% from approximately RMB83.6 million for the year ended 31 December 2018 to approximately RMB105.7 million for the year ended 31 December 2019 primarily due to the Group's acquisition of morEnergy GmbH of Germany and the establishment of SwissSEM Technology AG in Switzerland in 2019, as well as the increase in the Group's investment in human capital to attract and retain talents.

MANAGEMENT DISCUSSION AND ANALYSIS

R&D costs

The R&D costs increased by approximately 15.1% from approximately RMB53.7 million for the year ended 31 December 2018 to approximately RMB61.8 million for the year ended 31 December 2019 primarily due to the increase in R&D activities for flexible DC support power capacitors, IGBTs and other products.

Other expenses

The other expenses increased significantly by approximately 309.2% from approximately RMB6.5 million for the year ended 31 December 2018 to approximately RMB26.6 million for the year ended 31 December 2019 primarily due to the increase in loss from the change in fair value of the Group's forward foreign currency contracts.

Finance costs

The finance costs increased by approximately 7.9% from approximately RMB16.5 million for the year ended 31 December 2018 to approximately RMB17.8 million for the year ended 31 December 2019 primarily due to the increase in average outstanding balance of the Group's bank loans.

Profit before tax

The profit before tax decreased by approximately 4.6% from approximately RMB245.3 million for the year ended 31 December 2018 to approximately RMB234.0 million for the year ended 31 December 2019 primarily due to the decrease in gross profit.

Income tax expense

The income tax expenses decreased by approximately 3.3% from approximately RMB35.1 million for the year ended 31 December 2018 to approximately RMB34.0 million for the year ended 31 December 2019 primarily due to the decrease in profit before tax.

Total comprehensive income for the year

The net profit margin, which is calculated as profit attributable to owners of the parent for the year divided by revenue, decreased slightly from approximately 14.2% for the year ended 31 December 2018 to approximately 14.0% for the year ended 31 December 2019.

The total comprehensive income attributable to owners of the parent increased by approximately 6.9% from approximately RMB183.7 million for the year ended 31 December 2018 to approximately RMB196.3 million for the year ended 31 December 2019 primarily due to the proceeds from the disposal of Jiujiang Sunking.

Inventories

The inventories increased by approximately 28.9% from approximately RMB154.3 million as at 31 December 2018 to approximately RMB199.0 million as at 31 December 2019 primarily due to the need to replenish the stock for the Group's sales orders in UHVDC transmission and flexible DC transmission projects in 2020.

The average inventory turnover days decreased from approximately 80 days for the year ended 31 December 2018 to approximately 72 days for the year ended 31 December 2019 primarily due to the strengthened management of inventories.

MANAGEMENT DISCUSSION AND ANALYSIS

Trade and bills receivables

The trade and bills receivables increased by approximately 2.2% from approximately RMB860.5 million as at 31 December 2018 to approximately RMB879.2 million as at 31 December 2019 primarily due to the increase in the settlement of trade receivables by way of bills. Such increase was partially offset by the decrease in trade receivables as a result of the Group's efforts in collecting trade receivables.

The average trade and bills receivables turnover days decreased from approximately 235 days for the year ended 31 December 2018 to approximately 224 days for the year ended 31 December 2019 primarily due to the Group's increased efforts to collect trade receivables.

Trade and bills payables

The trade and bills payables decreased by approximately 3.4% from approximately RMB285.6 million as at 31 December 2018 to approximately RMB275.9 million as at 31 December 2019 primarily due to the shortened payment cycle with some of the Group's suppliers with which it maintained a cooperative and strategic relationship.

The average trade and bills payables turnover days decreased from approximately 111 days for the year ended 31 December 2018 to approximately 104 days for the year ended 31 December 2019 primarily due to the enhancement to the shortened payment cycle with some of the Group's suppliers.

Liquidity and financial resources

The Group's principal sources of working capital included cash flow generated from the sales of its products, bank borrowings and proceeds of issuing new shares.

The current ratio (current assets divided by current liabilities) remained relatively stable at approximately 2.4 as at both 31 December 2018 and 31 December 2019.

The cash and cash equivalents decreased by approximately 22.7% from approximately RMB766.9 million as at 31 December 2018 to approximately RMB592.7 million as at 31 December 2019 primarily due to the increase in net outflow of operating cash.

The interest-bearing bank borrowings increased by approximately 30.9% from approximately RMB360.4 million as at 31 December 2018 to RMB471.8 million as at 31 December 2019 primarily due to the significant capital injected for the construction of DC-link support capacitor for flexible DC transmission and IGBT manufacturing facilities and equipment.

The gearing ratio measured on the basis of total interest-bearing bank borrowings to total equity increased from approximately 21.6% as at 31 December 2018 to approximately 27.9% as at 31 December 2019 primarily due to the increase in outstanding balance of the Group's bank loans.

The Group continues to implement prudent financial management policies and monitor its capital structure based on the ratio of total liabilities to total assets.

Foreign currency exposure

As most of the principal subsidiaries of the Company operate in the PRC, their functional currency is RMB. The Group has transactional currency exposures. These exposures arise from purchases by operating units in currencies other than the units' functional currencies. In order to minimise the impact of foreign exchange exposure, the Group has entered into forward currency contracts with creditworthy banks to manage its exchange rate exposures.

Contingent liabilities

As at 31 December 2019, the Group had no significant contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

Use of proceeds from subscription of shares of the Company (the “Share(s)”)

As disclosed in the announcements of the Company dated 21 July 2017 and 6 December 2017 and the 2017 annual report of the Company, (a) the Company entered into the subscription agreement with China Venture Capital Fund Corporation Ltd. (中國國有資本風險投資基金股份有限公司) on 21 July 2017, pursuant to which China Venture Capital Fund Corporation Ltd. conditionally agreed to, or procure its nominee to, subscribe for 200,000,000 Shares at the subscription price of HK\$1.72 per Share; (b) the Company allotted and issued 200,000,000 Shares to Guojing Capital Limited (國晶資本有限公司), being the nominee of China Venture Capital Fund Corporation Ltd., on 6 December 2017 under the general mandate granted by the Shareholders on 10 May 2017; and (c) the aggregate subscription price of HK\$344 million shall be used for R&D, capital expenditure and general working capital of the Group.

The table below sets out the breakdown of the use of proceeds from the abovementioned subscription:

Use	Allocation (HK\$)	Utilisation as at 31 December 2019 (HK\$)	Remaining balance as at 31 December 2019 (HK\$)	Expected time of full utilisation of remaining balance
R&D	103,200,000	103,200,000	–	N/A
Capital expenditure	103,200,000	75,763,829	27,436,171	31 December 2020
General working capital	137,600,000	137,600,000	–	N/A
Total	344,000,000	316,563,829	27,436,171	

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Xiang Jie, aged 46, is the founder, the chairman of the Board and an executive Director. Mr. Xiang is primarily responsible for the overall corporate strategy, planning and business development of the Group. After graduating from Shanghai Maritime University (上海海事大學) in the PRC in international shipping management in 1995, Mr. Xiang obtained a master's degree in business administration from Maastricht School of Management in the Netherlands in 1999. Mr. Xiang has extensive experience in the trading and power electronics sectors.

Mr. Gong Renyuan, aged 49, is an executive Director, the president and the chief executive officer of the Company. Mr. Gong joined the Group in 2002, primarily responsible for overseeing the overall business of the Group, including devising and implementing business and development strategies and targets. Before joining the Group, Mr. Gong has accumulated over eight years of experience in business operations. In 1993, Mr. Gong completed the programme in business English (外貿英語專科) organised by the Beijing University of Technology (北京工業大學) in the PRC. Mr. Gong is the spouse of Ms. Ren Jie, a member of the senior management of the Company.

Mr. Yue Zhoumin, aged 49, is an executive Director and a vice president of the Group. Mr. Yue joined the Group in 2009. Mr. Yue is primarily responsible for the strategic planning and development of the Group. Mr. Yue graduated from the Shanghai Maritime University (上海海事大學) in the PRC with a bachelor's degree in economics in 1994. Mr. Yue has extensive experience in corporate project management and fund raising in the capital market. Mr. Yue is highly experienced in strategic management and had worked in the strategy division of China COSCO Holdings Company Limited, a company listed on the Stock Exchange (stock code: 1919).

NON-EXECUTIVE DIRECTORS

Mr. Yan Fuquan, aged 57, joined the Group in October 2017 as a non-executive Director and the deputy chairman of the Board. Mr. Yan graduated from Jilin University (吉林大學) as a PhD research student (博士研究生) in theoretical economics in June 2010. From July 1984 to February 2001, Mr. Yan worked for 衡陽紡織廠 in which he assumed the positions of deputy director of the chief accountant (總會計師辦公室副主任), head of the finance department (財務處處長), chief accountant (總會計師) and factory manager (廠長) successively. From February 2001 to March 2005, Mr. Yan worked for 中國紡織機械(集團)有限公司 as the head of the finance department (財務部部長). Mr. Yan was an executive director of Jingwei Textile Machinery Company Limited (經緯紡織機械股份有限公司), a company delisted from the Stock Exchange on 28 December 2015. Mr. Yan worked for (a) China Hi-Tech Group Corporation (中國恆天集團有限公司) in which he assumed the positions of head of the finance department (財務部部長), deputy chief accountant (副總會計師), chief accountant (總會計師) and vice general manager (副總經理) successively; (b) China Hi-Tech Holding Company Limited (中國恆天控股有限公司) in which he assumed the positions of the chairman of the board (董事長) and the general manager (總經理) successively; and (c) 恆天投資管理有限公司 in which he assumed the position of the chairman of the board (董事長). Mr. Yan is currently an executive director and the general manager (總經理) of China Hi-Tech Group Corporation (中國恆天集團有限公司) and a director of 北京市文化科技融資租賃股份有限公司.

Mr. Zhu Ming, aged 42, joined the Group as a non-executive Director in October 2017. Mr. Zhu received a master's degree in accounting from the Dongbei University of Finance & Economic (東北財經大學) in December 2008. Mr. Zhu is currently the chief financial officer (財務總監) and the secretary to the board (董事會秘書) of China Hi-Tech Holding Company Limited (中國恆天控股有限公司). From February 2009 to October 2015, Mr. Zhu worked for China Hi-Tech Group Corporation (中國恆天集團有限公司) in which he assumed the positions of finance department supervisor (財務部主管) and finance department manager (財務部經理) successively.

Ms. Zhang Ling, aged 51, joined the Group as a non-executive Director in December 2017. Ms. Zhang is the managing director (董事總經理) of China Reform Venture Capital Investment Management (Shenzhen) Ltd. (國新風險投資管理(深圳)有限公司) and a director of China Reform Health Management and Services Group Co., Ltd. (國新健康保障服務集團股份有限公司), being a company listed on the Shenzhen Stock Exchange (stock code: 000503). Ms. Zhang obtained her Bachelor's degree in precision instrument (精密儀器系) from Tianjin University (天津大學) in 1991 and her master's degree from Guanghua School of Management of Peking University (北京大學光華管理學院) in 2000. Ms. Zhang previously worked for Beijing Capital Group Co., Ltd. (北京首都創業集團有限公司) and China Cinda Asset Management Co., Ltd. (中國信達資產管理股份有限公司) and was responsible for merger restructuring (併購重組) and corporate realignment (企業改制). Ms. Zhang also previously worked for Essence Securities Co., Ltd. (安信證券股份有限公司) and Huarong Securities Co., Ltd. (華融證券股份有限公司) and was responsible for the merger financing (併購融資) business, and presided over the completion of large-scale enterprise asset restructuring and integration of the industrial chain, merger of listed companies, reverse takeover and other projects. Ms. Zhang was a director of Tongling Nonferrous Metals Group Holdings Co., Ltd. (銅陵有色金屬集團控股有限公司).

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Shimin, aged 61, joined the Group as an independent non-executive Director in August 2010. Mr. Chen is a certified management accountant registered in the United States, a member of the Institute of Management Accountants of the United States and the American Accounting Association of the United States. Mr. Chen graduated from the Shanghai University of Finance and Economics (上海財經大學) in the PRC with a bachelor's degree and a master's degree in economics in 1983 and 1985, respectively. Mr. Chen then obtained a doctoral degree in philosophy from the University of Georgia in the United States in 1992. Mr. Chen is the Zhuxiaoming Chair Professor of Accounting and the Director of Case Development Center at China Europe International Business School (中歐國際工商學院) in the PRC. Mr. Chen has extensive accounting teaching and research experiences in China and overseas. Mr. Chen was an independent non-executive director of Hailan Holdings Limited (海藍控股有限公司), being a company listed on the Stock Exchange (stock code: 2278) from June 2016 to December 2018 and China High Speed Transmission Equipment Group Co., Ltd. (中國高速傳動設備集團有限公司), being a company listed on the Stock Exchange (stock code: 658) from June 2007 to December 2016. Mr. Chen currently serves as an independent non-executive director for Yincheng International Holding Co., Ltd. (銀城國際控股有限公司), being a company listed on the Stock Exchange (stock code: 1902), Shanghai Oriental Pearl (Group) Co., Ltd. (上海東方明珠(集團)股份有限公司), being a company listed on the Shanghai Stock Exchange (stock code: 600832), Huafa Industrial Co., Ltd. Zhuhai (珠海華發實業股份有限公司), being a company listed on the Shanghai Stock Exchange (stock code: 600325), Anxin Trust Co., Ltd. (安信信托股份有限公司), being a company listed on the Shanghai Stock Exchange (stock code: 600816), Advanced Micro-Fabrication Equipment Inc. China (中微半導體設備(上海)股份有限公司), being a company listed on the Shanghai Stock Exchange (stock code: 688012). Additionally, Mr. Chen is an external supervisor of Postal Savings Bank of China Co., Ltd. (中國郵政儲蓄銀行股份有限公司), being a company listed on the Shanghai Stock Exchange (stock code: 601658).

Mr. Zhang Xuejun, aged 54, joined the Group as an independent non-executive Director in December 2016. Mr. Zhang graduated from Capital Normal University (首都師範大學) (formerly known as Beijing Normal College (北京師範學院)) and obtained a bachelor's degree in philosophy. Mr. Zhang also completed an on-job postgraduate course at Chinese Academy of Social Sciences (中國社科院). Subsequently, Mr. Zhang obtained a master's degree in EMBA from Cheung Kong Graduate School of Business (長江商學院) in 2006. Mr. Zhang taught at School of English and School of Political Science and Law in Beijing Normal College. Subsequently, Mr. Zhang successively assumed the position of deputy office head of the Municipal Party Committee of the Youth League in Beijing (北京市團委), secretary of the Committee of the Party Work Committee (黨工委書記) of Heping subdistrict Office in Chaoyang District in Beijing (北京市朝陽區和平街街道辦事處). Since 2000, Mr. Zhang has served in the Central Committee of the Chinese Communist Youth League (共青團中央). Mr. Zhang successively assumed the position of deputy director of Chinese Young Pioneers Business Development Centre (團中央中國少先隊事業發展中心副主任), deputy director of the Central Juvenile Department (團中央少年部) and Centre Propaganda Department (團中央宣傳部), director of the Central Juvenile Department (團中央少年部) of the Chinese Communist Youth League, deputy director of the National Committee of Chinese Young Pioneers (全國少工委副主任) and member of the 16th Central Standing Committee of the Chinese Communist Youth League (十六屆團中央常委).

Mr. Zhang served as a deputy secretary (department level) at Municipal Party Committee of Jiujiang in Jiangxi Province (江西省九江市委副書記(正廳級)) from 2008 to 2011 and a Party secretary and director at the Foreign Affairs Office in Jiangxi Province (江西省外事僑務辦公室) from 2011 to 2014. Mr. Zhang served as a Party member and the Secretary-General (秘書長) of the Chinese Western Returned Scholars Association (歐美同學會) from March 2014 to September 2016. Mr. Zhang was a co-chief executive officer of Hsin Chong Group Holdings Limited (新昌集團控股有限公司), being a company listed on the Stock Exchange (stock code: 404), from September 2016 to June 2017 where he was primarily responsible for the management of business in Mainland China. Mr. Zhang served as the vice general manager (副總經理) of China Communication Group (神州通信集團) from October 2017 to August 2019. Mr. Zhang has served as a Secretary of Party Committee (黨委書記) of Shunliban Information Service Co., Ltd. (順利辦信息服務股份有限公司), being a company listed on the Shenzhen Stock Exchange (stock code: 000606), since September 2019.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Leung Ming Shu, aged 44, joined the Group as an independent non-executive Director in March 2017. Mr. Leung is currently the chief financial officer and company secretary of China ITS (Holdings) Co., Ltd.. Mr. Leung obtained a First Class Honours Bachelor's degree in accountancy from the City University of Hong Kong in June 1998 and a Master's degree in accountancy from the Chinese University of Hong Kong in November 2001. Mr. Leung started his professional career at PricewaterhouseCoopers in Hong Kong in auditing in 1998, and subsequently worked at the global corporate finance division of Arthur Andersen & Co. in Hong Kong, which subsequently merged with PricewaterhouseCoopers, until December 2000. From July 2001 to February 2003, Mr. Leung also worked as a business consultant in Market Catalyst International (Hong Kong) Limited, where he advised companies on issues of strategy, organisation and operation. From February 2003, Mr. Leung spent three years at CDC Corporation as a senior manager in the mergers and acquisitions department, and as the chief financial officer of Sino Splendid Holdings Limited, being a subsidiary of CDC corporation and a company listed on the Stock Exchange (stock code: 8006). From February 2006 to October 2006, Mr. Leung served as the chief financial officer of Beijing Xinwei Telecom Technology Co., Ltd., a related party of Datang Telecom Technology Co., Ltd., (大唐電信科技股份有限公司), being a company listed on the Shanghai Stock Exchange (stock code: 600198). From November 2006 to January 2008, Mr. Leung served as the chief financial officer of Beijing Lingtu Spacecom Technology Co., Ltd., being a subsidiary of Beijing Lingtu Software Co., Ltd., a PRC digital mapping and navigation software company. Mr. Leung has been a Fellow of the Association of Chartered Certified Accountants since February 2007 and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountant since March 2006. Mr. Leung is an independent non-executive director of Cabbeen Fashion Limited (卡賓服飾有限公司), being a company listed on the Stock Exchange (stock code: 2030), Comtec Solar Systems Group Limited (卡姆丹克太陽能系統集團有限公司), being a company listed on the Stock Exchange (stock code: 712), and Renrui Human Resources Technology Holdings Limited (人瑞人才科技控股有限公司), being a company listed on the Stock Exchange (stock code 6919). Mr. Leung is also an independent director of Glory Star New Media Group Holdings Limited, being a company listed on NASDAQ (stock code: GSMG). Mr. Leung acted as an independent non-executive director of Shengli Oil & Gas Pipe Holdings Limited (勝利油氣管道控股有限公司), being a company listed on the Stock Exchange (stock code: 1080) from January 2011 to April 2013.

Mr. Zhao Hang, aged 65, joined the Group as an independent non-executive Director in December 2017. Mr. Zhao is a research-grade senior engineer and obtained his bachelor degree in engineering from Jilin University of Technology, the PRC (中國吉林工業大學) in July 1982. In October 2003, Mr. Zhao obtained a degree in executive master of business administration from China Europe International Business School (中歐國際工商學院). After his graduation from Jilin University of Technology, the PRC in 1982, Mr. Zhao joined the Transportation Engineering Institute of the Chinese People's Liberation Army (中國人民解放軍運輸工程學院) as an instructor until October 1987. After that, he was employed by the China Automotive Technology & Research Centre (中國汽車技術研究中心), and had since then until November 2015 held various positions therewith including centre deputy chairman, centre deputy secretary of the party committee and centre secretary of the party committee and centre chairman. Among the awards and recognitions he has received in the past, Mr. Zhao was conferred with the title of Young Technology Specialist in the Machinery Industry in the PRC (中國機械工業青年科技專家) in 1995 and received the 2004 China Automobile Manufacturing Outstanding Technology Talent Award (2004年中國汽車工業優秀科技人才獎). Mr. Zhao has been an independent non-executive director of Sinotruk (Hong Kong) Limited (中國重汽(香港)有限公司), being a company listed on the Stock Exchange (stock code: 3808) since 11 April 2016 and a director of Zhejiang Wanfeng Auto Wheel Co., Ltd., being a company listed on the Shenzhen Stock Exchange (stock code: 002085) since 29 November 2013. Mr. Zhao is also a doctoral tutor at Wuhan University of Technology, the PRC (中國武漢理工大學), and an instructor and adjunct professor at Tongji University, the PRC (中國同濟大學), Jilin University, the PRC (中國吉林大學), Jiangsu University, the PRC (中國江蘇大學) and Chongqing Jiaotong University, the PRC (中國重慶交通大學) (previously known as Chongqing Vocational College of Transportation (重慶交通學院)). In addition, Mr. Zhao was the deputy chairman and chief secretary of the China Automobile Human Resources Association (中國汽車人力資源協會), the deputy chairman of the executive committee of the Society of Automatic Engineers of China (中國汽車工業協會), the vice-president of the China Association of Automobile Manufacturers (中國汽車工業協會), the deputy chairman of the China Intelligent Transportation Systems Association (中國智能交通協會), the council member of the China Machinery Industry Federation (中國機械工業聯合會), a member of the steering committee of the National 863 Electric Vehicle Key Project (國家863電動汽車重大專項領導小組), a member of the steering committee of the National Clean Energy Automotive Action (國家清潔汽車行動領導小組) and a member of the steering committee of the Tianjin Clean Energy Automotive Action (天津市清潔汽車行動領導小組).

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

COMPANY SECRETARY

Ms. He Lina, aged 41, joined the Group as the legal manager of the Group in July 2008 and was appointed as a joint company secretary of the Company in April 2016. Ms. He became the company secretary of the Company in April 2019. Ms. He graduated from China University of Political Science and Law (中國政法大學) with a bachelor's degree in economic law in June 2001, and obtained a Master of Corporate Governance degree from The Open University of Hong Kong (香港公開大學) in 2018. She is an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. He has over 10 years of experience in overseeing regulatory compliance issues of a listed company.

SENIOR MANAGEMENT

Mr. Li Jinyan, aged 41, Mr. Li is a vice president of the Group and is responsible for the sales and marketing of the Group's products. Mr. Li joined the Group after graduating from University of Science and Technology Beijing (北京科技大學) in the PRC with a bachelor's degree in automation in 2004.

Ms. Ren Jie, aged 42, is a vice president of the human resources and administration department of the Group, primarily responsible for the overall management of the department. Ms. Ren joined the Group in 2001 after graduating from Xi'an International Studies University (西安外國語學院) in the PRC with a major in English in 1998. Ms. Ren obtained a master's degree in business administration from Beijing Jiaotong University (北京交通大學) in the PRC in 2014. Ms. Ren is the spouse of Mr. Gong Renyuan, the executive Director, the president and chief executive officer of the Company.

Ms. Bai Xing, aged 39, is a vice president of the Group and is responsible for the Group's overall procurement process and daily operations of the procurement department. Ms. Bai joined the Group in 2002. Ms. Bai graduated from University of International Business and Economics (對外經濟貿易大學) in the PRC with a bachelor's degree in international business and trade in 2007 and has over nine years of experience in procurement. Ms. Bai is a national registered certified purchasing professional recognised by the China Federation of Logistics and Purchasing (中國物流與採購聯合會).

Mr. Bo Xiangpeng, aged 35, is the chief financial officer of Group. Mr. Bo is a non-practising member of the Chinese Institute of Certified Public Accountants. Mr. Bo joined the Group in 2010 and was promoted as the financial controller in 2013. Mr. Bo was appointed as the chief financial officer in April 2016. Mr. Bo graduated from Shandong University of Finance and Economics (山東財經大學) with a bachelor's degree in business management in September 2006 and graduated from Nankai University (南開大學) with a master's degree in business administration in July 2008. Mr. Bo has 11 years of experience working in the accounting and financing fields.

Mr. Michael Simon Geissmann, aged 42, is a vice president of the Group who is responsible for the European business expansion of the Group. Mr. Geissmann joined the Group in 2008 as the chief operating officer. From July 2016, Mr. Geissmann has been the chief executive officer of Astrol Electronic AG, being a subsidiary of the Company. Mr. Geissmann received a master's degree in information technology and electronic engineering from the Swiss Federal Institute of Technology Zurich in 2003. Before joining the Group, Mr. Geissmann worked for ABB Schweiz AG, Semiconductors from 2004 to 2008 as a supply chain manager. Mr. Geissmann has extensive international business experience in power electronics.

Mr. Roland Villiger, aged 60, is a vice president of the Group who is responsible for the power semiconductor-related business of the Group. Mr. Villiger joined the Group in 2019. Mr. Villiger received a bachelor's degree in power electronics engineering from ABB Baden in 1986, a bachelor's degree in export administration from the Swiss Foreign Trade Association in 1989 and a master of business administration degree from the University of St. Gallen in 1998. Before joining the Group, Mr. Villiger worked for ABB Schweiz AG, Semiconductors from 2000 to 2019, during which he assumed the positions of a member of the executive senior management team and a vice president. Mr. Villiger has more than 20 years of experience in the power semiconductor industry.

CORPORATE GOVERNANCE

The Company places high value on its corporate governance practice and the Board firmly believes that a good corporate governance practice can improve accountability and transparency for the benefit of the Shareholders. The Company has adopted the Corporate Governance Code and Corporate Governance Report (the “**Corporate Governance Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) as its own code to govern its corporate governance practices. The Board also reviews and monitors the practices of the Company from time to time with the aim of maintaining and improving the standard of corporate governance practices. The Company complied with all applicable code provisions of the Corporate Governance Code during the year ended 31 December 2019.

MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors’ securities transactions. The Company confirms that, having made specific enquiry of all the Directors, the Directors complied with the required standards as set out in the Model Code during the year ended 31 December 2019.

BOARD OF DIRECTORS

Responsibilities of the Board and Management

The Board is responsible for leading and controlling the Company and overseeing the Group’s businesses, strategic decisions and financial performances. The chairman of the Board is responsible for the overall corporate strategy, planning and business performance of the Group, and for the implementation of each resolution put forward at general meetings and Board meetings, while the chief executive officer is responsible for overseeing the overall business of the Group, including devising and implementing business and development strategies and targets. Major corporate matters which are specifically delegated by the Board to the senior management include preparation of interim and annual reports and announcements, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures and compliance with relevant laws, rules and regulations.

Composition

The composition of the Board reflects the necessary balance of skills and experience required for effective leadership and independence in the decision making of the Company. The Board currently comprises three executive Directors, namely Mr. Xiang Jie, Mr. Gong Renyuan and Mr. Yue Zhoumin; three non-executive Directors, namely Mr. Yan Fuquan, Mr. Zhu Ming and Ms. Zhang Ling; and four independent non-executive Directors, namely Mr. Chen Shimin, Mr. Zhang Xuejun, Mr. Leung Ming Shu and Mr. Zhao Hang. The biographies of the Directors are set out under the section headed “Biographies of Directors and Senior Management” in this annual report.

During the year ended 31 December 2019, the Board at all times complied with the requirements relating to the respective retirement and re-election of one-third of the members of the board of listed companies. There were four independent non-executive Directors in the Board, representing 40% of the Board members, among which two independent non-executive Directors possessed appropriate professional qualifications, or accounting or related financial management expertise. Therefore, the requirements under the Listing Rules in relation to board composition were fully complied with.

The Directors are required to declare their underlying interests regularly and assess other Directors’ personal interests in the Company to ensure that the members of the Board have no financial, business, family or other material/relevant relationship with each other, and to ensure that the independent non-executive Directors have fully complied with the requirements regarding the independence of an independent non-executive director as set out in Rule 3.13 of the Listing Rules.

Save as disclosed under the section headed “Biographies of Directors and Senior Management” in this annual report, there are no financial, business, family or other material/relevant relationships between the members of the Board and between the chairman of the Board and the chief executive officer of the Company.

CORPORATE GOVERNANCE REPORT

APPOINTMENT AND RE-ELECTION OF DIRECTORS

All the Directors, including the independent non-executive Directors, are appointed for a term of three years and subject to retirement by rotation and eligible for re-election in accordance with the articles of association of the Company (the “**Articles of Association**”) and the Listing Rules. At each annual general meeting, not less than one-third of the Directors then in office shall retire and every Director is subject to retirement by rotation at least once every three years.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The chairman of the Board is mainly responsible for the overall corporate strategy, planning and business performance of the Group, and for the implementation of each resolution put forward at general meetings and Board meetings, while the chief executive officer of the Company is mainly responsible for overseeing the overall business of the Group, including devising and implementing business development strategies and targets. Currently, Mr. Xiang Jie is the chairman of the Board and Mr. Gong Renyuan is the chief executive officer of the Company. During the year ended 31 December 2019, one meeting without the presence of executive Directors was held between the chairman of the Board and the independent non-executive Directors.

NON-EXECUTIVE DIRECTORS

The non-executive Directors (including the independent non-executive Directors) bring a wide range of business and financial expertise, experience and independent judgement to the Board. Through active participation in Board meetings, taking lead in management issues involving potential conflict of interests and serving the committees of the Board as committee members, all non-executive Directors (including the independent non-executive Directors) make various contributions to the effective development of the Company. The term of appointment of the non-executive Directors is set out under the section headed “Directors’ Service Contracts” in this annual report.

MEETINGS

The Board holds meetings regularly to discuss the overall strategies, and operational and financial performance of the Group. The Directors can attend meetings in person or via electronic means. During the year ended 31 December 2019, a total of five meetings of Directors were held to review and approve the financial and operational results of the Group. The attendance record of the Directors at the Board meetings and Shareholders’ meetings during the year ended 31 December 2019 is set out below:

	Attended/Eligible to attend	
	Board meeting	Shareholders’ meeting
Executive Directors		
Mr. Xiang Jie	5/5	2/2
Mr. Gong Renyuan	4/5	2/2
Mr. Yue Zhoumin	5/5	2/2
Non-executive Directors		
Mr. Yan Fuquan	3/5	0/2
Mr. Zhu Ming	4/5	2/2
Ms. Zhang Ling	0/5	0/2
Independent non-executive Directors		
Mr. Chen Shimin	3/5	0/2
Mr. Zhang Xuejun	5/5	2/2
Mr. Leung Ming Shu	4/5	2/2
Mr. Zhao Hang	5/5	2/2

In addition, two written resolutions were passed and seven meetings of executive Directors were held during the year ended 31 December 2019.

CORPORATE GOVERNANCE REPORT

At least 14 days' notice of convening the regular Board meeting is given to all Directors to invite them to participate in the discussion. All Directors are provided with relevant information on the matters to be discussed at the meeting no less than three days before the meeting to ensure that there is sufficient time for the Directors to review the information. The Directors have independent access to meet the senior management and the company secretary of the Company at any time, and are entitled to seek independent professional advice at the Company's expenses. Material matters or matters which may lead to conflict of interests will be dealt with during Board meetings instead of via circulation of written resolutions or by the Board committees.

BOARD COMMITTEES

The Board has established four committees, namely the audit committee, the remuneration committee, the nomination committee and the investment committee, to supervise various matters of the Group. To establish effective communication channels between each of the committees and the management of the Group, the Company has established an internal coordination and support team to facilitate Directors' access to more independent and objective information.

(a) Audit committee

The audit committee was established on 19 August 2010 with written terms of reference in compliance with the Listing Rules. The audit committee is responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors, and any issues regarding the resignation or dismissal of such auditors; monitoring the integrity of financial statements, annual reports and accounts, interim reports and, (if prepared for publication) quarterly reports, and reviewing material financial reporting judgements therein; and reviewing the systems of financial control, internal control and risk management. The written terms of reference of the committee is in line with the Corporate Government Code and is published on the websites of the Company and the Stock Exchange.

The audit committee comprises one non-executive Director, being Mr. Zhu Ming and three independent non-executive Directors, being Mr. Chen Shimin, Mr. Zhang Xuejun and Mr. Leung Ming Shu. The audit committee is chaired by Mr. Chen Shimin, who possesses the appropriate professional qualifications and extensive experience in and knowledge of finance and accounting as required under Rule 3.10 of the Listing Rules. All members of the audit committee hold the relevant industry and financial experience necessary to advise the Board on strategies and other related matters. None of the members of the audit committee is a former partner of or connected with the existing external auditors of the Company.

The audit committee held three meetings during the year ended 31 December 2019. During the meetings, the audit committee confirmed the appointment of Ernst & Young as the external auditors of the Company and fixed its remuneration, and reviewed the procedures of internal control of the Group. The audit committee also reviewed the interim and annual results of the Group for the year ended 31 December 2019 and the auditor's report prepared by the external auditors in relation to accounting matters and any material findings during the audit. The audit committee was of the opinion that such financial statements and report complied with the applicable accounting policy standards and requirements and that adequate disclosures have been made. The attendance record of the meetings of the audit committee during the year ended 31 December 2019 is set out below:

Directors	Attended/Eligible to attend
Mr. Chen Shimin (<i>chairman of the audit committee</i>)	2/3
Mr. Zhu Ming	2/3
Mr. Zhang Xuejun	3/3
Mr. Leung Ming Shu	2/3

CORPORATE GOVERNANCE REPORT

(b) Remuneration committee

The remuneration committee was established on 19 August 2010 with written terms of reference in accordance with the Listing Rules. The roles and functions of the remuneration committee are, among other things, to make recommendations on the remuneration package of the Directors and senior management, the execution of which is subject to the approval of the Board. In addition, the remuneration committee evaluates the performance of the senior management of the Company and determines the remuneration structure of the Company. The written terms of reference of the remuneration committee is in line with the Corporate Governance Code and is published on the websites of the Company and the Stock Exchange.

The remuneration committee comprises four independent non-executive Directors, being Mr. Leung Ming Shu, Mr. Chen Shimin, Mr. Zhang Xuejun and Mr. Zhao Hang. The remuneration committee is chaired by Mr. Leung Ming Shu.

The remuneration committee held two meetings during the year ended 31 December 2019. During the meetings, the remuneration committee determined the share option scheme of the Company (the “**Share Option Scheme**”), and made recommendation on the Directors’ allowances, the remuneration of the senior management and assessment system, as well as the remuneration of employees and the employee reward scheme. The attendance record of the meetings of the remuneration committee during the year ended 31 December 2019 is set out below:

Directors	Attended/Eligible to attend
Mr. Leung Ming Shu (<i>Chairman of the remuneration committee</i>)	2/2
Mr. Chen Shimin	1/2
Mr. Zhang Xuejun	2/2
Mr. Zhao Hang	2/2

Remuneration payable to senior management of the Company (excluding Directors) for the year ended 31 December 2019 is within the following bands:

	Number of individuals	
	2019	2018
RMB200,000 – RMB300,000	0	0
RMB300,001 – RMB400,000	1	1
RMB400,001 – RMB500,000	2	2
Above RMB500,000	2	2

(c) Nomination committee

The nomination committee was established on 19 August 2010. The roles and functions of the nomination committee are, among other things, to formulate the policies for the nomination of Directors for the Board’s consideration and to implement the nomination policy approved by the Board, including reviewing Board composition annually, identifying eligible candidates for directorship, monitoring of the Directors’ succession plans and assessing the independence of the independent non-executive Directors. The written terms of reference of the nomination committee is in line with the Corporate Governance Code and is published on the websites of the Company and the Stock Exchange.

The nomination committee comprises one executive Director, being Mr. Gong Renyuan, and two independent non-executive Directors, being Mr. Chen Shimin and Mr. Zhang Xuejun. The nomination committee is chaired by Mr. Zhang Xuejun.

Nomination Policy

The Board should have a balance of skills, experience and diversity of perspectives appropriate to the requirements of the business of the Group. To ensure changes to the Board composition can be managed without undue disruption, there should be a formal, considered and transparent procedure for selection, appointment and re-appointment of Directors, as well as plans in place for orderly succession (if considered necessary), including periodical review of such plans. The appointment of a new Director (to be an additional Director or fill a casual vacancy as and when it arises) or any re-appointment of Directors is a matter for decision by the Board upon the recommendation of the proposed candidates by the nomination committee.

The criteria to be applied in considering whether a candidate is qualified shall be whether he or she can contribute to the diversity of the Board and whether he or she can devote sufficient time and attention to carry out the following responsibilities:

- (a) participating in Board meetings to bring an independent judgement on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conducts;
- (b) taking the lead where potential conflict of interests arise;
- (c) serving on the audit committee, the remuneration committee and the nomination committee (in the case of candidate for non-executive Director) and other relevant Board committees, if invited;
- (d) bringing a range of business and financial experience to the Board, giving the Board and any committees of the Board on which he or she serves the benefit of his or her skills, expertise, and varied backgrounds and qualifications and diversity through attendance and participation in the Board/committee meetings;
- (e) scrutinising the performance of the Group in achieving the predetermined corporate goals and objectives, and monitoring the reporting of performance;
- (f) ensuring the committees of the Board on which he or she serves to perform their powers and functions conferred on them by the Board; and
- (g) conforming to any requirement, direction and regulation that may from time to time be prescribed by the Board or contained in the constitutional documents of the Company or imposed by legislation or the Listing Rules, where appropriate.

If the candidate is proposed to be appointed as an independent non-executive Director, his or her independence shall be assessed in accordance with, among other things, the factors set out in Rule 3.13 of the Listing Rules, subject to any amendments as may be made by the Stock Exchange from time to time. Where applicable, the totality of the candidate's education, qualifications and experience shall also be evaluated to consider whether he or she has the appropriate professional qualifications or accounting or related financial management expertise for filling the office of an independent non-executive Director as required under Rule 3.10(2) of the Listing Rules.

The nomination committee held one meeting during the year ended 31 December 2019. During the meeting, the nomination committee reviewed the independence of the independent non-executive Directors, composition of the Board and the Board diversity policy. The attendance record of the meeting of the nomination committee during the year ended 31 December 2019 is set out below:

Directors	Attended/Eligible to attend
Mr. Zhang Xuejun (<i>chairman of the nomination committee</i>)	1/1
Mr. Gong Renyuan	1/1
Mr. Chen Shimin	1/1

CORPORATE GOVERNANCE REPORT

Board Diversity Policy

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

(d) Investment committee

The investment committee was established on 28 June 2011 and is responsible for advising the Board on investment of fixed assets (both tangible and intangible), equity, debt, financial securities, restructuring and joint ventures.

The investment committee comprises one executive Director, being Mr. Xiang Jie, two non-executive Directors, being Mr. Yan Fuquan and Ms. Zhang Ling, and three independent non-executive Directors, being Mr. Chen Shimin, Mr. Zhang Xuejun and Mr. Leung Ming Shu. The investment committee is chaired by Mr. Yan Fuquan.

The investment committee held one meeting during the year ended 31 December 2019. During the meetings, the investment committee discussed the progress of investing projects. The attendance record of the meeting of the investment committee during the year ended 31 December 2019 is set out below:

Directors	Attended/Eligible to attend
Mr. Yan Fuquan	1/1
Mr. Xiang Jie	1/1
Ms. Zhang Ling	0/1
Mr. Chen Shimin	1/1
Mr. Zhang Xuejun	1/1
Mr. Leung Ming Shu	1/1

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Mr. Leung Ming Shu was appointed as an independent non-executive director of Renrui Human Resources Technology Holdings Limited, being a company listed on the Stock Exchange (stock code: 6919), in November 2019, and an independent director of Glory Star New Media Group Holdings Limited, being a company listed on NASDAQ (stock code: GSMG), in February 2020..

As disclosed herein, during the year ended 31 December 2019 and up to the date of this annual report, there was no change to information in respect of Directors which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

RISK MANAGEMENT AND INTERNAL CONTROL

The audit department of the Company conducted comprehensive annual audit on the internal control systems of the Group covering the year ended 31 December 2019 and submitted the “2019 Annual Report on Internal Control” for the Board’s review. The Board is responsible for reviewing the effectiveness of the internal control systems of the Group, which covers all material controls including financial, operational and compliance controls and risk management functions, for the purpose of preventing unauthorised use or sale of assets and ensuring the proper filing of accounting records and provision of reliable financial information for internal use or for release, and ensuring that the applicable laws, rules and regulations are complied with. The internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives. The Board acknowledged that the risk management and internal control systems of the Group during the review period were effective and adequate. During the year ended 31 December 2019, in addition to adhering to the existing stringent internal control measures, the Company made additional improvement as follows:

(a) Strengthening the technical support, contract performance and after-sales service of market projects

In order to adapt to the development trend of the Group and expand the market, offices were established in some regions according to the needs of business development to facilitate technical support, contract performance and after-sales service of market projects. The Group formulated the “Office Management Regulations” (《辦事處管理規定》) in 2019 to ensure the regulated and rationalised management of offices so as to secure the regulated and orderly operation of business.

(b) Regulating the process and expense management of employees’ business trips of sales department

The Group formulated the “Management System for Business Trips of Sales Department” (《銷售部出差管理制度》) in 2019 to regulate the management process and strengthen the expense management of employees’ business trip of the sales department, under which the business trip application process is refined and the standards for business trip expenses including accommodation and transportation standards have been revised according to ranks, and regulations for the advance and reimbursement of business trip expenses are added.

(c) Improving the receipt, release and management of materials

Certain subsidiaries of the Group improved the “Warehouse Management System” (《倉庫管理制度》) in 2019 to efficiently regulate the receipt, release and management of materials, which refined the roles and duties of related departments, and revised the inbound and outbound processes of materials in the warehouse.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for fulfilling corporate governance duties and responsibilities including:

- (a) developing and reviewing the policies and practices of the Group on corporate governance;
- (b) reviewing and monitoring the training and continuous professional development of the Directors and senior management of the Company;
- (c) reviewing and monitoring the policies and practices of the Group in compliance with legal and regulatory requirements; and
- (d) reviewing the Company’s compliance with the Corporate Governance Code and disclosure in this corporate governance report.

CORPORATE GOVERNANCE REPORT

In order to comply with the requirements of the code provision A.6.5 of the Corporate Governance Code, all the Directors have participated in training in relation to continuous professional development to develop and refresh their knowledge and skills to ensure that their contributions to the Board remains informed and relevant. To summarise, the Directors received trainings on the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the “**Companies Ordinance**”) and the Listing Rules to update and develop their skills and knowledge during the year ended 31 December 2019, whose attendance is set forth as follows:

	Training area	
	Companies Ordinance	Listing Rules
Executive Directors		
Mr. Xiang Jie	✓	✓
Mr. Gong Renyuan	✓	✓
Mr. Yue Zhoumin	✓	✓
Non-executive Directors		
Mr. Yan Fuquan	✓	✓
Mr. Zhu Ming	✓	✓
Ms. Zhang Ling	✓	✓
Independent non-executive Directors		
Mr. Chen Shimin	✓	✓
Mr. Zhang Xuejun	✓	✓
Mr. Leung Ming Shu	✓	✓
Mr. Zhao Hang	✓	✓

DIRECTORS’ RESPONSIBILITIES ON THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements which give a true and fair view of the state of affairs of the Company as at 31 December 2019 and of the Company’s profit and cash flows for the year ended 31 December 2019 and ensuring that such statements are prepared in accordance with the statutory requirements and applicable accounting standards.

AUDITORS’ REMUNERATION

Ernst & Young has been appointed as the external auditors of the Company since 2012. In 2019, the Company accepted the annual audit fee of RMB1.80 million proposed by Ernst & Young. The relevant selection, appointment and resignation procedures of accounting firms have been reviewed and approved by the audit committee and the Board.

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the section headed “Independent Auditor’s Report” on pages 50 to 51 in this annual report. During the year ended 31 December 2019, other than the audit fee, RMB0.60 million was paid to Ernst & Young for its performance of interim review.

COMPANY SECRETARY

Ms. He Lina was appointed as a company secretary of the Company in April 2016. Ms. He is an employee of the Company and reports to the chairman of the Board and is responsible for advising the Board on corporate governance matters. Ms. He has confirmed that she had taken not less than 15 hours of relevant professional training during the year ended 31 December 2019.

Ms. Ng Ka Man resigned as a company secretary of the Company on 1 April 2019.

CONSTITUTIONAL DOCUMENTS

There was no change to the constitutional documents of the Company during the year ended 31 December 2019.

SHAREHOLDER'S RIGHTS

Pursuant to the Articles of Association, any Shareholder holding one-tenth or more of the paid up capital of the Company as at the date of putting forward requisition has rights to call for extraordinary general meeting to address any issue set out in the relevant requisition by sending to the Board or the company secretary of the Company at the address of Building 9-A, KongGangRongHuiYuan, Yuhua Road, Tianzhu Airport Industrial Zone B, Shunyi District, Beijing, PRC a written requisition any time and the extraordinary general meeting shall be held within two months of the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself/itself (themselves) may convene such meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board to hold such meeting shall be reimbursed to the requisitionist(s) by the Company.

MAKING ENQUIRIES TO THE BOARD

Shareholders who would like to make enquiries regarding the Company may send such enquiries by email to ir@sunking-tech.com.

INVESTOR RELATIONSHIP

The Company encourages two-way communications with its institutional and private investors. Extensive information about the Group's business is provided in the annual report and the interim report sent to the Shareholders. The Company will meet with investors after the announcement of financial results to explain the business, performance and future plans of the Company in order to strengthen the public's understanding of the Company. The annual general meetings provide a platform for direct communication between the Board and the Shareholders. The Company communicates with the media regularly, discloses financial and other information of the Group and its operation to the public to promote effective communication.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REPORT SUMMARY

The Group always upholds the operating philosophy of green and sustainable development, and actively takes up its corporate social responsibilities and bring positive influence in respect of energy saving, environmental protection and social responsibilities. The Company prepared and disclosed the 2019 Environmental, Social, and Governance Report (the “**Report**”), aiming to truthfully reflect the Group’s activities regarding environmental protection and social responsibilities, in particular, the activities in respect of the R&D of new products, the management of product quality and supply chains, administration and the management of personnel, public health and utilisation of resources, and to perform the Group’s commitments to all stakeholders including Shareholders, staff, customers and the society.

Basis of Preparation

In accordance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Listing Rules (the “**Guide**”), the Company prepared an Environmental, Social and Governance Report. The Report covered the two major subject areas mandated by the Guide, namely, Environmental as “Main Subject Area A” and Social as “Main Subject Area B” whereas the third area – “Corporate Governance” is covered in the Corporate Governance Report in the 2019 annual report.

Reporting Scope

The period covered in the Report is the same as that in the 2019 annual report, and the Report is set out in the 2019 annual report and is disclosed at the same time.

Otherwise specified in the Report, the information set out in the Report cover the Group’s headquarters and its subsidiaries in locations such as Beijing, Wuxi, Jiashan and Wuhan.

Sources of Data

The Report noted the Group’s business advantages, developed a statistical methodology suitable for the Group’s environmental key performance indicators, which followed the principles of importance, quantification, balance and consistency to disclose relevant statistics and information.

A. ENVIRONMENTAL RESPONSIBILITY

The Company is committed to the R&D and production of high-efficiency, energy-saving electrical and electronic products and to accelerating the application and development of clean energy. The key products of the Group have relatively large market shares in the UHVDC, flexible DC transmission and electrified transportation markets, and play an important role in enhancing the efficiency and quality of transmission.

The Group always upholds the operating strategy of green and sustainable development, continuously improve the management of environmental protection, energy saving and emission reduction. The cooperation between departments in accordance with the Group’s environmental responsibility policy and approach has achieved good results in this regard.

Before commencing work on new projects, the Group submits “Environmental Impact Reports of Construction Projects” (《建設項目環境影響報告》) and stay in strict compliance with environmental protection rules as required under the approval.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A1. Emissions

The Group strictly complies with:

- the “Environmental Protection Law of the PRC” (《中華人民共和國環境保護法》)
- the “Work Safety Law of the PRC” (《中華人民共和國安全生產法》)
- the “Law of the PRC on the Prevention and Control of Atmospheric Pollution” (《中華人民共和國大氣污染防治法》)
- the “Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste” (《中華人民共和國固體廢物污染環境防治法》)
- the “Administrative Measures for Hazardous Waste Transfer Manifests” (《危險廢物轉移聯單管理辦法》)

The Group’s major production activities do not produce direct emissions from fossil fuels such as coal, oil and natural gas. The Group’s main sources of flue gas and greenhouse gases emissions include direct emissions of vehicles and indirect emissions from power consumption and plane travel for employees’ business trips. The small quantity of dust and flue gas from filling and sealing and paint which arise from production activities are treated to the extent of meeting the Integrated Emission Standard of Air Pollutants (GB16297-1996) of the PRC.

Since usage of vehicles, power consumption and plane and other transport travel for employees’ business trips are the Group’s primary sources of pollutants, we accordingly introduced the “Management System for Vehicles” (《用車管理制度》), the Management Measures for Official Vehicles (《公務用車管理辦法》), the “Management System for Business Trips” (《出差管理制度》) and “Engineering Service Business Trips Supplemental Regulations of the Management System for Business Trips” (《出差管理制度補充工程服務出差規定》) to improve the management of vehicle usages and employees’ business trips. At the same time, the Group encourages employees to travel by public transport or ride a bicycle, and reduced emissions by providing shuttle services for employees according to certain subsidiaries’ actual arrangements. The Group also established the policy related to water saving and energy saving, and carry out periodic maintenance on production and office electronic appliances to reduce power consumption.

- The small quantity of dust and flue gas from filling and sealing and paint which arise from production activities are treated as follows:

Pollutant types	Treatment
Dust	Textile dust bag treatment
Flue gas from filling and sealing	Activated carbon absorption
Flue gas from paint	Water-curtain type paint fume treating equipment with activated carbon processing

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- Environmental Key Performance Indicators

Flue gas emissions: Unit: Kg

Emission	2019	2018
SOx	595	316
NOx	1	1
Particles	57	30

Greenhouse gas emissions: Unit: Tons

CO ₂	2019	2018
Direct	261	221
Indirect	7,984	6,560

The Group's waste emissions comprise of non-hazardous waste and hazardous waste emissions.

- The Group's non-hazardous waste emissions mainly comprise of waste materials such as scrap steel, iron dust and scrap which arise from production processes. These materials are either sold or given to environmental departments for disposal in accordance with the procedures as required under the "Management System for Warehousing Waste Products" established by the Group. In 2019, the treatment of these non-hazardous waste by the Group was as follows:

Non-hazardous waste type	Discharge (Tons)	Treatment
Scrap steel	200	Sold
Iron dust	1.8	Sold
Household garbage	7.5	Disposal by environmental departments
Used paper	4	Sold

- The Group maintains a "Hazardous Waste Management Ledger" to aid in monitoring its disposal of hazardous wastes. As the quantity of hazardous waste produced by the Group is low, the solid wastes produced by the Group have no negative impact on the environment, provided that they are collected and treated in strict compliance with regulations. In 2019, such wastes are categorised and treated as follows:

Hazardous waste type	Discharge (Tons)	Treatment
Paint residue	1.7	Disposal by qualified units
Waste organic solutions	8	Disposal by qualified companies
Oil and water mixtures	11.2	Disposal by water treatment companies
Used activated carbon	0.2	Disposal by qualified companies
Thermal oil	2	Special treatment by relevant departments

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A2. Use of resources

Resources used by the Group in its operating activities are mainly comprised of water, power and raw materials for products. The Group is actively strengthening its management of water, power and other resource consumption in all its office premises while increasing the energy efficiency and environmental protection awareness of its employees. Usage of water and power by the Group is as follows:

Resources	2019	2018
Water (Tons)	340,532	139,116
Power (KWh)	7,423,041	6,060,529

In respect of sewage treatment, both Wuxi Sunking Power Capacitor Co., Ltd. (無錫賽晶電力電容器有限公司) (“**Wuxi Sunking**”) and Jiashan Sunking Power Equipment Technology Co., Ltd. (嘉善華瑞賽晶電氣設備科技有限公司) (“**Jiashan Sunking**”), being subsidiaries of the Company, have obtained the Discharge Licences (《排污許可證》).

The Group’s power consumption includes production and household power consumption. For production, we continuously improve our technologies to consumer power with higher efficiency. For household power consumption, the Company has put “Management Requirements for Energy-saving” into place, which sets out unified rules on management of air-conditioning and office equipment, describes relevant penalties, and designates departments in charge.

The Group also introduced “Management System for Office Supplies” to help rationalise and regulate the use of office supplies and to reduce waste. The Company promotes a paperless office and has adopted the OA Electronic Information System of Weaver to make significant improvements in working efficiency while reducing the direct consumption of paper and other resources. The Group has also taken measures to cut down indirect energy consumption and greenhouse gas emissions generated by employee business travel.

To reduce consumption of raw materials, the Group has adopted just-In-time production methods which avoid keeping excessive inventory. The Group has also increased technical staff training by, for example, using the joint training systems of Jiashan Sunking and vocational schools. We also enhance staff members’ technical skills to reduce waste generated by production. Due to the differing specifications, different products require different packaging, and therefore statistics for packaging weight cannot be compiled. For 2019, the types and usage of packaging by the Group are as follows:

Packaging type	Amount (units/pieces)
Wooden box	3,197
Cardboard box	9,514
Honeycomb cardboard box	3,146
Wood strip	96

A3. The environment and natural resources

The Group’s business makes no substantial impact on the environment and natural resources. We maintain strict compliance with relevant laws and regulations such as the “Environmental Protection Law of the PRC” (《中華人民共和國環境保護法》) and the “Energy Conservation Law of the PRC” (《中華人民共和國節約能源法》). The capacitors and busbars which are the Company’s principal products have been accredited with ISO14001 Environmental Management System certification.

B. SOCIETY

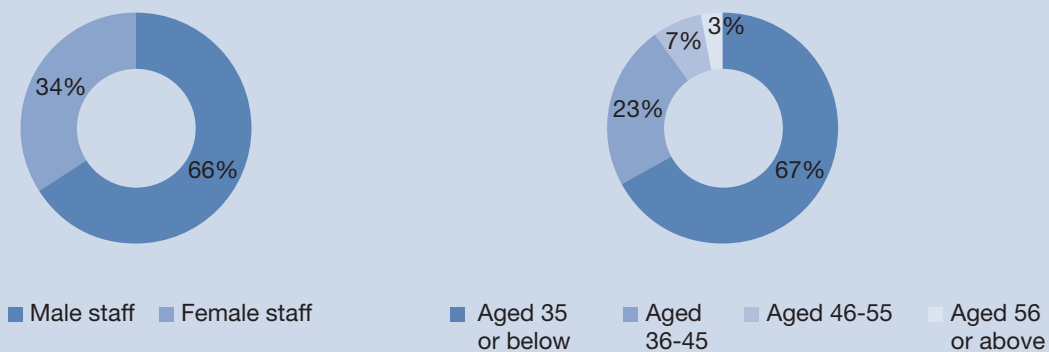
The Group regards its employees as its most important asset for its development. The Group therefore maintains strict compliance with relevant laws and regulations such as the “Labour Law of the PRC” (《中華人民共和國勞動法》) and the “Labour Contract Law of the PRC” (《中華人民共和國勞動合同法》). It has directed its corporate management to encourage employees to innovate, and it has effectively protected both the Group’s interests and employees’ legal rights. By doing so, the Group hopes to converge the interests of the Company and its employees with the aim of driving the Company’s growth and recognising each employee’s individual value.

B1. Employment

The Group maintains strict compliance with various relevant national personnel laws and regulations, emphasizing on its own talent development strategy, so as to make continue improvements in its talent management system. For the employment of employees, the Group has adopted a hybrid system of external recruitment, internal nomination and job rotation to recruit personnel with calibre. Our “Staff Handbook”, “Management System for Recruitment” and “Management Processes for Staff Relations” define its principles and mechanisms of recruitment, employment, resignation and dismissal.

The Company also has detailed its arrangements for employee remuneration, working hours and leave. The “Management System for Remuneration” and the “System for Performance Appraisal” established by the Company provide details of the system by which remuneration – including basic salaries and performance bonuses – is determined for all employees based on factors including competence, experience and contributions. The Company provides a year-end double pay system. The Company further provides employees with a benefits package including various allowances, work lunches, company trips, birthday parties and medical checks. The Company protects both applicants and qualifying staff from all forms of discrimination. Female staff are entitled to benefits including medical check-ups and maternity leave with positions held open during the leave. We comply strictly with the “Regulations on Paid Annual Leaves of Employees” (《職工帶薪年休假條例》) to safeguard employees’ right to reasonable leave.

As of 31 December 2019, the Group had 581 staff members in total. The sex and age composition of the staff is as follows:



B2. Health and safety

The Group adheres to employee health and safety requirements under all applicable laws and regulations such as the “Law of the PRC on the Prevention and Treatment of Occupational Diseases” (《中華人民共和國職業病防治法》), the “Work Safety Law of the PRC” (《中華人民共和國安全生產法》) and the “Fire Protection Law of the PRC” (《中華人民共和國消防法》)。

To ensure the health of employees, the Group provides free annual medical checks. Apart from statutory “Five Social Insurances and One Housing Fund” requirement, we also provide supplemental medical insurance for employees, to provide a multi-layer protection mechanism.

All employees of the Group are required to receive induction training and are required to learn professional skills before commencing work. Employees of certain positions are required to possess relevant certificates to avoid any damage or injury due to incompetence of requisite skill(s). Each subsidiary of the Group has established a series of management requirements for production safety in reference to its own operational purposes and conditions. These requirements enable specific safety procedures and plans to be defined. Examples of such include Wuxi Sunking’s “Safety Management Requirements”, “Contingency Plans for Safe Production Incidents” and “Management System for Dangerous Operations”; and “Safety Management Requirements” of Jiashan Sunking, a subsidiary of the Company. Each subsidiary has implemented stringent requirements and rules and there had not been material safety-related accidents in 2019. Our Group has no record of casualties relating to occupational diseases or work-related injuries in 2019.

Wuxi Sunking engages third-party institutions to identify the causal factors of occupational disease, provides employee with training in occupational safety and health, and has established sound management systems for employee health and safety. It has been accredited with OHSAS18001 Occupational Health and Safety Assessment Series certification.

B3. Development and training

The Company provides a variety of employee training to improve their skills and satisfy professional needs. New staff receive on-the-job training on topics such as corporate and departmental regulations, work duties and responsibilities, work skills, production safety and career planning, helping them to understand the Company and adapt to their positions. For existing staff, the Group provides training courses specifically for their career development. The Group also encourages employees to participate in position-relevant training offered by external institutions. For Directors and senior management, the Group invites professionals such as lawyers and accountants to provide training in respect of up-to-date information on matters such as the Companies Ordinance, regulatory policies, corporate governance, financial management and market trends. Arrangements are also made for the company secretary and other personnel to participate in relevant professional training for no less than 15 hours annually.

In 2019, the Group successfully held three training seminars with the theme “Improvement of Site Fundamental Management” to improve the working capacity of production personnel; training with the theme “Financial Management for Non-financial Managers” was conducted for management personnel, with an aim to improve the communication skills of management personnel in order to build a reserve pool of management elites for the continuous development of the Group. The Group holds an internal training monthly, and the internal trainers explain various vocational skills. In 2019, the Group invested more than RMB450,000 in employee training.

B4. Labour standards

The Group adheres to the humanity-centred philosophy and the principle of equality and protects the employees from any form of discrimination due to race, age, gender and other factors. We adhere to the principle of “openness, fairness, justice” and adopt discretionary choice during recruitment process, consider candidates on merit and against objective criteria. As explained in the “Staff Handbook”, the Group protects the legitimate and reasonable interests of employees by including, as part of recruitment criteria, a stipulation that there be “no employment of children under the age of 18” and other employment conditions, regulations for working hours and leave system. The Group prohibits forced labour such as debt bondage and indentured servitude in all workplaces.

B5. Supply chain management

The Group tightly regulates its internal supply chain management processes with the aim of strengthening its internal management of procurement and logistics and reducing procurement costs. For the Group’s internal processes, a unified management system for procurement has been established, encompassing the conduct of review, approval and control of procurement applications and signing of contracts. For external processes, the Group has adopted the ABC classification of raw materials, with Categories A and B applying to principle materials and accessories, and Category C to auxiliary materials. We select qualified suppliers through a collective tendering process, and we regularly assess and maintain a database of suppliers of materials, periodically review the suppliers in Categories A and B to ensure that our suppliers meet our quality requirements.

B6. Product responsibility

Product responsibility is of profound importance to the Group as our products are most commonly used in power transmission and distribution and rail transport. The Group’s capacitors, resistors and busbars, which are its principal products, have been accredited with ISO9001 Quality Management System certification. We adopt stringent product monitoring and testing processes and have established a comprehensive product quality control system to ensure production quality manageable and enhance both product passing rates and customer satisfaction. The system comprises procedures for quality inspection, substandard product control, new product R&D, error prevention and remedy, and customer satisfaction monitoring. For example, Wuxi Sunking developed “Product Monitoring and Inspection Procedures” and “Product Quality Inspection Procedures”.

To protect the Group’s intellectual property rights, all departments and individuals are encouraged to make patent applications, and the Group has accordingly set up systems and incentives for patent affairs management, technique and innovation copyright. The Group proactively protects its proprietary intellectual property through continuous monitoring of any infringement thereon.

B7. Anti-corruption

The Group strictly complies with relevant laws and regulations of the PRC, promotes the corporate culture of integrity and honesty, and strictly regulates its construction of anti-corruption. The Group established an “Internal Whistle-blowing Policy” and “Internal Audit System” under which the audit committee is authorised by the Board to create an environment of anti-fraud. The committee conducts regular reviews of the internal control system to regulate the conduct of employees, maintain an atmosphere of integrity and dedication, and prevent the occurrence of intentional fabrication, disclosure of trade secrets, graft, misappropriation, embezzlement and dinners or presents in exchange for favour. The audit department set up a complaint channel for reporting emails, telephone calls, etc., mainly responsible for dealing with whistle-blowing and initiating follow-up actions, which directly reports to the audit committee, effectively safeguards the employees’ own interests. We believe that strict systems for anti-corruption and anti-fraud, along with a rigorously implemented internal control system, are valuable in helping us to earn the confidence of employees, customers, suppliers and other business partners, and contribute to the Group’s continuous development.

B8. Community investment

Each subsidiary of the Group participates in local community projects and public welfare activities. In 2019, Jiashan Sunking donated RMB50,000 to the Charity Federation of Jiashan County.

REPORT OF THE DIRECTORS

The Directors are pleased to present the annual report of the Company and the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are manufacture and trading of power electronic components.

Details of the principal activities of the Company's principal subsidiaries are set out in note 1 to the consolidated financial statements.

FAIR REVIEW OF BUSINESS

A fair review of the business of the Group as well as a discussion and analysis of the Group's performance during the year ended 31 December 2019 and the material factors underlying its financial performance are set out in the chairman's statement on pages 3 to 4 of this annual report and the section headed "Management Discussion and Analysis" on pages 5 to 12 of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings with floating interest rates. The effective interest rates and terms of repayment of the interest-bearing bank borrowings of the Group are disclosed in note 26 to the consolidated financial statements.

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from purchase by operating units in currencies other than the units' functional currencies. In order to minimise the impact of foreign exchange exposure, the Group has entered into forward currency contracts with creditworthy banks to manage its exchange rate exposure.

Credit risk

The Group trades only 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 ongoing basis.

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 only with recognised and creditworthy third parties, there is no requirement for collateral. Concentration of credit risk is managed by customer/counterparty, by geographical region and by industry sector.

Liquidity risk

The Group uses revolving liquidity planning tool to monitor its risk of shortage of funds. This tool considers the maturity of its financial instruments and financial assets (e.g. trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings. In addition, the Group borrows bank facilities on a continuing basis.

For further details of the principal risks and uncertainties, please refer to note 41 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2019 and its financial position as at that date are set out in the consolidated financial statements from pages 53 to 133 of this annual report.

The Board proposed to recommend the payment of a final dividend of HK3 cents per Share for the year ended 31 December 2019 (2018: HK3 cents) and a special dividend of HK3 cents per Share.

Dividend Policy

1. Purpose

The dividend policy aims to set out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of its net profit, as dividends to the Shareholders.

2. Principles and Guidelines

- 2.1 The Board adopts the policy that, in recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its Shareholder value.
- 2.2 The Company does not have any pre-determined payout ratio.
- 2.3 The Board has the discretion to declare and distribute dividends to the Shareholders, subject to the provisions of the Articles of Association and all applicable laws and regulations and the factors set out below.
- 2.4 The Board shall also take into account the following factors of the Company and its subsidiaries when considering the declaration and payment of dividends:
 - financial results;
 - cash flow position;
 - business conditions and strategies;
 - future operations and income;
 - capital requirements and budgets;
 - interests of the Shareholders;
 - any restrictions on payment of dividends; and
 - any other factor that the Board deems relevant.
- 2.5 Depending on the financial conditions of the Company and the conditions and factors as set out above, dividends may be proposed and/or declared by the Board for a financial year or period;
 - interim dividend;
 - final dividend;
 - special dividend; and
 - any distribution of profits that the Board may deem appropriate.

REPORT OF THE DIRECTORS

- 2.6 Any final dividend for a financial year will be subject to Shareholders' approval.
- 2.7 The Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate.
- 2.8 Any dividend unclaimed shall be forfeited and shall revert to the Company in accordance with the Articles of Association.

3. Review of the Policy

The Board will review the dividend policy as appropriate from time to time.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 134 of this annual report. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year ended 31 December 2019 are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the movements in the Company's issued share capital during the year ended 31 December 2019 are set out in note 28 to the consolidated financial statements.

Prior to the listing of the Shares on the Stock Exchange (the "**Listing**"), the Company conditionally adopted the Share Option Scheme on 23 September 2010 which became effective and unconditional upon the Listing. The purpose of the Share Option Scheme is to enable the Group to grant options to the Eligible Participants (as defined in the section headed "Share Option Scheme" in the prospectus of the Company dated 30 September 2010) as rewards or incentives for their contributions to the Group.

The Board may, at its absolute discretion, offer an option to the Eligible Participants to subscribe for the Shares at an exercise price and subject to the terms of the Share Option Scheme. The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company shall not in aggregate exceed 136,604,000 Shares, being 10% of the total number of Shares in issue at the time of the Listing.

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The total number of Shares issued and to be issued upon exercise of the options granted to or to be granted to each Eligible Participant under the Share Option Scheme and any other schemes of the Company or any of its subsidiaries (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue. The Share Option Scheme will remain in force for a period of 10 years. Under the Share Option Scheme, each option has a 10-year exercise period unless otherwise determined by the Board.

Details of movements in the share options under the Share Option Scheme for the year ended 31 December 2019 and share options outstanding as at the beginning and the end of the year are set out below:

Name of grantees	Date of grant	As at 1 January 2019	Number of share options				Cancelled/ Forfeited during the year	As at 31 December 2019	Exercise price per share (HK\$)	Share price immediately before the grant date (HK\$ per share)	Fair value of share options (HK\$ per share)	Exercisable period
			Granted during the year	Exercised during the year	Lapsed during the year							
Mr. Xiang Jie (chairman of the Board, executive Director and substantial Shareholder)	28 August 2014	20,000,000	-	-	-	-	20,000,000	0.69	0.61	0.88	28 August 2015 to 27 August 2020	
Mr. Gong Renyuan (chief executive officer and executive Director)	28 May 2013	750,000	-	(750,000)	-	-	-	0.68	0.64	0.27	28 May 2014 to 27 May 2019	
	28 August 2014	10,000,000	-	-	-	-	10,000,000	0.69	0.61	0.33	28 August 2015 to 27 August 2020	
Mr. Yue Zhoumin (executive Director)	28 August 2014	1,500,000	-	-	-	-	1,500,000	0.69	0.61	0.33	28 August 2015 to 27 August 2020	
Ms. Ren Jie (senior management and the spouse of Mr. Gong Renyuan)	28 May 2013	450,000	-	(450,000)	-	-	-	0.68	0.64	0.27	28 May 2014 to 27 May 2019	
	28 August 2014	1,200,000	-	-	-	-	1,200,000	0.69	0.61	0.33	28 August 2015 to 27 August 2020	
		33,900,000	-	(1,200,000)	-	-	32,700,000					
Employees in aggregates	28 May 2013	96,500	-	(96,500)	-	-	-	0.68	0.64	0.26	28 May 2014 to 27 May 2019	
	28 August 2014	2,917,000	-	(1,501,000)	-	-	1,416,000	0.69	0.61	0.31	28 August 2015 to 27 August 2020	
	24 August 2016	4,735,000	-	-	(400,000)	-	4,335,000	1.17	1.19	0.53	24 August 2017 to 23 August 2022	
Total		41,648,500	-	(2,797,500)	(400,000)	-	38,451,000					

Further details of the Share Option Scheme are set out in note 29 to the consolidated financial statements.

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RESERVES

Details of the movements in the reserves of the Group during the year ended 31 December 2019 are set out in the consolidated statement of changes in equity on page 56 of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands (the "**Companies Law**"), amounted to approximately RMB529.5 million (31 December 2018: RMB614.6 million). In addition, under the Companies Law, the amount of approximately RMB529.5 million in the share premium account of the Company as at 31 December 2019 (31 December 2018: RMB614.6 million) was distributable to the Shareholders (subject to the provisions of the Articles of Association), provided that the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which the dividend, if any, is proposed to be paid. The Company's share premium account may be distributed in the form of fully paid bonus Shares.

DIRECTORS

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

Executive Directors

Mr. Xiang Jie
Mr. Gong Renyuan
Mr. Yue Zhoumin

Non-Executive Directors

Mr. Yan Fuquan
Mr. Zhu Ming
Ms. Zhang Ling

Independent Non-executive Directors

Mr. Chen Shimin
Mr. Zhang Xuejun
Mr. Leung Ming Shu
Mr. Zhao Hang

In accordance with Article 84(1) of the Articles of Association, Mr. Xiang Jie, Mr. Zhu Ming, Ms. Zhang Ling and Mr. Zhao Hang will retire by rotation and be eligible to offer themselves for re-election as the Directors at the forthcoming annual general meeting.

The Company has received from each independent non-executive Director an annual confirmation of his independence from the Group, and as at the date of this annual report, the Company still considered them to be independent pursuant to Rule 3.13 of the Listing Rules.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Company are set out under the section headed "Biographies of Directors and Senior Management" in this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors was first appointed for a term of three years commencing on the date of the Listing. Subsequently, Mr. Xiang Jie entered into supplemental service agreements dated 1 June 2012, 1 June 2015 and 1 June 2018 under which his term of office was extended for three years from the date of the respective supplemental agreements. On 1 June 2016 and 1 June 2019, Mr. Gong Renyuan entered into supplemental service agreements for a term of three years from the date of the respective supplemental agreements. On 28 May 2014 and 28 May 2017, Mr. Yue Zhoumin entered into supplemental service agreements for a term of three years from the date of the respective supplemental agreements.

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Mr. Yan Fuquan and Mr. Zhu Ming were first appointed for a term of three years commencing on 12 October 2017 as non-executive Directors. Ms. Zhang Ling was first appointed for a term of three years commencing on 4 December 2017 as a non-executive Director.

The independent non-executive Directors, namely Mr. Chen Shimin, Mr. Zhang Xuejun, Mr. Leung Ming Shu and Mr. Zhao Hang were first appointed for a term of three years commencing on 19 August 2010, 19 December 2016, 24 March 2017 and 4 December 2017, respectively. Subsequently, Mr. Chen Shimin entered into supplemental letters of appointment for a term of three years commencing on 28 May 2014 and 28 May 2017, Mr. Zhang Xuejun entered into a supplemental letter of appointment for a term of three years commencing on 19 December 2019 and Mr. Leung Ming Shu entered into a supplemental letter of appointment for a term of three years commencing on 24 March 2020.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Board has the general power of determining the Directors' remuneration, subject to authorisation of the Shareholders in the annual general meeting each year. The remuneration of the executive Directors is subject to review by the remuneration committee, and their remuneration is determined with reference to the Directors' qualifications, experience, duties, responsibilities and performance and results of the Group. As for the non-executive Directors and the independent non-executive Directors, their remuneration is determined by the Board upon recommendation by the remuneration committee. Details of the emoluments of the Directors are set out in note 8 and the five highest paid individuals are set out in note 9 to the consolidated financial statements.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENT AND CONTRACTS

During the year ended 31 December 2019 and at the end of the year ended 31 December 2019, no Director nor entity connected with any Directors was materially interested, either directly or indirectly, in any transaction, arrangement and contract of significance to the business of the Group to which any member of the Group was a party.

PERMITTED INDEMNITY

Under the Articles of Association, the Directors are indemnified out of the assets of the Company against any liability, action, proceeding, claim, demand, costs, damages or expenses, including legal expense whatsoever, which they or any of them incur as a result of any act or failure to act in carrying out their functions other than such liability (if any), that they may incur by reason of their own fraud or dishonesty. Such permitted indemnity provision has been in force for the year ended 31 December 2019. The Company has arranged appropriate liability insurance coverage for the Directors.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"), as recorded in the register kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(a) Long positions in the shares, underlying shares and debentures of the Company

Name of Director	Nature of interest	Number of ordinary Shares held	Number of underlying Shares held under equity derivatives ^(Note 4)	Total	Approximate percentage of interests in the Company ^(Note 5)
Mr. Xiang Jie	Beneficial owner and interest in controlled corporation	361,958,347 ^(Note 1)	20,000,000	381,958,347	23.88%
Mr. Gong Renyuan	Beneficial owner and interest of spouse	8,160,000 ^(Note 2)	11,200,000 ^(Note 3)	19,360,000	1.21%
Mr. Yue Zhoumin	Beneficial owner	4,100,000	1,500,000	5,600,000	0.35%

Notes:

- As at 31 December 2019, among the 361,958,347 Shares, 23,630,000 Shares were directly held by Mr. Xiang Jie and the remaining 338,328,347 Shares were directly held by Max Vision Holdings Limited. As at 31 December 2019, Max Vision Holdings Limited was wholly-owned by Jiekun Limited, which was wholly-owned by BNP Paribas Corporate Services Pte Ltd.. As at 31 December 2019, BNP Paribas Corporate Services Pte Ltd. was wholly-owned by BNP Paribas Singapore Trust Corporation Limited, which was the trustee of a private trust of which Mr. Xiang Jie was the settlor and his family members were the beneficiaries.
- As at 31 December 2019, among the 8,160,000 Shares, 5,060,000 Shares were held by Mr. Gong Renyuan and the remaining 3,100,000 Shares were held by Ms. Ren Jie, being the spouse of Mr. Gong Renyuan. Mr. Gong Renyuan was deemed under the SFO to be interested in the 3,100,000 Shares held by Ms. Ren Jie.
- Among the 11,200,000 Shares which may be issued upon the exercise of the share options, 10,000,000 Shares represented the Shares which may be issued upon the exercise of the share options granted to Mr. Gong Renyuan and the remaining 1,200,000 Shares represented the Shares which may be issued upon the exercise of the share options granted to Ms. Ren Jie, being the spouse of Mr. Gong Renyuan. Mr. Gong Renyuan was deemed under the SFO to be interested in the 1,200,000 Shares which may be issued upon the exercise of the share options granted to Ms. Ren Jie.
- Such interests represented the interests in underlying Shares in respect of share options granted by the Company to the relevant Directors as beneficial owners, the details of which are set out in the paragraph headed "Share Capital and Share Option Scheme" in this annual report.
- There were 1,599,560,000 Shares in issue as at 31 December 2019.

(b) Short position in the shares, underlying shares and debentures of the Company

None of the Directors or the chief executives of the Company had short positions in the shares, underlying shares and debentures of the Company or its associated corporations as at 31 December 2019.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, at no time during the year ended 31 December 2019 and up to the date of this annual report were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor child, or were any such rights exercised by them, or was any member of the Group a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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

As at 31 December 2019, to the best knowledge of the Directors, the records of interests (being 5% or more of the issued share capital of the Company, other than the Directors or the chief executive of the Company) as registered in the register kept by the Company under section 336 of the SFO were as follows:

(a) Long positions in the shares and underlying shares of the Company

Name of substantial Shareholder	Nature of interest	Number of ordinary Shares held	Approximate percentage of interests in the Company <small>(Note 8)</small>
Max Vision Holdings Limited	Beneficial owner	338,328,347 <small>(Note 1)</small>	21.15%
Jiekun Limited	Interest in controlled corporation	338,328,347 <small>(Note 1)</small>	21.15%
BNP Paribas Corporate Service Pte Ltd.	Interest in controlled corporation	338,328,347 <small>(Note 1)</small>	21.15%
BNP Paribas Singapore Trust Corporation Limited	Interest in controlled corporation	338,328,347 <small>(Note 1)</small>	21.15%
Meng Fankun	Interest of spouse	381,958,347 <small>(Notes 1 and 2)</small>	23.88%
China High-Tech Holding Company Ltd.	Beneficial owner	300,000,000 <small>(Note 3)</small>	18.76%
China High-Tech Group Corporation	Interest in controlled corporation	300,000,000 <small>(Note 4)</small>	18.76%
Guojing Capital Limited (國晶資本有限公司)	Beneficial owner	200,000,000 <small>(Note 5)</small>	12.50%
China Venture Capital Fund Corporation Ltd. (中國國有資本風險投資基金股份有限公司)	Interest in controlled corporation	200,000,000 <small>(Note 5)</small>	12.50%
China Reform Venture Capital Investment Management (Shenzhen) Ltd. (國新(深圳)投資有限公司)	Interest in controlled corporation	200,000,000 <small>(Note 6)</small>	12.50%
China Reform Holdings Corporation Ltd. (中國國新控股有限責任公司)	Interest in controlled corporation	200,000,000 <small>(Note 7)</small>	12.50%

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Notes:

1. As at 31 December 2019, Max Vision Holdings Limited was wholly-owned by Jiekun Limited, which was wholly-owned by BNP Paribas Corporate Services Pte Ltd.. As at 31 December 2019, BNP Paribas Corporate Services Pte Ltd. was wholly-owned by BNP Paribas Singapore Trust Corporation Limited, which was the trustee of a private trust of which Mr. Xiang Jie was the settlor and his family members were the beneficiaries. As such, Jiekun Limited, BNP Paribas Corporate Service Pte Ltd. and BNP Paribas Singapore Trust Corporation Limited were deemed under the SFO to be interested in the 338,328,347 Shares held by Max Vision Holdings Limited.
2. Ms. Meng Fankun, being the spouse of Mr. Xiang Jie, was deemed under the SFO to be interested in the 381,938,347 Shares in which Mr. Xiang Jie was interested.
3. On 24 July 2017, China Hi-Tech Holding Company Limited entered into a sale and purchase agreement with Max Vision Holdings Limited, Mr. Gong Renyuan and Mr. Yue Zhoumin as sellers, pursuant to which Max Vision Holdings Limited, Mr. Gong Renyuan and Mr. Yue Zhoumin sold and China Hi-Tech Holding Company Limited purchased an aggregate of 125,000,000 Shares. China Hi-Tech Holding Company Limited also entered into a sale and purchase agreement dated 22 July 2017 with certain Shareholders for the sale and purchase of an aggregate of 175,000,000 Shares. As such, China Hi-Tech Holding Company Limited held an aggregate of 300,000,000 Shares.
4. As at 31 December 2019, China Hi-Tech Holding Company Limited was wholly-owned by China Hi-Tech Group Corporation. As such, China Hi-Tech Group Corporation was deemed under the SFO to be interested in the 300,000,000 Shares in which China Hi-Tech Holding Company Limited was interested.
5. On 21 July 2017, the Company entered into the subscription agreement with China Venture Capital Fund Corporation Ltd., a total of 200,000,000 Shares were allotted and issued by the Company under the subscription. On 6 December 2017, China Venture Capital Fund Corporation Ltd. procured its nominee, being Guojing Capital Limited, to subscribe for the 200,000,000 Shares. For details, please refer to the announcements of the Company dated 21 July 2017 and 6 December 2017, respectively. As at 31 December 2019, Guojing Capital Limited was wholly-owned by China Venture Capital Fund Corporation Ltd.. As such, China Venture Capital Fund Corporation Ltd. was deemed to be interested in the 200,000,000 Shares held by Guojing Capital Limited.
6. As at 31 December 2019, China Reform Venture Capital Investment Management (Shenzhen) Ltd. held approximately 35.29% equity interests in China Venture Capital Fund Corporation Ltd.. As such, China Reform Venture Capital Investment Management (Shenzhen) Ltd. was deemed under the SFO to be interested in the 200,000,000 Shares in which China Venture Capital Fund Corporation Ltd. was interested.
7. As at 31 December 2019, China Reform Holdings Corporation Ltd. held the entire equity interests in China Reform Venture Capital Investment Management (Shenzhen) Ltd. As such, China Reform Holdings Corporation Ltd. was deemed under the SFO to be interested in the 200,000,000 Shares in which China Reform Venture Capital Investment Management (Shenzhen) Ltd. was interested.
8. There were 1,599,560,000 Shares in issue as at 31 December 2019.

(b) Short position in the shares and underlying shares of the Company

Save as disclosed above, as at 31 December 2019, the Company had not been notified of any interest or short position in the Shares or underlying Shares which were required to be recorded in the register kept by the Company under section 336 of the SFO.

NON-COMPETITION UNDERTAKING BY MAX VISION HOLDINGS LIMITED AND MR. XIANG JIE

The Company has received annual confirmations from Max Vision Holdings Limited (being the single largest Shareholder) and Mr. Xiang Jie in respect of their compliance with the non-competition undertaking. The independent non-executive Directors have reviewed the aforesaid undertaking and are of the view that Max Vision Holdings Limited and Mr. Xiang Jie had complied with the non-competition undertaking during the year ended 31 December 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There were 1,599,560,000 Shares in issue as at 31 December 2019.

During the year ended 31 December 2019, the Company purchased 20,002,000 Shares for an aggregate purchase price before expenses of HK\$20,044,080 on the Stock Exchange. Details of the purchase of such Shares are as follows:

Month of purchase	Number of shares purchased	Price per share		Aggregate purchase price (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
January	196,000	1.21	1.17	231,220.00
June	1,028,000	1.15	1.04	1,132,860.00
August	2,266,000	1.02	0.97	2,266,980.00
September	8,786,000	1.03	0.90	8,487,180.00
October	4,450,000	1.11	0.92	4,368,720.00
November	482,000	1.08	1.05	512,280.00
December	2,794,000	1.17	1.00	3,044,840.00

The 17,208,000 Shares purchased in January, June, August, September and November 2019 were cancelled during the year ended 31 December 2019.

The aforementioned purchases were made for the benefit of the Company and the Shareholders as a whole with a view to enhancing the market price per Share and to improving the confidence of investors in the Company. Save as disclosed, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2019.

PRE-EMPTIVE RIGHTS

Unless otherwise required by the Stock Exchange, there were no provisions under the Articles of Association or the laws of the Cayman Islands (being the jurisdiction in which the Company is incorporated) which would oblige the Company to offer any pre-emptive right of new Shares on a pro-rata basis to the Shareholders.

RELATED PARTY TRANSACTIONS

During the year ended 31 December 2019, the Group entered into certain transactions with "related parties" as defined under the applicable accounting standards. Details of the related party transactions of the Company are set out in note 38 to the consolidated financial statements. Such related party transactions include the following connected transactions of the Company under the Listing Rules:

Related party transactions which constitute connected transactions	Compliance with the Listing Rules
Payment of interest accrued on Outstanding Loan (as defined in the announcement of the Company dated 14 November 2019) in the amount of RMB2.3 million by Hi-Tech Property Co., Ltd. (恒天地產有限公司) ("Hi-Tech Property") to Jiashan Sunking as set out in note 38(a) to the consolidated financial statements	The reporting and announcement requirements under Chapter 14A of the Listing Rules have been complied with.
Compensation paid to key management personnel of the Group as set out in note 38(b) to the consolidated financial statements	These were fully exempt continuing connected transactions under Rule 14A.95 of the Listing Rules.

The sales of products in the amount of RMB5.4 million were transactions conducted by subsidiaries of the Company, where none of such subsidiaries were connected subsidiaries (as defined in the Listing Rules). Therefore, such related party transactions did not constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

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CONNECTED TRANSACTIONS

Details of the Group's connected transactions during the year ended 31 December 2019 are set out as follows:

(1) Agreement for Conversion of Capital into Loan

Jiashan Sunking (being a wholly-owned subsidiary of the Company) (as lender), Hi-Tech Property (as borrower) and Jiashan Henghua Property Development Co., Ltd. (嘉善恒華房地產開發有限公司) (“**Jiashan Henghua**”) entered into the agreement for conversion of capital into loan dated 15 April 2019 (the “**Agreement for Conversion of Capital into Loan**”). Jiashan Henghua, being a company established in the PRC with registered capital of RMB50,000,000, was owned as to 49% by Jiashan Sunking after its contribution of capital of RMB24,500,000 and 51% by Hi-Tech Property after its contribution of capital of RMB25,500,000. Since Jiashan Henghua was in the course of deregistration, it had to settle the loan it had advanced to Hi-Tech Property in the amount of RMB50,000,000 before the deregistration could be completed. Pursuant to the Agreement for Conversion of Capital into Loan, among the amount of RMB50,000,000 which Hi-Tech Property was indebted to Jiashan Henghua, RMB25,500,000 would be assigned to Hi-Tech Property which would be offset against the amount of capital contribution which Jiashan Henghua should return to Hi-Tech Property upon its deregistration, and the remaining RMB24,500,000 would be assigned to Jiashan Sunking such that Jiashan Sunking would be entitled to interest in the rate of 8.3% per annum for a term of one year.

China Hi-Tech Holding Company Limited (中國恒天控股有限公司) (“**China Hi-Tech Holding**”), then holding approximately 18.58% of the issued share capital of the Company directly and wholly-owned by China Hi-Tech Group Corporation (中國恒天集團有限公司) (“**China Hi-Tech Group**”), was a substantial shareholder (as defined in the Listing Rules) of the Company. As Hi-Tech Property was accounted for and consolidated in the audited consolidated accounts of China Hi-Tech Group, Hi-Tech Property was an associate of China Hi-Tech Holding and hence a connected person of the Company. Accordingly, the transactions contemplated under the Agreement for Conversion of Capital into Loan constituted connected transactions of the Company under Chapter 14A of the Listing Rules.

(2) Disposal of 43% equity interests in Jiujiang Sunking

Jiashan Sunking and Beijing Hengyaoda Technology Development Centre (LLP) (北京衡耀達科技發展中心(有限合夥)) (“**Beijing Hengyaoda**”) entered into the share transfer agreement dated 29 April 2019 (the “**Share Transfer Agreement**”) with Shanghai Tanda Rolling Stock Seat System Co., Ltd. (上海坦達軌道車輛座椅系統有限公司) (“**Shanghai Tanda**”), pursuant to which Jiashan Sunking agreed to sell and Shanghai Tanda agreed to purchase 43% equity interests in Jiujiang Sunking for a consideration of RMB193,500,000.

Beijing Hengyaoda was a connected person of the Company at the subsidiary level by virtue of holding 25% equity interests in Jiujiang Sunking. Since Beijing Hengyaoda is one of the parties to the Share Transfer Agreement, the transactions contemplated thereunder constituted connected transactions of the Company under Chapter 14A of the Listing Rules.

(3) Settlement Agreement to Agreement for Conversion of Capital into Loan

Further to the Agreement for Conversion of Capital into Loan, Jiashan Sunking and Hi-Tech Property entered into the settlement agreement to the agreement for conversion of capital into loan dated 14 November 2019 (the “**Settlement Agreement to the Agreement for Conversion of Capital into Loan**”) to arrange for settlement of the outstanding loan then amounting to RMB27,829,351.65 by five instalments payable between November 2019 and October 2020.

China Hi-Tech Holding, then holding approximately 18.75% of the issued share capital of the Company directly and wholly-owned by China Hi-Tech Group, was a substantial shareholder of the Company. As Hi-Tech Property was accounted for and consolidated in the audited consolidated accounts of China Hi-Tech Group, Hi-Tech Property was an associate of China Hi-Tech Holding and hence a connected person of the Company. Accordingly, the transactions contemplated under the Settlement Agreement to Agreement for Conversion of Capital into Loan constituted connected transactions of the Company under Chapter 14A of the Listing Rules.

HUMAN RESOURCES

As at 31 December 2019, the Group employed 581 employees. Key components of the Group's remuneration packages included basic salary, medical insurance, discretionary cash bonus and retirement benefit scheme. The Group conducts periodic reviews on the performance of its employees, and their salaries and bonuses are performance-based. The Group did not experience any significant problems with its employees or disruptions to its operations due to labour disputes, nor did it experience any difficulty in the recruitment and retention of experienced employees. The Group maintains a good relationship with its employees.

FOREIGN CURRENCY EXPOSURE

Details of the foreign currency exposure for the year ended 31 December 2019 are set out in note 41 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

According to information publicly available to the Company and to the knowledge of the Directors, as at the date of this annual report, at least 25% of the total number of Shares was held by the public.

SHARE CAPITAL

Details of the movements in the share capital of the Company for the year ended 31 December 2019 are set out in note 28 to the consolidated financial statements.

DONATIONS

For the year ended 31 December 2019, the Group made charitable donation in the amount of RMB50,000 (2018: RMB70,000).

MAJOR SUPPLIERS AND CUSTOMERS

During the year ended 31 December 2019, the Group's five largest suppliers accounted for approximately 81.51% (2018: 67.9%) of the Group's total purchases. The Group's largest supplier accounted for approximately 75.93% (2018: 61.0%) of the Group's total purchases.

During the year ended 31 December 2019, the Group's sales to its five largest customers accounted for approximately 62.9% (2018: 57.56%) of the Group's total sales. The Group's largest customer accounted for approximately 25.9% (2018: 29.11%) of the Group's total sales.

None of the Directors or any of their close associates (as defined under the Listing Rules) or any Shareholders (who, to the best knowledge of the Directors, owns more than 5% of the number of Shares) has any interests in the Group's five largest customers or five largest suppliers.

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme as disclosed in the section headed "Share Capital and Share Option Scheme" of this annual report, the Company did not enter into any equity-linked agreement during the year ended 31 December 2019.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The audit committee was established on 19 August 2010 with written terms of reference in compliance with the Listing Rules. The audit committee is responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors, and any issues regarding the resignation or dismissal of such auditors; monitoring the integrity of financial statements, annual reports and accounts, interim reports and, (if prepared for publication) quarterly reports, and reviewing material financial reporting judgements therein; and reviewing the systems of financial control, internal control and risk management.

REPORT OF THE DIRECTORS

The audit committee of the Board has reviewed with the management accounting principles and practices adopted by the Group and discussed the auditing, risk management, internal control and financial reporting matters, including the review of the audited consolidated financial statements of the Group for the year ended 31 December 2019.

CORPORATE GOVERNANCE

The Company has published its corporate governance report, which is set out on pages 17 to 25 of this annual report.

ENVIRONMENT POLICIES AND PERFORMANCE

The Group is committed to enhancing environmental protection to minimise the impact of its activities on the environment. It is policy of the Group to promote clean operation and strive to making the most efficient use of resources in its operations, and minimising wastes and emission. The Group achieves this through actively re-designing its production activities and operation that encourage and promote recycling of resources, using environmental friendly raw materials and reviewing production operations constantly to ensure that the production processes are effective and efficient.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group adheres to people-oriented principle and offer reasonable treatment to employees. Meanwhile, it retains talents and constantly improves policies including remuneration and benefits, trainings and occupational health and safety with regular reviews and updates. The Group maintains sound relationship with its customers. In order to improve service quality, the Group has established a complaint management mechanism including complaints collection and analysis, and improvement recommendation. The Group maintains sound relationship with its suppliers, on which it conducts fair and strict inspection regularly.

COMPLIANCE WITH LAWS AND REGULATIONS

Established in the Cayman Islands, the Company operates its principle business in the PRC, whereas the Shares are listed on the Stock Exchange. Accordingly, the establishment and operations of the Company shall be subject to the relevant laws of the Cayman Islands, the PRC and Hong Kong. During the year ended 31 December 2019 and as of the date of this annual report, the Group was in compliance with the relevant laws, rules and regulations of the Cayman Islands, the PRC and Hong Kong.

CLOSURE OF REGISTER

In order to establish the identity of the Shareholders who are entitled to attend and vote at the forthcoming annual general meeting, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Friday, 15 May 2020. The register of members of the Company will be closed from Monday, 18 May 2020 to Thursday, 21 May 2020, both days inclusive, during which period no transfer of Shares will be registered. The Shareholders whose names appear on the register of members of the Company on Thursday, 21 May 2020 are entitled to attend and vote at the forthcoming annual general meeting.

In order to establish the identity of the Shareholders who are entitled to the proposed final dividend and special dividend, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Wednesday, 3 June 2020. The register of members of the Company will be closed from Thursday, 4 June 2020 to Monday, 8 June 2020, both days inclusive, during which period no transfer of Shares will be registered. Subject to the approval by the Shareholders of the proposed final dividend and special dividend at the annual general meeting to be held on Thursday, 21 May 2020, the final dividend and the special dividend are expected to be paid on or around Monday, 22 June 2020 to the Shareholders whose names appear on the register of members of the Company at the close of business on Monday, 8 June 2020.

AUDITOR

Ernst & Young retires and a resolution for their re-appointment as the auditors of the Company will be proposed at the forthcoming annual general meeting. There was no change in the auditors' of the Company in the preceding three years.

PROSPECTS

Looking ahead, the electric power industry of the PRC and across the world will continue to work toward the “replacement of other energy with clean energy” (清潔替代) and the “replacement of other energy with electricity” (電能替代), and the adjustment of energy infrastructure and the reform of energy technology will be accelerated. The strong emphasis on and widely use of power system sectors in new energy generation, UHVDC transmission, flexible DC transmission, intelligent grids, electrified rail transportation, new energy vehicles and electrified vessels will create unprecedented development opportunities for power electronics device and emerging power technology industries.

In 2020, the Group will promote the successful implementation of IGBT project with all-out effort and strive to launch the first batch of prototypes in the first half of 2020 and complete the construction of the first production line by the end of 2020. The Group will focus on the commercialisation of R&D achievements and the implementation of the development policy of “R&D-driven future”.

In 2020, it is expected that the market of power transmission and distribution sector will remain good. Major projects in the flexible DC transmission sector – the Wudongde Multi-terminal DC Project, the UHVDC transmission projects – Qinghai-Henan (青海－河南), Shaanbei-Wuhan (陝北－武漢) and Yazhong-Jiangxi (雅中－江西) and the Yunnan-Guizhou Interconnection (雲貴互聯) HVDC transmission project are expected to make large-scale order delivery in 2020. In addition, the HVDC transmission projects – “Baihetan-Jiangsu” (白鶴灘－江蘇), “Baihetan-Zhejiang” (白鶴灘－浙江), “Min-Guang Interconnection” (閩粵聯網), “Jin-Shang Water and Power Delivery” (金上水電外送), “Longdong-Shandong” (隴東－山東), “Hami-Chongqing” (哈密－重慶) as planned in the Notice on Accelerating the Planning and Construction of a Batch of Key Projects for Power Transmission and Transformation (《關於加快推進一批輸變電重點工程規劃建設工作的通知》) and “2020 Cross-Province UHVDC Transmission Project Plan of 500KV and above” (《2020年特高壓和跨省500kv及以上直流項目前期工作計劃》) are expected to start in 2020 and 2021.

Offshore wind power has become a new hot spot for investment and construction in the wind power sector in the PRC, and flexible DC transmission technology is the key and first class technology for offshore wind power grid. In 2020, a number of flexible DC transmission projects for offshore wind power are expected to be initiated.

Benefiting from the gradual implementation of the Action Plan on Freight Growth from 2018 to 2020 (《2018-2020年貨運增量行動方案》), the bidding of passenger motor units for the PRC maintained at relatively high level and the rate of localisation increased gradually, the rail transportation subsector is expected to maintain its good development trend in 2020.

The Group will continue to adhere to its business strategy of regarding technology leadership as the core of its competitiveness, strengthen management, adopt a sound financial policy and focus on independent technological R&D, and promote the advancement of energy technologies through continuous introduction of high-end power electronic devices, innovative technologies and solutions that spur rapid growth of corporate and social values.

INDEPENDENT AUDITOR'S REPORT



To the shareholders of Sun.King Power Electronics Group Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Sun.King Power Electronics Group Limited (the “**Company**”) and its subsidiaries (the “**Group**”) set out on pages 53 to 133, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (“**IASB**”) 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 Hong Kong Institute of Certified Public Accountants (“**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.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Sun.King Power Electronics Group Limited
(Incorporated in the Cayman Islands with limited liability)

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
<p><i>Impairment of goodwill and trademark</i></p> <p>Management performs impairment testing annually for the cash-generating unit (the "CGU") to which the goodwill and trademark were allocated. Management has engaged independent professionally qualified valuer (the "external valuer") for the calculation of the CGU's recoverable value based on the forecasted cash flows prepared by management. The calculation of the CGU's recoverable value is complex and involves significant management's judgement and estimation, such as the forecasted cash flows, budgeted gross margin and discount rates, which are sensitive to expected future market conditions and the CGU's actual performance.</p> <p>Related disclosures are included in notes 15 and 16 to the financial statements.</p>	<p>Our audit procedures included the evaluation of key assumptions including those related to the growth rates of revenue, gross profit margin and discount rates applied. We also took into account of the key assumptions by benchmarking to the external industry information.</p> <p>We evaluated the objectivity, independence and competence of the external valuer.</p> <p>In performing our audit procedures, we involved our internal valuation specialists to assess the assumptions applied by benchmarking against independent data.</p> <p>We considered the historical financial performance of the business units and compared with the original forecasts to evaluate the accuracy of management's budgeting process.</p> <p>We also assessed the adequacy of the disclosure in relation to the Group's goodwill and trademark impairment test.</p>
<p><i>Recoverability of trade receivables</i></p> <p>Trade receivables constituted a significant portion of total assets as at 31 December 2019 and the Group was exposed to credit risks thereof. The Group recognises an allowance based on the expected credit loss ("ECL") approach under IFRS 9 <i>Financial Instruments</i>. The measurement of ECL requires the application of significant judgement and estimate, such as the expected future cash flows and forward-looking factors specific to the debtors and the economic environment.</p> <p>Relevant disclosures are included in note 20 to the financial statements.</p>	<p>Our audit procedures included the assessment of the design, implementation and operating effectiveness of key internal controls which govern credit control, debt collection and estimate of expected credit losses.</p> <p>We assessed, on a sample basis, whether items in the trade receivables ageing report were classified within the appropriate ageing bracket. We assessed the management's ECL allowance by examining the information used by management to form such judgement and estimate, including checking the accuracy of the historical default information, evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information.</p> <p>We evaluated the Group's provision for trade receivables by reference to the Group's subsequent collection of the trade receivables.</p> <p>We also assessed the adequacy of the disclosure in relation to the Group's recoverability of trade receivables.</p>

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Sun.King Power Electronics Group Limited
(Incorporated in the Cayman Islands with limited liability)

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
<i>Provision for inventories</i>	
Inventories contributed a significant portion of total assets as at 31 December 2019 and the Group was exposed to inventory obsolete and excess risks as a result of the technology innovation. The determination of provision is accordingly complex because it depends on the future net recoverable amounts. The determination of the future recoverable amounts involves significant management judgements and estimates of the market condition, future sales and inventory liquidation plans and so on. Relevant disclosures are included in note 19 to the financial statements.	Our audit procedures included the understanding of the Group's accounting policy of provision for inventories. We performed stock count to observe the physical conditions of inventories. We performed the ageing analysis and considered the inventories' usage and sales as well as turnover days during the year. We also re-calculated the impairment amounts of the inventories based on management's methodology at year end.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF 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 IFRSs issued by the IASB 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.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Sun.King Power Electronics Group Limited
(Incorporated in the Cayman Islands with limited liability)

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 HKSA's 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 HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Sun.King Power Electronics Group Limited
(Incorporated in the Cayman Islands with limited liability)

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ng Siu Ki Ricky.

Ernst & Young

Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
25 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	<i>Notes</i>	2019 RMB'000	2018 RMB'000
REVENUE	5	1,395,638	1,290,490
Cost of sales		(971,836)	(855,128)
Gross profit		423,802	435,362
Other income and gains	5	101,320	41,396
Selling and distribution expenses		(74,898)	(72,630)
Administrative expenses		(105,684)	(83,624)
Research and development costs		(61,757)	(53,718)
Other expenses and losses	6	(26,604)	(6,514)
Finance costs	7	(17,810)	(16,474)
Share of profits and losses of:			
A joint venture		(36)	(26)
Associates		(4,343)	1,490
PROFIT BEFORE TAX	6	233,990	245,262
Income tax expense	10	(33,962)	(35,107)
PROFIT FOR THE YEAR		200,028	210,155
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		883	544
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		883	544
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		200,911	210,699
Profit attributable to:			
Owners of the parent		195,643	183,301
Non-controlling interests		4,385	26,854
		200,028	210,155
Total comprehensive income attributable to:			
Owners of the parent		196,278	183,655
Non-controlling interests		4,633	27,044
		200,911	210,699
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
	12		
Basic		RMB12.15 cents	RMB11.34 cents
Diluted		RMB12.05 cents	RMB11.21 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	<i>Notes</i>	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	304,511	318,924
Prepaid land lease payments	14(a)	–	35,409
Right-of-use assets	14(b)	58,918	–
Deposits for purchase of property, plant and equipment		154	8,795
Goodwill	15	6,878	41,037
Other intangible assets	16	32,731	40,844
Club memberships		–	1,554
Investment in a joint venture	17	15,530	15,566
Investments in associates	18	80,095	36,490
Trade receivables	20	452	745
Contract assets	20	71,715	37,535
Deferred tax assets	27	8,141	5,889
Total non-current assets		579,125	542,788
CURRENT ASSETS			
Inventories	19	198,958	154,343
Trade and bills receivables	20	878,772	859,768
Contract assets	20	103,835	86,067
Prepayments, deposits and other receivables	21	178,762	43,076
Prepaid land lease payments	14	–	952
Derivative financial instruments	25	2,422	218
Pledged deposits	22	31,709	35,040
Cash and cash equivalents	22	592,748	766,891
Total current assets		1,987,206	1,946,355
CURRENT LIABILITIES			
Trade and bills payables	23	275,852	285,646
Other payables and accruals	24	59,713	58,867
Contract liabilities	24	24,626	52,283
Derivative financial instruments	25	407	9,615
Lease liabilities	14	1,424	–
Interest-bearing bank borrowings	26	452,839	360,354
Tax payable		22,361	42,682
Total current liabilities		837,222	809,447
NET CURRENT ASSETS		1,149,984	1,136,908
TOTAL ASSETS LESS CURRENT LIABILITIES		1,729,109	1,679,696

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	<i>Notes</i>	2019 RMB'000	2018 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		1,729,109	1,679,696
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	<i>26</i>	19,000	–
Lease liabilities	<i>14</i>	10,664	–
Deferred income		3,234	4,422
Deferred tax liabilities	<i>27</i>	7,708	6,076
Total non-current liabilities		40,606	10,498
Net assets		1,688,503	1,669,198
EQUITY			
Equity attributable to owners of the parent			
Issued capital	<i>28</i>	136,996	138,637
Treasury shares	<i>28</i>	(2,736)	(4,135)
Reserves	<i>30</i>	1,537,680	1,429,062
		1,671,940	1,563,564
Non-controlling interests		16,563	105,634
Total equity		1,688,503	1,669,198

Xiang Jie
Director

Yue Zhoumin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

Notes	Attributable to owners of the parent											Total equity RMB'000
	Issued capital RMB'000	Treasury shares RMB'000	Share premium account RMB'000	Employee share-based compensation reserve RMB'000 (note a)	Capital redemption reserve RMB'000	Deemed contribution reserve RMB'000 (note b)	Other reserve RMB'000 (note c)	Retained profits RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000	Non-controlling interests RMB'000	
At 1 January 2018	137,476	(8,773)	682,175	30,392	684	14,765	275,817	309,725	(186)	1,442,075	79,078	1,521,153
Profit for the year	-	-	-	-	-	-	-	183,301	-	183,301	26,854	210,155
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	354	354	190	544
Total comprehensive income for the year	-	-	-	-	-	-	-	183,301	354	183,655	27,044	210,699
Acquisition of additional interest in a subsidiary	-	-	-	-	-	-	(12)	-	-	(12)	(488)	(500)
Exercise of share options 28	1,783	-	12,932	(4,125)	-	-	-	-	-	10,590	-	10,590
Share-based payments 29	-	-	-	1,448	-	-	-	-	-	1,448	-	1,448
Transfer from retained profits 30	-	-	-	-	-	-	13,693	(13,693)	-	-	-	-
Final 2017 dividends	-	-	(39,710)	-	-	-	-	-	-	(39,710)	-	(39,710)
Interim 2018 dividends 11	-	-	(28,557)	-	-	-	-	-	-	(28,557)	-	(28,557)
Shares repurchased and cancelled 28	(622)	4,638	(9,941)	-	622	-	-	(622)	-	(5,925)	-	(5,925)
At 31 December 2018 and at 1 January 2019	138,637	(4,135)	616,899*	27,715*	1,306*	14,765*	289,498*	478,711*	168*	1,563,564	105,634	1,669,198
Profit for the year	-	-	-	-	-	-	-	195,643	-	195,643	4,385	200,028
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	635	635	248	883
Total comprehensive income for the year	-	-	-	-	-	-	-	195,643	635	196,278	4,633	200,911
Acquisition of a subsidiary 32	-	-	-	-	-	-	-	-	-	-	3,705	3,705
Disposal of a subsidiary 33	-	-	-	-	-	-	(9,436)	9,436	-	-	(97,467)	(97,467)
Capital injection from non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	58	58
Exercise of share options 28	242	-	4,368	(2,950)	-	-	-	-	-	1,660	-	1,660
Share-based payments 29	-	-	-	368	-	-	-	-	-	368	-	368
Transfer from retained profits 30	-	-	(2,297)	-	-	-	12,807	(10,510)	-	-	-	-
Final 2018 dividends	-	-	(42,734)	-	-	-	-	-	-	(42,734)	-	(42,734)
Interim 2019 dividends 11	-	-	(29,117)	-	-	-	-	-	-	(29,117)	-	(29,117)
Shares repurchased and cancelled 28	(1,883)	1,399	(17,595)	-	1,883	-	-	(1,883)	-	(18,079)	-	(18,079)
At 31 December 2019	136,996	(2,736)	529,524*	25,133*	3,189*	14,765*	292,869*	671,397*	803*	1,671,940	16,563	1,688,503

Notes:

- (a) The employee share-based compensation reserve represents the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will be transferred to the share premium account when the related options are exercised.
- (b) The deemed contribution reserve represents share-based payment expense incurred and recognised by the Group as settled by issue of shares of Sun.King Group Limited (賽晶集團有限公司) ("Sunking BVI"), a former shareholder of the Company.
- (c) The other reserve mainly arose from certain waivers of loans and/or advances by Sunking BVI to the Group in prior years and from acquisitions of/contributions from non-controlling interests.

* These reserve accounts comprise the consolidated reserves of RMB1,537,680,000 (2018: RMB1,429,062,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	<i>Notes</i>	2019 RMB'000	2018 <i>RMB'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		233,990	245,262
Adjustments for:			
Finance costs	7	17,810	16,474
Share of losses/(profits) of a joint venture and associates		4,379	(1,464)
Interest income	5	(8,334)	(8,932)
Gain on disposal of property, plant and equipment and prepaid land lease payments	5	(287)	(13,428)
Gain on disposal of a subsidiary	5	(77,502)	–
Fair value loss/(gain) on foreign currency forward contracts, net	5, 6	17,659	(1,099)
Loss on disposal/write-off of club memberships	6	1,554	–
Depreciation of property, plant and equipment	6	22,664	21,273
Depreciation of right-of-use assets/recognition of prepaid land lease payments		2,760	952
Amortisation of other intangible assets	6	3,120	2,569
Impairment of other intangible assets	6	4,486	–
Impairment of goodwill	6	1,514	–
Impairment of trade receivables and contract assets, net	6	1,035	(1,066)
Impairment of financial assets included in prepayments, deposits and other receivables, net	6	356	(212)
Amortisation of deferred income		(3,060)	(5,170)
Write-down of inventories to net realisable value	6	3,131	2,555
Share-based payment expense	6	368	1,448
		225,643	259,162
Decrease/(increase) in inventories		(105,462)	29,356
Decrease/(increase) in trade and bills receivables and contract assets		(298,724)	5,919
Decrease/(increase) in prepayments, deposits and other receivables		(12,497)	24,808
Decrease/(increase) in pledged deposits		3,291	(7,523)
Increase in trade and bills payables		78,193	46,802
Increase in other payables and accruals and contract liabilities		10,569	6,199
Change in derivative financial instruments		(29,071)	10,366
Effect of foreign exchange rate changes, net		602	(81)
Cash generated from/(used in) operations		(127,456)	375,008
Interest paid		(17,752)	(16,515)
Income taxes paid		(51,648)	(35,503)
Net cash flows from/(used in) operating activities		(196,856)	322,990

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	<i>Notes</i>	2019 RMB'000	2018 <i>RMB'000</i>
Net cash flows from/(used in) operating activities		(196,856)	322,990
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	2,712	3,423
Prepaid land lease payments		(17,796)	–
Purchases of items of property, plant and equipment		(38,638)	(17,502)
Proceeds from disposal of property, plant and equipment		1,800	995
Proceeds on disposal of a subsidiary	33	40,414	–
Proceeds on disposal of associates		10,501	–
Decrease/(increase) in deposits for purchase of property, plant and equipment		8,641	(7,092)
Acquisition of a subsidiary	32	(4,581)	–
Additions to other intangible assets		(11,657)	(7,920)
Investment in associates		–	(8,000)
Net cash flows used in investing activities		(8,604)	(36,096)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of share options	28	1,660	10,590
Repurchase of shares		(18,079)	(8,113)
New bank loans		583,919	525,192
Repayment of bank loans		(462,434)	(492,022)
Acquisition of additional interest in a subsidiary		–	(500)
Principal portion of lease payments	34(b)	(1,838)	–
Capital injection from non-controlling shareholders		58	–
Dividends paid		(71,851)	(68,267)
Net cash flows from/(used in) financing activities		31,435	(33,120)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(174,025)	253,774
Cash and cash equivalents at beginning of year		766,891	513,015
Effect of foreign exchange rate changes, net		(118)	102
CASH AND CASH EQUIVALENTS AT END OF YEAR		592,748	766,891
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	592,748	766,891

1. CORPORATE AND GROUP INFORMATION

Sun.King Power Electronics Group Limited (the “**Company**”) was incorporated as an exempted company with limited liability in the Cayman Islands on 19 March 2010. The ordinary shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) with effect from 13 October 2010. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

During the year, the Company and its subsidiaries (collectively referred to as the “**Group**”) were principally engaged in the trading and manufacture of power electronic components.

Information about subsidiaries

Particulars of the Company’s principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued and paid-up capital	Percentage of equity attributable to the Company	Principal activities
Sunking Pacific Limited 賽晶亞太有限公司	Hong Kong	HK\$1	100%	Investment holding
Jiashan Sunking Power Equipment Technology Co., Ltd.* 嘉善華瑞賽晶電氣設備科技有限公司	The PRC/ Mainland China	US\$76,500,000	100%	Sale, research and development, after sales service and production of electrical/ electronic components and installation, including integrated gate bipolar transistors
Wuxi Sunking Power Capacitor Co., Ltd.* 無錫賽晶電力電容器有限公司	The PRC/ Mainland China	US\$37,000,030	100%	Production of electrical capacitors and complete devices, amorphous alloy transformers, DC current anode saturable dry-type reactors, and FM voltage AC traction devices; trading agent of various products and technologies
Sunking Pacific Semiconductor Technology (Zhejiang) Co., Ltd.** 賽晶亞太半導體(浙江)科技有限公司	The PRC/ Mainland China	US\$10,148,843	100%	Research and development, production and sales of IGBT, Semiconductor components and other components
Beijing Sunking Power Electronic Technology Co., Ltd.* 北京賽晶電力電子科技有限公司	The PRC/ Mainland China	RMB5,000,000	100%	Technology research for electronic power device railway equipment, sale and distribution of power electronic components, import and export of goods and technologies
Astrol Electronic AG	Switzerland	CHF100,000	65%	Manufacture and sale of pulsed power equipment, insulated gate bipolar transistor gate units, and other electronic parts

* Registered as a wholly-foreign-owned enterprise under PRC law.

** Registered as a limited liability company under PRC law.

All the above investments in subsidiaries are indirectly held by the Company.

Except for Sunking Pacific Limited and Astrol Electronic AG, the English names of all the above companies are direct translations of their registered Chinese names.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

The statutory financial statements of the above subsidiaries are not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) (which include all International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations) promulgated by the International Accounting Standards Board (the “IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments and bills receivable 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 2019. 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 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.

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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
IFRS 16	<i>Leases</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements 2015-2017 Cycle</i>	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Except for the amendments to IFRS 9 and IAS 19, and *Annual Improvements to 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

- (a) IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases-Incentives* and SIC 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 account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under IAS 17 and related interpretations.

New definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) *(continued)*

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property and land use rights. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("**short-term leases**") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets were 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 1 January 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- Excluding initial direct costs from the measurement of the right-of-use asset at the date of initial application

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)***(a)** *(continued)***Financial impact at 1 January 2019**

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/(decrease) RMB'000
Assets	
Increase in right-of-use assets	50,287
Decrease in prepaid land lease payments – non-current portion	(35,409)
Decrease in prepaid land lease payments – current portion	(952)
Increase in total assets	<u>13,926</u>
Liabilities	
Increase in lease liabilities	13,926
Increase in total liabilities	<u>13,926</u>

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	16,146
Less: Commitments relating to short term leases and those lease with a remaining lease term ending on or before 31 December 2019	<u>(1,336)</u>
Weighted average incremental borrowing rate as at 1 January 2019	14,810 2.46%
Discounted operating lease commitments as at 1 January 2019	<u>13,926</u>
Lease liabilities as at 1 January 2019	<u>13,926</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

- (b) Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.
- (c) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as “**uncertain tax positions**”). The interpretation does not apply to taxes or levies outside the scope of IAS 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. Upon adoption of the interpretation, the Group assessed its tax positions and concluded that the interpretation did not have any significant impact on the Group’s consolidated financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	<i>Definition of a Business</i> ¹
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i> ¹
	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
Amendments to IFRS 10 and IAS 28	<i>Insurance Contracts</i> ²
IFRS 17	<i>Classification of Liabilities as Current or Non-current</i> ³
Amendments to IAS 1	<i>Definition of Material</i> ¹
Amendments to IAS 1 and IAS 8	

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

² Effective for annual periods beginning on or after 1 January 2021

³ Effective for annual periods beginning on or after 1 January 2022

⁴ No mandatory effective date yet determined but available for adoption

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

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

Amendments to IFRS 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. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to IAS 1 *Classifying of Liabilities as Current or Non-current* clarify the criteria for determining whether to classify a liability as current or non-current. The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. The amendments clarify the situations that are considered settlement of a liability. The amendments to IAS 1 are required to be applied for annual periods beginning on or after 1 January 2022. The amendments must be applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 and IAS 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures 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. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

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.

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.

2.4 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 (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or 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 of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposal of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its derivative financial instruments and bills receivable at fair value at the end of each 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement *(continued)*

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 each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, contract assets, 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 profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each 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 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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, 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 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:

Buildings	1.9% to 19.0%
Leasehold improvements	20.0%
Plant and machinery	4.8% to 31.7%
Furniture and fixtures	9.0% to 64.7%
Motor vehicles	10.0% to 24.0%

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 and 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 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.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 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.

Trademarks

Trademarks with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. These intangible assets are not amortised. The useful life of a trademark with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Patents, technology know-how, customer relationship and computer software

Patents, technology know-how, customer relationship and computer software are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of not exceeding ten years.

Research and development costs

All research costs are charged to 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.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding ten years, commencing from the date when the products are put into commercial production.

Leases (applicable from 1 January 2019)

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

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Leases (applicable from 1 January 2019)** *(continued)***Group as a lessee** *(continued)**(a) Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	43 to 50 years
Buildings	1 to 10 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of buildings (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option).

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases (applicable from 1 January 2019) *(continued)*

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

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 lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

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 IFRS 15 in accordance with the policies set out for "Revenue recognition" 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. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Initial recognition and measurement (continued)

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 amortised cost (debt instruments)

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

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

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in 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 profit or loss.

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 IAS 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 profit or loss. Dividends are recognised as other income in 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 are carried in the statement of financial position at fair value with net changes in fair value recognised in 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 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(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 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.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is 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

The Group recognises an allowance for expected credit losses ("**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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

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).

At each 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 past due for a long period of time. 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

Simplified approach

For trade receivables and contract assets 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 recognises 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.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, or loans and borrowings or payables.

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.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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 IFRS 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 profit or loss. The net fair value gain or loss recognised in 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 IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in 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 profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and 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 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 profit or loss.

Derecognition of financial liabilities

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 profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only 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

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as foreign currency forward contracts, to hedge its foreign currency risk. These 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 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.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

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 work in progress and 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, less bank overdrafts which are repayable on demand 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.

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 profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 countries 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 goodwill or 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, associates and joint ventures, 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.

Deferred tax assets are recognised for all deductible temporary differences, and 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, associates and joint ventures, 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 to set off current tax assets and current tax liabilities and the deferred tax 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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 profit or loss by way of a reduced depreciation charge.

Revenue recognition

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 with 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 IFRS 15.

Sale of power electronic components

Revenue from the sale of power electronic components is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products. For certain customers, the Group allows a percentage, ranging from 5% to 10%, of the contracted amount (the retention money) to be settled within six months to sixty months, as agreed between the Group and the respective customers on a case by case basis. For those contracts with customer which have payment terms of retention money, the Group concluded that they contain a significant financing component because of the length of time between when the customer pays for the goods and when the Group transfers goods to the customer, as well as the prevailing interest rates in the market. The transaction price for such contracts was determined by discounting the amount of promised consideration using the appropriate discount rate.

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.

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- (c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Share-based payments

The Company operates a share award scheme and a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 29 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transactions, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “**MPF Scheme**”) under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to 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 administrated fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group’s subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local municipal governments. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension schemes. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension schemes.

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

These financial statements are presented in RMB, which is also the functional currency of the Company. 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 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 retranslation of a non-monetary item 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 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 profit or loss is translated into RMB at the weighted average exchange rates for the year.

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 profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENT 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. However, 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.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Revenue from contracts with customers

The Group applies the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

Retention money receivable from customers

Generally, the Group's trading terms with its customers are mainly on credit. The credit period is generally one month, extending up to three months for major customers. For certain customers, the Group allows a percentage, ranging from 5% to 10%, of the contracted amount (the retention money) to be settled within six months to sixty months, as agreed between the Group and the respective customers on a case by case basis, subsequent to the fulfilment of certain conditions including delivery of goods or completion of installation as stipulated in the respective sales contracts. Under IFRS 15, the Group must determine whether there is a significant financing component in its contracts. For those contracts with customers which have payment terms of retention money, the Group concluded that they contain a significant financing component because of the length of time between when the customer pays for the goods and when the Group transfers goods to the customer, as well as the prevailing interest rates in the market. The transaction price for such contracts was determined by discounting the amount of promised consideration using the appropriate discount rate.

Withholding tax arising from the distribution of dividends

The Group's determination, as to whether to accrue withholding taxes arising from the distributions of dividends by certain subsidiaries according to the relevant tax rules enacted in the jurisdictions, is subject to judgement on the distribution plan of dividends.

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.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2019 was RMB6,878,000 (2018: RMB41,037,000). Further details are given in note 15.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customers with similar loss patterns (i.e., by customer type and rating, and coverage by letters of credit or other forms of credit insurance).

The provision matrix is based on the Group's historical observed default rates after taking into consideration of forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated with any changes in the forward-looking estimates.

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 a customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in note 20 to the financial statements.

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the ageing and estimated net realisable value of inventories. The assessment of the write-down amount involves management's judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, the differences will impact the carrying value of the inventories and the write-down charge/reversal in the period in which the estimate has been changed. At 31 December 2019, the carrying amount of inventories was RMB198,958,000 (2018: RMB154,343,000).

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax 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 2019 was RMB2,799,000 (2018: Nil). The amount of unrecognised tax losses at 31 December 2019 was RMB45,195,000 (2018: RMB39,770,000). Further details are contained in note 27 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group has one reportable operating segment which is principally engaged in the manufacturing and trading of power electronic components. All of Group's operating results from the operations are generated from this single segment. Management monitors the results of Group's operation as a whole for the purpose of making decisions about resources allocation and performance assessment.

Geographical information

As the Group's major operations, customers and non-current assets are located in the People's Republic of China (the "PRC"), no further geographical segment information is provided.

4. OPERATING SEGMENT INFORMATION *(continued)*

Information about major customers

Revenue from single customers that individually accounted for 10% or more of the Group's revenue is as follows:

In 2019, revenue of approximately RMB322,902,000 and RMB211,519,000 were derived from sales to customers A and B, respectively.

In 2018, revenue of approximately RMB351,416,000 and RMB169,739,000 were derived from sales to customers C and A, respectively.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue from contracts with customers, other income and gains is as follows:

	2019 RMB'000	2018 RMB'000
Revenue		
Sale of power electronic components	1,395,638	1,290,490

98% (2018: 99%) of the Group's revenue from contracts with customers is related to sales of power electronic components in Mainland China.

	Note	2019 RMB'000	2018 RMB'000
Other income			
Government grants*		9,776	15,973
Bank interest income		2,712	3,423
Other interest income		2,335	–
Interest income arising from revenue contracts		3,286	5,509
Reversal of impairment of trade receivables and contract assets		–	1,066
Reversal of impairment of financial assets included in prepayments, and other receivables		–	212
Others		659	686
		18,768	26,869
Gains			
Gain on disposal of items of property, plant and equipment, net		287	13,428
Foreign exchange gains, net		4,763	–
Fair value gains on foreign currency forward contracts, net		–	1,099
Gain on disposal of a subsidiary	33	77,502	–
		82,552	14,527
		101,320	41,396

* Various government grants have been received for investments in certain regions in Mainland China in which the Company's subsidiaries operate as well as for the Group's technology advancements. Government grants received for which related expenditure has not yet been undertaken are included in deferred income in the consolidated statement of financial position. There are no unfulfilled conditions or contingencies relating to these government grants.

NOTES TO FINANCIAL STATEMENTS

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6. PROFIT BEFORE TAX

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

	<i>Notes</i>	2019 RMB'000	2018 RMB'000
Cost of inventories sold		968,705	852,573
Write-down of inventories to net realisable value		3,131	2,555
Cost of sales		971,836	855,128
Auditor's remuneration		1,800	1,800
Depreciation of property, plant and equipment	13	22,664	21,273
Depreciation of right-of-use assets (2018: amortisation of land lease payments)	14(a), 14(b)	2,760	952
Amortisation of other intangible assets	16	3,120	2,569
Impairment of other intangible assets*	16	4,486	–
Impairment of goodwill*	15	1,514	–
Minimum lease payments under operating leases		–	2,718
Lease payments not included in the measurement of lease liabilities	14(d)	851	–
Impairment of trade receivables and contract assets, net*	20	1,035	(1,066)
Impairment of financial assets included in prepayments, deposits and other receivables, net*	21	356	(212)
Foreign exchange differences, net		(4,763)	2,081
Fair value loss/(gain) on foreign currency forward contracts, net**		17,659	(1,099)
Loss on disposal/write-off of club memberships*		1,554	–
Employee benefit expense (including directors' and chief executive's remuneration (note 8)):			
Wages and salaries		66,320	44,143
Share-based payment expense		368	1,448
Pension scheme contributions***		9,279	7,696
		75,967	53,287

* The impairment and loss amounts are included in "Other expenses and losses" in the consolidated statement of profit or loss.

** Fair value loss on foreign currency forward contracts for the year are included in "Other expenses and losses" in the consolidated statement of profit or loss.

*** At 31 December 2019, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2018: Nil).

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 RMB'000	2018 RMB'000
Interest on bank loans	17,570	16,474
Interest on lease liabilities	240	–
	17,810	16,474

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "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:

	2019 RMB'000	2018 RMB'000
Fees	903	874
Other emoluments:		
Salaries, allowances and benefits in kind	7,499	1,799
Share-based payment expense	–	566
Pension scheme contributions	123	119
	7,622	2,484
	8,525	3,358

In prior years, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 29 to the financial statements. The fair value of these options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements is included in the above directors' and chief executive's remuneration disclosures.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(a) Independent non-executive directors

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

	2019 RMB'000	2018 RMB'000
Mr. Chen Shimin	159	154
Mr. Zhang Xuejun	159	154
Mr. Leung Ming Shu	159	154
Mr. Zhao Hang	159	154
	636	616

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

(b) Executive directors, non-executive directors and the chief executive

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Share- based payment expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2019						
Executive directors:						
Mr. Xiang Jie	89	790	2,585	-	16	3,480
Mr. Gong Renyuan*	89	600	2,288	-	49	3,026
Mr. Yue Zhoumin	89	420	816	-	58	1,383
	267	1,810	5,689	-	123	7,889
Non-executive directors:						
Mr. Yan Fuquan	-	-	-	-	-	-
Mr. Zhu Ming	-	-	-	-	-	-
Ms. Zhang Ling	-	-	-	-	-	-
	-	-	-	-	-	-
	267	1,810	5,689	-	123	7,889

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Executive directors, non-executive directors and the chief executive (continued)

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Share- based payment expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2018						
Executive directors:						
Mr. Xiang Jie	86	779	–	354	15	1,234
Mr. Gong Renyuan*	86	600	–	177	53	916
Mr. Yue Zhoumin	86	420	–	35	51	592
	258	1,799	–	566	119	2,742
Non-executive directors:						
Mr. Yan Fuquan	–	–	–	–	–	–
Mr. Zhu Ming	–	–	–	–	–	–
Ms. Zhang Ling	–	–	–	–	–	–
	–	–	–	–	–	–
	258	1,799	–	566	119	2,742

* Mr. Gong Renyuan is also the chief executive 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 (2018: Nil).

NOTES TO FINANCIAL STATEMENTS

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors which included the chief executive (2018: two directors which included the chief executive), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2018: three) highest paid employees who are neither directors nor chief executive of the Company are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	4,094	2,537
Share-based payment expense	80	180
Pension scheme contributions	994	954
	5,168	3,671

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

	Number of employees	
	2019	2018
RMB500,000 to RMB1,000,000	–	1
RMB1,000,001 to RMB1,500,000	–	2
RMB1,500,001 to RMB2,000,000	2	–
RMB2,000,001 to RMB2,500,000	1	–
	3	3

In prior years, share options were granted to certain non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 29 to the financial statements. The fair value of these options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HK\$2,000,000 (2018: HK\$2,000,000) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. Under the PRC income tax laws, enterprises are subject to corporate income tax ("CIT") at a rate of 25%.

Certain subsidiaries of the Group are qualified as high technology enterprises and hence are granted a preferential CIT rate of 15%. Tax holidays were also granted by the relevant authorities to a subsidiary of the Group, where CIT is exempted for the first two profitable years of the subsidiary and is chargeable at half of the applicable rate for the subsequent three years.

NOTES TO FINANCIAL STATEMENTS

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10. INCOME TAX (continued)

	2019 RMB'000	2018 RMB'000
Current – Hong Kong		
Charge for the year	528	316
Current – Elsewhere		
Charge for the year	42,013	34,054
Overprovision in prior years	(2,156)	(1,538)
Deferred (note 27)	(6,423)	2,275
Total tax charge for the year	33,962	35,107

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

2019

	Hong Kong		Europe		Mainland China		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	1,972		(15,901)		247,919		233,990	
Tax at the statutory tax rate	325	16.5	(4,214)	26.5	61,980	25.0	58,091	24.8
Lower tax rates for specific provinces or enacted by local authority	(148)	(7.5)	-	-	(27,412)	(11.1)	(27,560)	(11.8)
Losses attributable to a joint venture	-	-	-	-	9	-	9	-
Losses attributable to associates	-	-	-	-	1,086	0.4	1,086	0.5
Income not subject to tax	(21)	(1.1)	-	-	-	-	(21)	-
Expenses not deductible for tax	372	18.9	504	(3.2)	2,352	1.0	3,228	1.4
Tax losses utilised from previous periods	-	-	-	-	(2,696)	(1.0)	(2,696)	(1.2)
Tax losses not recognised	-	-	1,756	(11.0)	2,225	0.9	3,981	1.7
Adjustments in respect of current tax of previous periods	-	-	-	-	(2,156)	(0.9)	(2,156)	(0.9)
Tax charge at the Group's effective rate	528	26.8	(1,954)	12.3	35,388	14.3	33,962	14.5

NOTES TO FINANCIAL STATEMENTS

31 December 2019

10. INCOME TAX (continued)

2018

	Hong Kong		Europe		Mainland China		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	12,374		(1,215)		234,103		245,262	
Tax at the statutory tax rate	2,042	16.5	(218)	18.0	58,526	25.0	60,350	24.6
Lower tax rates for specific provinces or enacted by local authority	(165)	(1.3)	-	-	(25,044)	(10.7)	(25,209)	(10.3)
Losses attributable to a joint venture	-	-	-	-	7	-	7	-
Profits attributable to associates	-	-	-	-	(373)	(0.2)	(373)	(0.2)
Income not subject to tax	(3,183)	(25.7)	-	-	(1,094)	(0.5)	(4,277)	(1.7)
Expenses not deductible for tax	1,620	13.1	7	(0.6)	2,741	1.2	4,368	1.8
Tax losses utilised from previous periods	-	-	-	-	(4,062)	(1.7)	(4,062)	(1.7)
Tax losses not recognised	2	-	-	-	5,839	2.5	5,841	2.4
Adjustments in respect of current tax of previous periods	-	-	-	-	(1,538)	(0.7)	(1,538)	(0.6)
Tax charge at the Group's effective rate	316	2.6	(211)	17.4	35,002	15.0	35,107	14.3

The share of tax attributable to an associate amounting to RMB232,000 (2018: RMB3,878,000) is included in "share of profits and losses of associates" in the consolidated statement of profit or loss and other comprehensive income.

11. DIVIDENDS

	2019 RMB'000	2018 RMB'000
Interim – HK2 cents (2018: HK2 cents) per ordinary share	29,117	28,557
Proposed final – HK3 cents (2018: HK3 cents) per ordinary share	42,911	42,425
Proposed special – HK3 cents (2018: Nil) per ordinary share	42,911	-
Total	114,939	70,982

The proposed final dividend and special dividend for the year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent of RMB195,643,000 (2018: RMB183,301,000), and the weighted average number of ordinary shares of 1,610,574,693 (2018: 1,615,736,321) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2019 RMB'000	2018 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	195,643	183,301
	Number of shares	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,610,574,693	1,615,736,321
Effect of dilution – weighted average number of ordinary shares: Share options	13,282,223	20,056,763
	1,623,856,916	1,635,793,084

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13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improve- ments RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2019							
At 1 January 2019:							
Cost	280,979	1,588	111,034	28,759	13,988	11,044	447,392
Accumulated depreciation and impairment	(40,969)	(1,184)	(54,815)	(20,360)	(11,140)	-	(128,468)
Net carrying amount	240,010	404	56,219	8,399	2,848	11,044	318,924
At 1 January 2019, net of accumulated depreciation and impairment	240,010	404	56,219	8,399	2,848	11,044	318,924
Additions	13,604	-	4,502	2,689	1,874	23,657	46,326
Acquisition of a subsidiary (note 32)	-	-	-	169	-	-	169
Disposals	-	-	-	(1,447)	(66)	-	(1,513)
Depreciation provided during the year	(8,266)	(200)	(10,563)	(2,668)	(967)	-	(22,664)
Disposal of a subsidiary (note 33)	(34,126)	-	(1,673)	(372)	(590)	-	(36,761)
Transfers	-	-	8,193	1,600	-	(9,793)	-
Exchange realignment	2	7	-	7	14	-	30
At 31 December 2019, net of accumulated depreciation and impairment	211,224	211	56,678	8,377	3,113	24,908	304,511
At 31 December 2019:							
Cost	248,000	1,608	120,983	29,596	12,194	24,908	437,289
Accumulated depreciation and impairment	(36,776)	(1,397)	(64,305)	(21,219)	(9,081)	-	(132,778)
Net carrying amount	211,224	211	56,678	8,377	3,113	24,908	304,511

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Buildings RMB'000	Leasehold improve- ments RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018							
At 1 January 2018:							
Cost	277,828	1,567	93,234	25,283	14,013	19,754	431,679
Accumulated depreciation and impairment	(32,636)	(934)	(45,076)	(18,975)	(10,477)	-	(108,098)
Net carrying amount	245,192	633	48,158	6,308	3,536	19,754	323,581
At 1 January 2018, net of accumulated depreciation and impairment	245,192	633	48,158	6,308	3,536	19,754	323,581
Additions	153	-	3,462	1,871	727	11,289	17,502
Disposals	-	-	-	(95)	(63)	(744)	(902)
Depreciation provided during the year	(8,333)	(240)	(9,739)	(1,606)	(1,355)	-	(21,273)
Transfers	2,998	-	14,338	1,919	-	(19,255)	-
Exchange realignment	-	11	-	2	3	-	16
At 31 December 2018, net of accumulated depreciation and impairment	240,010	404	56,219	8,399	2,848	11,044	318,924
At 31 December 2018:							
Cost	280,979	1,588	111,034	28,759	13,988	11,044	447,392
Accumulated depreciation and impairment	(40,969)	(1,184)	(54,815)	(20,360)	(11,140)	-	(128,468)
Net carrying amount	240,010	404	56,219	8,399	2,848	11,044	318,924

At 31 December 2018, the Group's property, plant and equipment with an aggregate carrying amount of approximately RMB32,026,000 were pledged to banks to secure certain bank loans granted to the Group (note 26).

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14. LEASES

The Group has lease contracts for various items of buildings and land use rights used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 43 to 50 years. Leases of property generally have lease terms between 1 and 10 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Prepaid land lease payments (before 1 January 2019)

	RMB'000
Carrying amount at 1 January 2018	37,313
Recognised in profit or loss during the year	(952)
Carrying amount at 31 December 2018	36,361
Analysed into:	
Current portion	952
Non-current portion	35,409

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payments RMB'000	Buildings RMB'000	Total RMB'000
As at 1 January 2019	36,361	13,926	50,287
Additions	17,796	–	17,796
Depreciation charge	(906)	(1,854)	(2,760)
Disposal of a subsidiary (note 33)	(6,405)	–	(6,405)
As at 31 December 2019	46,846	12,072	58,918

(c) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2019 Lease liabilities RMB'000
Carrying amount at 1 January	13,926
Accretion of interest recognised during the year	240
Payments	(2,078)
Carrying amount at 31 December	12,088
Analysed into:	
Current portion	1,424
Non-current portion	10,664

The maturity analysis of lease liabilities is disclosed in note 41 to the financial statements.

14. LEASES (continued)

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 RMB'000
Interest on lease liabilities	240
Depreciation charge of right-of-use assets	1,854
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in administrative expenses)	851
Total amount recognised in profit or loss	2,945

(e) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in notes 34(b) and 36, respectively, to the financial statements.

At 31 December 2018, the Group's prepaid land lease payments with an aggregate carrying amount of RMB12,758,000 were pledged to banks to secure certain bank loans granted to the Group (note 26).

15. GOODWILL

	2019 RMB'000	2018 RMB'000
At 1 January:		
Cost	47,235	47,235
Accumulated impairment	(6,198)	(6,198)
Net carrying amount	41,037	41,037
Cost at 1 January, net of accumulated impairment	41,037	41,037
Acquisition of a subsidiary (note 32)	1,514	–
Disposal of a subsidiary (note 33)	(34,159)	–
Impairment during the year	(1,514)	–
Cost at 31 December, net of accumulated impairment	6,878	41,037
At 31 December:		
Cost	8,392	47,235
Accumulated impairment	(1,514)	(6,198)
Net carrying amount	6,878	41,037

During the year ended 31 December 2019, due to unfavourable operating performance of morEnergy GmbH, an indirect non-wholly-owned subsidiary of the Company, principally engaged in research and development of emerging energy technologies, by discounting the future cash flows generated from morEnergy GmbH, at the discount rate applied to cash flow projections of 16% to determine morEnergy GmbH's value in use, the directors of the Company considered that goodwill of approximately RMB1,514,000 was fully impaired.

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15. GOODWILL (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- Jiujiang Sunking cash-generating unit;
- Astrol cash-generating unit; and
- morEnergy cash-generating unit.

Jiujiang Sunking cash-generating unit

The recoverable amount of Jiujiang Sunking cash-generating unit at 31 December 2018 had been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 15%. The growth rate used to extrapolate the cash flows of Jiujiang Sunking cash-generating unit beyond the five-year period was 3%.

Astrol cash-generating unit

The recoverable amount of Astrol cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 16% (2018: 15%). The growth rate used to extrapolate the cash flows of Astrol cash-generating unit beyond the five-year period is 3% (2018: 3%).

morEnergy cash-generating unit

The recoverable amount of morEnergy cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 16% (2018: Nil). The growth rate used to extrapolate the cash flows of morEnergy cash-generating unit beyond the five-year period is 3% (2018: Nil).

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Jiujiang Sunking		Astrol		morEnergy		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Gross amount	-	40,357	6,878	6,878	1,514	-	8,392	47,235
Less: accumulated impairment	-	6,198	-	-	1,514	-	1,514	6,198
Net carrying amount	-	34,159	6,878	6,878	-	-	6,878	41,037

Assumptions were used in the value in use calculation of Astrol cash-generating unit for 31 December 2019 and 31 December 2018, and for morEnergy cash-generating unit for 31 December 2019. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the years immediately before the budget year, adjusted for expected market development.

Discount rates – The discount rates used are after tax and reflect specific risks relating to the relevant units.

The values assigned to the key assumptions on market development and discount rates are consistent with external information sources.

16. OTHER INTANGIBLE ASSETS

	Technology know-how RMB'000	Customer relationship RMB'000	Patents RMB'000	Deferred development costs RMB'000	Trademark RMB'000	Computer software RMB'000	Total RMB'000
31 December 2019							
At 31 December 2018 and at 1 January 2019:							
Cost	7,936	7,511	10,528	3,101	19,185	5,658	53,919
Accumulated amortisation	(1,984)	(1,878)	(6,353)	-	-	(2,860)	(13,075)
Net carrying amount	5,952	5,633	4,175	3,101	19,185	2,798	40,844
Cost at 1 January 2019, net of accumulated amortisation	5,952	5,633	4,175	3,101	19,185	2,798	40,844
Additions – internal development	-	-	-	11,046	-	-	11,046
Additions – external purchases	-	-	-	-	-	611	611
Acquisition of a subsidiary (note 32)	-	-	10,657	-	-	352	11,009
Amortisation provided during the year	(808)	(765)	(1,037)	(211)	-	(299)	(3,120)
Impairment during the year	-	-	(4,486)	-	-	-	(4,486)
Disposal of a subsidiary (note 33)	-	-	-	(4,259)	(19,185)	(260)	(23,704)
Exchange realignment	203	192	101	32	-	3	531
Cost at 31 December 2019, net of accumulated amortisation	5,347	5,060	9,410	9,709	-	3,205	32,731
At 31 December 2019:							
Cost	8,226	7,785	14,933	9,920	-	5,286	46,150
Accumulated amortisation and impairment	(2,879)	(2,725)	(5,523)	(211)	-	(2,081)	(13,419)
Net carrying amount	5,347	5,060	9,410	9,709	-	3,205	32,731

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16. OTHER INTANGIBLE ASSETS (continued)

	Technology know-how RMB'000	Customer relationship RMB'000	Patents RMB'000	Deferred development costs RMB'000	Trademark RMB'000	Computer software RMB'000	Total RMB'000
31 December 2018							
At 31 December 2017 and at 1 January 2018:							
Cost	7,626	7,218	7,748	–	19,185	3,505	45,282
Accumulated amortisation	(1,144)	(1,083)	(5,576)	–	–	(2,582)	(10,385)
Net carrying amount	6,482	6,135	2,172	–	19,185	923	34,897
Cost at 1 January 2018, net of accumulated amortisation	6,482	6,135	2,172	–	19,185	923	34,897
Additions	–	–	2,725	3,101	–	2,151	7,977
Amortisation provided during the year	(778)	(736)	(776)	–	–	(279)	(2,569)
Exchange realignment	248	234	54	–	–	3	539
Cost at 31 December 2018, net of accumulated amortisation	5,952	5,633	4,175	3,101	19,185	2,798	40,844
At 31 December 2018:							
Cost	7,936	7,511	10,528	3,101	19,185	5,658	53,919
Accumulated amortisation	(1,984)	(1,878)	(6,353)	–	–	(2,860)	(13,075)
Net carrying amount	5,952	5,633	4,175	3,101	19,185	2,798	40,844

17. INVESTMENT IN A JOINT VENTURE

	2019 RMB'000	2018 RMB'000
Share of net assets	14,830	14,866
Loans to joint venture	700	700
	15,530	15,566

The loans to the joint venture are unsecured, interest-free and repayable on demand. In the opinion of the directors, these loans are unlikely to be repaid in the foreseeable future and are considered as part of the Group's investment in the joint venture. There was no recent history of default and past due amounts for loans to joint ventures. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

17. INVESTMENT IN A JOINT VENTURE *(continued)*

The following table illustrates the financial information of the Group's joint venture that is not individually material:

	2019 RMB'000	2018 RMB'000
Share of the joint venture's loss and total comprehensive loss for the year	36	26
Aggregate carrying amount of the Group's investment in a joint venture	15,530	15,566

18. INVESTMENTS IN ASSOCIATES

	2019 RMB'000	2018 RMB'000
Share of net assets	50,974	36,490
Goodwill on acquisition	29,121	–
	80,095	36,490

Particulars of the material associate are as follows:

Name	Particulars of capital invested	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Jiujiang Sun.King Technology Co., Ltd. # * (note i) ("Jiujiang Sunking") 九江賽晶科技股份有限公司	Paid-up capital of RMB19,250,000	The PRC/ Mainland China	19.25	Manufacture and sale of rectifiers
Jiashan Henghua Real Estate Co., Ltd. # * (note ii) ("Jiashan Henghua") 嘉善恒華房地產開發有限公司	Paid-up capital of RMB24,500,000	The PRC/ Mainland China	49.00	Property development

Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network

* For identification purposes only

The Group's shareholdings in Jiujiang Sunking and Jiashan Henghua are held through a wholly-owned subsidiary of the Company.

Notes:

- (i) Jiujiang Sunking became an associate of the Group after the Group has disposed of 43% equity interests of Jiujiang Sunking in June 2019, further details of which are set out in note 33 to the financial statements. It is accounted for using the equity method.
- (ii) Jiashan Henghua was a strategic partner of the Group engaged in property development and was accounted for using the equity method. It was de-registered in November 2019.

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18. INVESTMENTS IN ASSOCIATES *(continued)*

The following table illustrates the summarised financial information in respect of Jiujiang Sunking adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2019 RMB'000
Current assets	278,302
Non-current assets	104,905
Goodwill on acquisition of the associate	151,276
Current liabilities	(118,856)
Non-current liabilities	(6,912)
Net assets	408,715
Net assets, excluding goodwill	257,439
Reconciliation to the Group's investment in the associate:	
Proportion of the Group's ownership	19.25%
Group's share of net assets of the associate, excluding goodwill	49,557
Goodwill on acquisition	29,121
Carrying amount of the investment	78,678
Revenue*	57,086
Loss and total comprehensive loss for the year*	(41,571)

* *The amounts represented Jiujiang Sunking's financial performance after it has become an associate of the Group during the year.*

The following table illustrates the summarised financial information in respect of Jiashan Henghua adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2019 RMB'000	2018 RMB'000
Current assets	–	55,740
Current liabilities	–	(555)
Net assets	–	55,185
Reconciliation to the Group's investment in the associate:		
Proportion of the Group's ownership	49%*	49%*
Group's share of net assets of the associate and carrying amount of the investment	–	27,001
Revenue	–	6,006
Profit and total comprehensive income for the year	3	3,309

* *According to the contract between the Group and Jiashan Henghua, the Group shares 39% of accumulated net profits of Jiashan Henghua after initial investment.*

18. INVESTMENTS IN ASSOCIATES *(continued)*

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2019 RMB'000	2018 RMB'000
Share of the associates' profits and total comprehensive income for the year	3,659	199
Aggregate carrying amount of the Group's investment in the associates	1,417	9,489

19. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	128,446	78,950
Work in progress	32,058	46,199
Finished goods	38,454	29,194
	198,958	154,343

20. TRADE AND BILLS RECEIVABLES/CONTRACT ASSETS

	2019 RMB'000	2018 RMB'000
Trade receivables	696,692	774,601
Impairment	(22,898)	(44,940)
	673,794	729,661
Bills receivable	205,430	130,852
	879,224	860,513
Analysed into:		
Current portion	878,772	859,768
Non-current portion	452	745
	879,224	860,513

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20. TRADE AND BILLS RECEIVABLES/CONTRACT ASSETS (continued)

	31 December 2019 RMB'000	31 December 2018 RMB'000	1 January 2018 RMB'000
Contract assets arising from sale of industrial products	176,765	125,142	157,418
Impairment	(1,215)	(1,540)	–
	175,550	123,602	157,418
Analysed into:			
Current portion	103,835	86,067	157,418
Non-current portion	71,715	37,535	–
	175,550	123,602	157,418

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and contract assets and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Concentration of credit risk is managed by customer/counterparty. The Group does not hold any collateral or other credit enhancements over its trade receivable and contract assets balances. Trade receivables and contract assets are non-interest-bearing.

Included in the Group's trade receivables are amount due from an associate of RMB1,130,000 (2018: Nil), which are repayable on credit terms similar to those offered to the major customers of the Group.

For certain customers, the Group allows a percentage, ranging from 5% to 10%, of the contracted amount (the retention money) to be settled within six months to sixty months, as agreed between the Group and the respective customers on a case by case basis, subsequent to the fulfilment of certain conditions including normal operation of the product within warranty period as stipulated in the respective sales contracts. Contract assets are recognised for revenue earned from the sale of products as the receipt of consideration is conditional on the successful expiry of warranty period. Upon the expiry of the warranty period, the amounts recognised as contract assets are reclassified to trade receivables. The increase in contract assets in 2019 is the result of the increase in the sales contract amounts at the end of the year. The decrease in contract assets in 2018 was the result of the change in the time frame for a right to consideration to become unconditional (i.e., for contract assets to be reclassified to trade receivables).

The expected timing of recovery or settlement for contract assets as at the end of the reporting period is as follows:

	2019 RMB'000	2018 RMB'000
Within one year	103,835	86,067
More than one year	71,715	37,535
Total contract assets	175,550	123,602

20. TRADE AND BILLS RECEIVABLES/CONTRACT ASSETS (continued)

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

	2019 RMB'000	2018 RMB'000
Within 3 months	271,930	293,650
3 to 6 months	234,383	100,754
6 to 12 months	77,617	178,315
Over 1 year	89,864	156,942
	673,794	729,661

At 31 December 2019, the Group's bills receivable would mature within twelve (2018: twelve) months.

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

	2019 RMB'000	2018 RMB'000
At beginning of year	44,940	47,546
Impairment losses, net (note 6)	1,231	(2,606)
Disposal of a subsidiary	(23,273)	-
At end of year	22,898	44,940

The decrease in the loss of allowance in 2019 was mainly due to the disposal of Jiujiang Sunking with an aggregate gross carrying amount of trade receivables of RMB241,146,000 and corresponding loss allowance of RMB23,273,000. The decrease in the loss allowance in 2018 was mainly due to the decrease in trade receivables which are past due for over 3 years with an aggregate gross carrying amount of RMB2,606,000 and corresponding loss allowance of RMB2,606,000.

The movements in the loss allowance for impairment of contract assets are as follows:

	2019 RMB'000	2018 RMB'000
At beginning of year	1,540	-
Impairment losses, net (note 6)	(196)	1,540
Disposal of a subsidiary	(129)	-
At end of year	1,215	1,540

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 customers with similar loss patterns (i.e., by customer type and rating). The calculation reflects the probability-weighted outcome and the reasonable and supportable information that is available at the reporting date about past events after taking into consideration of forward-looking information. For trade receivables and contract assets due from some major customers (Tier 1 customers), the Group is of opinion that there will be no expected credit loss on these accounts even though these trade receivables and contract assets are overdue, based on their credit rating, no history of default on these accounts.

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20. TRADE AND BILLS RECEIVABLES/CONTRACT ASSETS (continued)

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

31 December 2019

RMB'000	Within credit period	Past due				Total
		Less than 1 year	1 to 2 years	2 to 3 years	Over 3 years	
Gross carrying amount	401,594	415,034	27,737	16,884	12,208	873,457
Amount from Tier 1 customers	3,773	44,996	11,913	6,457	210	67,349
Carrying amount without Tier 1 customers	397,821	370,038	15,824	10,427	11,998	806,108
Expected credit loss rate (%)	0.7	0.7	10.74	48.24	100.00	2.99
Expected credit losses	2,796	2,589	1,700	5,030	11,998	24,113

31 December 2018

RMB'000	Within credit period	Past due				Total
		Less than 1 year	1 to 2 years	2 to 3 years	Over 3 years	
Gross carrying amount	400,013	368,363	84,989	27,149	19,229	899,743
Amount from Tier 1 customers	23,889	62,368	28,840	5,696	-	120,793
Carrying amount without Tier 1 customers	376,124	305,995	56,149	21,453	19,229	778,950
Expected credit loss rate (%)	1.20	1.20	13.42	53.69	100.00	5.97
Expected credit losses	4,534	3,665	7,534	11,518	19,229	46,480

At 31 December 2019, certain bills receivable of the Group with an aggregate carrying amount of RMB11,614,000 (2018: RMB10,548,000) were pledged to secure certain of the Group's bills payable (note 23).

At 31 December 2019, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB25,091,000 (2018: RMB28,915,000) to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). In the opinion of the directors of the Company, the Group has retained the substantial risks and rewards, which include default risks relating to the Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties.

At 31 December 2019, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB61,433,000 (2018: RMB56,193,000). The Derecognised Bills had a maturity of one to eleven months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Prepayments	6,861	9,806
Deposits and other receivables	173,367	36,687
	180,228	46,493
Impairment	(1,466)	(3,417)
	178,762	43,076

The movements in the loss allowance for impairment of prepayments, deposits and other receivables are as follows:

	2019 RMB'000	2018 RMB'000
At 1 January	3,417	3,629
Impairment losses, net (note 6)	356	(212)
Disposal of a subsidiary	(2,307)	-
At 31 December	1,466	3,417

The decrease in the loss of allowance in 2019 was mainly due to the disposal of Jiujiang Sunking with an aggregate carrying amount of prepayments, deposits and other receivables of RMB8,678,000 and corresponding loss allowance of RMB2,307,000. The decrease in the loss allowance in 2018 was mainly due to the decrease in overdue amounts of prepayments, deposits and other receivables with an aggregate gross carrying amount of RMB212,000 and corresponding loss allowance of RMB212,000.

Included in the Group's other receivables is a loan due from a related party of RMB18,131,000 (2018: Nil), details of the loan are included in note 38 to the consolidated financial statements.

Generally, the Group measures the loss allowance equal to 12-month ECL of deposits and other receivables. For those balances expected to have significant increase in credit risk since initial recognition, the Group applies lifetime ECL based on the ageing for classes with different credit risk characteristics and exposures. Except for prepayments and other receivables amounting to RMB1,466,000 (2018: RMB3,417,000) included in the above balances, the above assets are neither past due nor impaired. Other than the aforementioned impaired receivables, the financial assets included in the above balances related to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

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22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2019 RMB'000	2018 RMB'000
Cash and bank balances	624,457	801,931
Less: Pledged deposits:		
letters of credit	(21,930)	(9,748)
purchases of inventories	(6,795)	(9,259)
bills payable	(2,984)	(9,899)
Certificate of deposits	-	(6,134)
	(31,709)	(35,040)
Cash and cash equivalents	592,748	766,891

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB182,546,000 (2018: RMB468,001,000). 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. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

23. TRADE AND BILLS PAYABLES

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

	2019 RMB'000	2018 RMB'000
Within six months	244,242	236,812
Over six months	31,610	48,834
	275,852	285,646

The trade payables are non-interest-bearing and are normally settled on terms ranging from 30 days to 180 days.

Included in the trade and bills payables are trade payables of RMB658,000 (2018: Nil) due to associates which represents credit terms similar to those offered by the associates to their major customers.

At 31 December 2019, certain of the Group's bills payables are secured by the pledge of the Group's bank deposits amounting to RMB2,984,000 (2018: RMB9,899,000) (note 22) and the Group's bills receivable amounting to RMB11,614,000 (2018: RMB10,548,000) (note 20), respectively.

24. OTHER PAYABLES AND ACCRUALS/CONTRACT LIABILITIES

	Notes	2019 RMB'000	2018 RMB'000
Contract liabilities	(a)	24,626	52,283
Other payables and accruals	(b)	58,518	55,800
Deferred income		1,195	3,067
		84,339	111,150

(a) Details of contract liabilities are as follows:

	2019 RMB'000	2018 RMB'000
Sale of goods	24,626	52,283

Contract liabilities include short-term advances received to deliver power electronic components (1 January 2018: RMB58,528,000). The decrease in contract liabilities in 2019 was mainly due to the disposal of 43% equity interest of Jiujiang Sunking in 2019. The decrease in contract liabilities in 2018 was mainly due to the decrease in short-term advances received from customers in relation to sales of power electronic components at the end of the year.

There were contract liabilities of RMB45,072,000 (2018: RMB44,755,000) brought forward the prior year and recognised during the year.

(b) Other payables are non-interest-bearing and have an average term of three months.

25. DERIVATIVE FINANCIAL INSTRUMENTS

	2019 RMB'000	2018 RMB'000
Foreign currency forward contracts		
– assets	2,422	218
– liabilities	407	9,615

The Group has entered into various forward foreign currency contracts to manage its exchange rate exposures. These forward foreign currency contracts are not designated for hedging purposes and are measured at fair value through profit or loss. Net fair value loss on these derivatives amounting to RMB17,659,000 was charged to other expenses and losses during the year (2018: credited to other income and gains of RMB1,099,000).

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26. INTEREST-BEARING BANK BORROWINGS

	2019			2018		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	–	2020	–	4.57	2019	30,000
Bank loans – unsecured	4.30-4.79	2020	136,132	2.50-5.00	2019	330,354
Bank loans – unsecured*	HIBOR+1.8%	2020	26,874	–	2019	–
Bank loans – unsecured*	LIBOR+1.7%	2020	48,833	–	2019	–
Bank loans – unsecured*	LPR+0.2575% – 0.6000%	2020	241,000	–	2019	–
			452,839			360,354
Non-current						
Bank loans – unsecured*	LPR+0.6000%	2021	19,000	–	–	–
			471,839			360,354
Analysed into:						
Bank loans repayable:						
Within one year or on demand			452,839			360,354
In the second year			19,000			–
			471,839			360,354

* The balances represent loans with floating interest rates.

Notes:

- (a) As at 31 December 2019, all the Group's bank loans are unsecured. As at 31 December 2018, certain of the Group's bank loans were secured by mortgages over the Group's property, plant and equipment and prepaid land lease payments with aggregate carrying amounts at the end of the reporting period of approximately RMB32,026,000 and RMB12,758,000, respectively.
- (b) At the end of the reporting period, the Group's interest-bearing bank borrowings were denominated in the following currencies:

	2019 RMB'000	2018 RMB'000
Renminbi	396,132	342,830
United States dollars	48,833	–
Hong Kong dollars	26,874	17,524
	471,839	360,354

27. DEFERRED TAX

The movements in deferred tax assets/(liabilities) during the year are as follows:

	Government grants RMB'000	Withholding taxes RMB'000	Provisions RMB'000	Fair value adjustments arising from acquisitions of subsidiaries RMB'000	Loss available for offsetting against future taxable profits RMB'000	Others RMB'000	Total RMB'000
At 1 January 2018	1,898	(4,000)	6,934	(5,255)	-	2,598	2,175
Deferred tax credited/(charged) to profit or loss during the year (note 10)	(847)	-	(616)	389	-	(1,201)	(2,275)
Exchange differences	-	-	-	(87)	-	-	(87)
Deferred tax assets/(liabilities) at 31 December 2018 and 1 January 2019	1,051	(4,000)	6,318	(4,953)	-	1,397	(187)
Deferred tax credited/(charged) to profit or loss during the year (note 10)	(388)	-	2,844	1,969	2,799	(801)	6,423
Acquisition of a subsidiary (note 32)	-	-	-	(3,440)	-	-	(3,440)
Disposal of a subsidiary (note 33)	-	-	(5,080)	2,878	-	-	(2,202)
Exchange differences	-	-	-	(161)	-	-	(161)
Deferred tax assets/(liabilities) at 31 December 2019	663	(4,000)	4,082	(3,707)	2,799	596	433

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

	2019 RMB'000	2018 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	8,141	5,889
Net deferred tax liabilities recognised in the consolidated statement of financial position	(7,708)	(6,076)
	433	(187)

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27. DEFERRED TAX (continued)

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

	2019 RMB'000	2018 RMB'000
Tax losses	45,195	39,770
Deductible temporary differences	12,805	16,967
	58,000	56,737

The Group has tax losses arising in Mainland China of RMB36,033,000 (2018: RMB39,770,000) that are available for offsetting against future taxable profits to a maximum period of five years of the companies in which the losses arose. The Group has tax losses arising in Hong Kong of RMB1,582,000 (2018: Nil) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group has tax losses arising in Europe of RMB7,580,000 (2018: Nil) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses 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 enterprises 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 subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2019, an amount of RMB4,000,000 (2018: RMB4,000,000) has been recognised for withholding taxes for the earnings of the PRC subsidiaries to be remitted 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 totalled approximately RMB65,311,000 (2018: RMB44,500,000). In the opinion of the directors, it is not probable that such earnings will be distributed in the foreseeable future.

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

28. SHARE CAPITAL

Shares

	2019 HK\$'000	2018 HK\$'000
Authorised:		
2,000,000,000 (2018: 2,000,000,000) ordinary shares of HK\$0.10 each	200,000	200,000

	2019 HK\$'000	RMB'000 equivalent	2018 HK\$'000	RMB'000 equivalent
Issued and fully paid:				
1,599,560,000 (2018: 1,617,934,500) ordinary shares of HK\$0.10 each	159,956	136,996	161,793	138,637

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

	Number of shares in issue	Issued capital RMB'000	Treasury share RMB'000	Share premium RMB'000	Total RMB'000
At 31 December 2018 and 1 January 2019	1,598,053,000	137,476	(8,773)	679,878	808,581
Shares repurchased and cancelled	(5,382,000)	(622)	4,638	(9,941)	(5,925)
Share options exercised	21,299,500	1,783	-	12,932	14,715
Dividend	-	-	-	(68,267)	(68,267)
At 31 December 2018 and 1 January 2019	1,613,970,500*	138,637	(4,135)	614,602	749,104
Shares repurchased and cancelled (Note (a))	(20,002,000)	(1,883)	1,399	(17,595)	(18,079)
Share options exercised (Note (b))	2,797,500	242	-	4,368	4,610
Dividend	-	-	-	(71,851)	(71,851)
At 31 December 2019	1,596,766,000*	136,996	(2,736)	529,524	663,784

Notes:

* Excluding 2,794,000 (2018: 3,964,000) shares repurchased but not cancelled as at 31 December 2019.

(a) During the year, the Company repurchased a total of 20,002,000 (2018: 5,382,000) of the Company's shares and 21,172,000 (2018: 7,240,000) shares have been cancelled. The total consideration paid to repurchase these shares was RMB18,079,000, which has been deducted from equity attributable to the owners of the Company.

(b) The subscription rights attaching to 1,296,500 and 1,501,000 share options were exercised at the subscription prices of HK\$0.68 and HK\$0.69 per share (note 29), respectively, resulting in the issue of 2,797,500 shares of HK\$0.10 each for a total cash consideration, before expenses of HK\$1,917,000 (equivalent to approximately RMB1,660,000). An amount of RMB2,950,000 was transferred from the employee share-based compensation reserve to the share premium account upon the exercise of the share options.

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29. SHARE OPTION SCHEME

The Company operates a share option scheme (the “Share Option Scheme”) for providing incentives and rewards to directors, eligible employees of the Group and consultants of the Group. The Share Option Scheme became effective on 23 September 2010 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Share Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, in excess of 0.1% of the Company’s share capital or with a value in excess of HK\$5 million, based on the closing price of the Company’s shares at the date of offer, must be approved in advance by the Company’s shareholders.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and commences after a vesting period and ends on the date on which the options lapse or the date on which the Share Option Scheme expires, if earlier.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company’s shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company’s shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company’s shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

The following share options were outstanding under the Share Option Scheme during the year:

	2019		2018	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	0.74	41,649	0.69	63,039
Forfeited during the year	–	–	0.69	(65)
Exercised during the year	0.69	(2,798)	0.59	(21,299)
Expired during the year	1.17	(400)	0.69	(26)
At 31 December	0.74	38,451	0.74	41,649

The weighted average share price at the date of exercise for share options exercised during the year was RMB0.99 per share (2018: RMB1.44).

29. SHARE OPTION SCHEME (continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2019	Number of options '000	Exercise price* HK\$ per share	Exercise period (dd-mm-yyyy)
	4,335	1.17	24-08-2017 to 23-08-2022
	34,116	0.69	28-08-2015 to 27-08-2020
	38,451		
2018	Number of options '000	Exercise price* HK\$ per share	Exercise period (dd-mm-yyyy)
	4,735	1.17	24-08-2017 to 23-08-2022
	35,617	0.69	28-08-2015 to 27-08-2020
	1,297	0.68	28-05-2014 to 27-05-2019
	41,649		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair values of each of the share options granted during the year ended 31 December 2016 were HK\$0.54 for executives and HK\$0.51 for non-executives, of which the Group recognised a share option expense of RMB368,000 for the year ended 31 December 2019 (2018: RMB460,000).

The fair values of each of the share options granted during the year ended 31 December 2014 were HK\$0.88 for Mr. Xiang Jie, HK\$0.33 for executives and HK\$0.31 for non-executives, of which the Group recognised no share option expense for the year ended 31 December 2019 (2018: RMB988,000).

The fair value of equity-settled share options was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2016	2014
Dividend yield (%)	0.85	–
Expected volatility (%)	58	53
Historical volatility (%)	54	50
Risk-free interest rate (%)	0.69	1.48

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29. SHARE OPTION SCHEME (continued)

The expected life of the options is determined with reference to the vesting term and original contractual term of the Share Option Scheme and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The 2,797,500 share options exercised during the year resulted in the issue of 2,797,500 ordinary shares of the Company and new share capital approximately of HK\$280,000 (equivalent to RMB242,000) and share premium approximately of RMB4,368,000 (before issue expenses), as further detailed in note 28 to the financial statements.

At the end of the reporting period, the Company had 38,451,000 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 38,451,000 additional ordinary shares of the Company and additional share capital of HK\$28,612,000 (equivalent to RMB25,630,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 38,451,000 shares options outstanding under the Scheme, which represented approximately 2.4% of the Company's shares in issue as at that date.

30. 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 of the financial statements.

In accordance with the regulations in the PRC and the respective articles of association, the PRC subsidiaries of the Group are required to make an appropriation of retained profits equal to at least 10% of their respective after-tax profits, calculated in accordance with the PRC accounting standards and regulations. Such appropriations are classified in the consolidated statement of financial position as other reserves. Appropriations to these reserves are not required after these reserves have reached 50% of the registered capital of the respective companies.

31. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of Jiujiang Sunking (prior to the disposal of 43% equity interest), are set out below: *

	2019	2018
Percentage of equity interest held by non-controlling interests	37.75%	37.75%
	2019 RMB'000	2018 RMB'000
Profit for the year allocated to non-controlling interests	4,975	23,091
Accumulated balances of non-controlling interests at the reporting date	-	92,492

31. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS *(continued)*

The following tables illustrate the summarised financial information of Jiujiang Sunking (prior to the disposal of 43% equity interest). The amounts disclosed are before any inter-company eliminations:

	2019 RMB'000	2018 RMB'000
Revenue	70,847	189,494
Total expenses	(57,667)	(128,326)
Profit and total comprehensive income for the year	13,180	61,168
Current assets	342,570	273,260
Non-current assets	79,299	76,151
Current liabilities	(160,800)	(101,522)
Non-current liabilities	(2,878)	(2,878)
Net cash flows used in operating activities	(8,308)	(32,197)
Net cash flows used in investing activities	(4,275)	(3,196)
Net cash flows from in financing activities	10,000	-
Net decrease in cash and cash equivalents	(2,583)	(35,393)

32. BUSINESS COMBINATION

On 4 March 2019, the Group acquired a 29.25% of equity shares in morEnergy GmbH (“**morEnergy**”), a company incorporated in Germany dedicating to the research and development of emerging energy technologies, and subscribed a 42.96% of equity shares in morEnergy, for an aggregate cash consideration of EUR1,464,685 (equivalent to RMB11,152,000). The acquisition is one of the important measures for the Group to accelerate the progress of implementing international development and strengthening the capacities of international research and development.

The Group has elected to measure the non-controlling interest in morEnergy at the non-controlling interest's proportionate share of morEnergy's identifiable net assets.

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32. BUSINESS COMBINATION (continued)

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

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	13	169
Other intangible assets	16	11,009
Cash and cash equivalents		865
Trade receivables		7
Other receivables (note)		6,184
Trade payables		(75)
Other payables		(1,376)
Deferred tax liabilities	27	(3,440)
Total identifiable net assets at fair value		13,343
Non-controlling interests		(3,705)
Goodwill on acquisition	15	1,514
		11,152
Satisfied by:		
Cash (note)		11,152

Note: The amounts include the subscription monies of 42.96% of equity shares in morEnergy of EUR749,385 (equivalent to RMB5,706,000).

The fair values and gross contractual amounts of the trade receivables and other receivables as at the date of acquisition amounted to RMB7,000 and RMB6,184,000, respectively.

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

	RMB'000
Cash consideration	(11,152)
Subscription monies	5,706
Cash and bank balances acquired	865
Net outflow of cash and cash equivalents included in cash flows from investing activities	(4,581)

Since the acquisition, morEnergy contributed RMB401,000 to the Group's revenue and loss of RMB2,763,000 to the consolidated profit for the year ended 31 December 2019.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profits of the Group for the year would have been RMB1,394,783,000 and RMB201,166,000, respectively.

33. DISPOSAL OF A SUBSIDIARY

On 29 April 2019 the Group entered into a share transfer agreement in relation to the disposal of 43% equity interests in Jiujiang Sun.King Technology Co., Ltd. (the “**Jiujiang Sunking**”), a non-wholly-owned subsidiary of the Group, to Shanghai Tanda Rolling Stock Seat System Co. Ltd. at a cash consideration of RMB193,500,000 with RMB77,400,000 received during the year and RMB116,100,000 remained unsettled as of 31 December 2019.

The disposal was completed on 28 June 2019; and accordingly, the Group’s equity interests in Jiujiang Sunking decreased from 62.25% to 19.25%, and Jiujiang Sunking became an associate to the Group.

Details of the net assets disposed of and the financial impacts are summarised below:

	<i>Notes</i>	2019 RMB'000
Net assets disposed of:		
Property, plant and equipment	13	36,761
Right-of-use assets	14	6,405
Investment in an associate		7,500
Other intangible assets	16	23,704
Deferred tax assets	27	5,080
Inventories		57,716
Trade and bills receivables		235,855
Other receivables		11,822
Pledged deposits		40
Cash and cash equivalents		36,986
Trade and bills payables		(88,720)
Other payables and accruals		(53,022)
Interest-bearing bank borrowings		(10,000)
Tax payable		(9,058)
Deferred tax liabilities	27	(2,878)
		258,191
Non-controlling interests		(97,467)
Goodwill	15	34,159
Transaction costs		7,740
Gain on disposal of a subsidiary	5	77,502
		280,125
Satisfied by:		
Cash		77,400
Other receivables		116,100
Investment in an associate		86,625
		280,125

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2019 RMB'000
Cash consideration	77,400
Cash and bank balances disposed of	(36,986)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	40,414

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34. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB13,926,000 and RMB13,926,000 respectively, in respect of lease arrangements for buildings (2018: Nil).

(b) Changes in liabilities arising from financing activities

2019

	Bank borrowings RMB'000	Lease liabilities RMB'000
At 31 December 2018	360,354	-
Effect of adoption of IFRS 16	-	13,926
At 1 January 2019 (restated)	360,354	13,926
Changes from financing cash flows	121,485	(1,838)
Disposal of a subsidiary	(10,000)	-
Interest expense	-	240
Interest paid classified as operating cash flows	-	(240)
At 31 December 2019	471,839	12,088

2018

	Bank borrowings RMB'000
At 1 January 2018	327,184
Changes from financing cash flows	33,170
At 31 December 2018	360,354

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 RMB'000
Within operating activities	1,091
Within financing activities	1,838
	2,929

35. CONTINGENT LIABILITIES

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

36. OPERATING LEASE COMMITMENTS

The Group leased certain of office properties and office equipment under operating lease arrangements. Leases for office properties were negotiated for terms ranging from one to ten years. Leases for office equipment were with terms of 12 months or less.

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

	2018 RMB'000
Within one year	2,975
In the second to fifth years, inclusive	5,295
After five years	7,876
	16,146

37. CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2019 RMB'000	2018 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	11,525	2,046

Other commitments

Commitments under foreign currency forward contracts:

	2019 RMB'000	2018 RMB'000
Purchase of Swiss franc	177,646	667,405

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38 RELATED PARTY TRANSACTIONS

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

	2019 RMB'000	2018 RMB'000
Associates:		
Sales of products	5,417	–

- (b) Compensation on key management personnel of the Group:

	2019 RMB'000	2018 RMB'000
Short term employee benefits	19,961	9,982
Post-employment benefits	1,665	1,528
Equity-settled share option expense	157	898
Total compensation paid to key management personnel	21,783	12,408

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

- (c) Outstanding balances with related parties:

On 15 April 2019, Jiashan Sunking Power Equipment Technology Co., Ltd. ("Jiashan Sunking"), an indirect wholly-owned subsidiary of the Company, and Jiashan Henghua, which was owned as to 51% by Hi-Tech Property Co., Ltd. ("Hi-Tech Property") and 49% by Jiashan Sunking, entered into an agreement pursuant to which 49% of a loan with an original amount of RMB50,000,000 advanced from Jiashan Henghua to Hi-Tech Property was to assign from Jiashan Henghua to Jiashan Sunking. The amount of the assigned loan was RMB24,500,000, which was unsecured, interest-bearing at a rate of 8.3% per annum and repayable as of 31 December 2019.

On 14 November 2019, Jiashan Sunking and Hi-Tech Property reached a supplemental agreement to extend the aforementioned loan and the corresponding accrued loan interest. Together with the remaining cash to be returned from Jiashan Henghua upon its deregistration, the total outstanding balance was approximately RMB27,829,000, of which RMB10,000,000 has been settled in 2019 and the remaining RMB17,829,000 is scheduled to be settled in 2020.

As at 31 December 2019, the outstanding balance due from Hi-Tech Property was RMB18,131,000, which was unsecured and interest-bearing at a rate of 8.3% per annum. The corresponding interest income during the year was RMB2,335,000.

39. FINANCIAL INSTRUMENTS BY CATEGORY

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

2019

Financial assets

	Financial assets at fair value through profit or loss – Mandatorily designated as such RMB'000	Financial assets at fair value through other comprehensive income – Debt investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade receivables	–	–	673,794	673,794
Bills receivable	–	205,430	–	205,430
Financial assets included in prepayments, deposits and other receivables	–	–	166,299	166,299
Loans to joint venture	–	–	700	700
Derivative financial instruments	2,422	–	–	2,422
Pledged deposits	–	–	31,709	31,709
Cash and cash equivalents	–	–	592,748	592,748
	2,422	205,430	1,465,250	1,673,102

Financial liabilities

	Financial liabilities at fair value through profit or loss – Held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	–	275,852	275,852
Lease liabilities	–	12,088	12,088
Financial liabilities included in other payables and accruals	–	34,332	34,332
Derivative financial instruments	407	–	407
Interest-bearing bank borrowings	–	471,839	471,839
	407	794,111	794,518

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39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2018

Financial assets

	Financial assets at fair value through profit or loss – Mandatorily designated as such RMB'000	Financial assets at fair value through other comprehensive income – Debt investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade receivables	–	–	729,661	729,661
Bills receivable	–	130,852	–	130,852
Financial assets included in prepayments, deposits and other receivables	–	–	29,643	29,643
Loans to joint venture	–	–	700	700
Derivative financial instruments	218	–	–	218
Pledged deposits	–	–	35,040	35,040
Cash and cash equivalents	–	–	766,891	766,891
	218	130,852	1,561,935	1,693,005

Financial liabilities

	Financial liabilities at fair value through profit or loss – Held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	–	285,646	285,646
Financial liabilities included in other payables and accruals	–	30,991	30,991
Derivative financial instruments	9,615	–	9,615
Interest-bearing bank borrowings	–	360,354	360,354
	9,615	676,991	686,606

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	31 December 2019 RMB'000	31 December 2018 RMB'000	31 December 2019 RMB'000	31 December 2018 RMB'000
Financial assets				
Bills receivable	205,430	130,852	205,430	130,852
Derivative financial instruments	2,422	218	2,422	218
	207,852	131,070	207,852	131,070
Financial liabilities				
Derivative financial instruments	407	9,615	407	9,615
Interest-bearing bank borrowings	471,839	360,354	470,993	360,354
	472,246	369,969	471,400	369,969

Management has assessed that the fair values of the Group's financial instruments, except for bills receivable and derivative financial instruments, approximate to their carrying amounts largely due to the short term maturities of these instruments and the discounted method used for calculating the non-current portion of trade receivables, loans to joint venture and interest-bearing bank borrowings by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The Group's finance department headed by the chief financial officer is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of bills receivables have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The Group enters into derivative financial instruments with various counterparties. Derivative financial instruments, mainly including foreign currency forward contracts, are measured using quoted prices in active markets.

The carrying amounts of bills receivable and derivative financial instruments are the same as their fair values.

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40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
As at 31 December 2019				
Derivative financial instruments	2,422	–	–	2,422
Bills receivable	–	205,430	–	205,430
	2,422	205,430	–	207,852
As at 31 December 2018				
Derivative financial instruments	218	–	–	218
Bills receivable	–	130,852	–	130,852
	218	130,852	–	131,070

Liabilities measured at fair value:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
As at 31 December 2019				
Derivative financial instruments	407	–	–	407
As at 31 December 2018				
Derivative financial instruments	9,615	–	–	9,615

Liabilities for which fair values are disclosed:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
As at 31 December 2019				
Interest-bearing bank borrowings	–	470,993	–	470,993
As at 31 December 2018				
Interest-bearing bank borrowings	–	360,354	–	360,354

During the year, 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 (2018: Nil).

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank borrowings, and cash and bank balances and pledged deposits. 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 bills receivables and trade and bills payables, which arise directly from its operations.

The Group also enters into derivative transactions, including forward currency contracts. The purpose is to manage the currency risk arising from the Group's operations and its sources of finance.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on minimising the potential adverse effects of these risks, with material impact, on the Group's financial performance. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings with floating interest rates. The effective interest rates and terms of repayment of the interest-bearing bank borrowings of the Group are disclosed in note 26 to the financial statements.

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).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2019		
RMB	100	(2,445)
RMB	(100)	2,445
<hr/>		
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2018		
RMB	100	(1,312)
RMB	(100)	1,312

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41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from purchases by operating units in currencies other than the units' functional currencies. In order to minimise the impact of foreign exchange exposure, the Group has entered into foreign currency forward contracts with creditworthy banks to manage its exchange rate exposure.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Swiss Franc ("CHF") exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in foreign exchange rate %	Increase/ (decrease) in profit before tax RMB'000
2019		
If RMB weakens against CHF	5	17,023
If RMB strengthens against CHF	(5)	(17,023)
	Increase/ (decrease) in foreign exchange rate %	Increase/ (decrease) in profit before tax RMB'000
2018		
If RMB weakens against CHF	5	10,456
If RMB strengthens against CHF	(5)	(10,456)

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk

The Group trades only 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 ongoing basis.

Maximum exposure and year-end staging

The tables below show 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.

As at 31 December 2019

	12-month ECLs		Lifetime ECLs		Simplified approach RMB'000	RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000			
Trade receivables*	-	-	-	-	673,794	673,794
Contract assets*	-	-	-	-	175,550	175,550
Financial assets included in prepayments, deposits and other receivables – Normal**	166,299	-	-	-	-	166,299
Loans to joint venture	700	-	-	-	-	700
Pledged deposits						
– Not yet past due	31,709	-	-	-	-	31,709
Cash and cash equivalents						
– Not yet past due	592,748	-	-	-	-	592,748
	791,456	-	-	-	849,344	1,640,800

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41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

As at 31 December 2018

	12-month ECLs		Lifetime ECLs		Simplified approach RMB'000	RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000			
Trade receivables*	–	–	–	729,661	729,661	
Contract assets*	–	–	–	123,602	123,602	
Financial assets included in prepayments, deposits and other receivables – Normal**	29,643	–	–	–	29,643	
Loans to joint venture	700	–	–	–	700	
Pledged deposits						
– Not yet past due	35,040	–	–	–	35,040	
Cash and cash equivalents						
– Not yet past due	766,891	–	–	–	766,891	
	832,274	–	–	853,263	1,685,537	

* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the financial statements, respectively.

** The credit quality of the financial assets included in prepayments, deposits and other receivables 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.

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 instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group’s objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings, lease liabilities. In addition, banking facilities have been put in place for contingency purposes.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

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:

	2019			Total RMB'000
	On demand or less than three months RMB'000	Three to less than twelve months RMB'000	One to ten years RMB'000	
Trade and bills payables	263,842	12,010	–	275,852
Lease liabilities	453	1,252	11,787	13,492
Financial liabilities included in other payables and accruals	34,332	–	–	34,332
Derivative financial instruments	407	–	–	407
Interest-bearing bank borrowings	37,065	423,608	19,288	479,961
	336,099	436,870	31,075	804,044

	2018			Total RMB'000
	On demand or less than three months RMB'000	Three to less than twelve months RMB'000	One to ten years RMB'000	
Trade and bills payables	281,124	4,522	–	285,646
Financial liabilities included in other payables and accruals	30,991	–	–	30,991
Derivative financial instruments	9,615	–	–	9,615
Interest-bearing bank borrowings	140,993	230,461	–	371,454
	462,723	234,983	–	697,706

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 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 2019 and 31 December 2018.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management *(continued)*

The Group monitors capital using a gearing ratio, which is interest-bearing bank borrowings divided by total equity. The Group's policy is to maintain the gearing ratio as low as possible. The gearing ratios as at the end of the reporting periods were as follows:

	2019 RMB'000	2018 RMB'000
Interest-bearing bank borrowings (note 26)	471,839	360,354
Total equity	1,688,503	1,669,198
Gearing ratio	27.9%	21.6%

42. 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:

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	536,351	537,741
Total non-current assets	536,351	537,741
CURRENT ASSETS		
Deposits and other receivables	679	2,311
Due from a subsidiary	242,182	332,331
Cash and cash equivalents	1,388	4,159
Total current assets	244,249	338,801
CURRENT LIABILITIES		
Other payables and accruals	537	322
Interest-bearing bank borrowings	26,874	17,524
Total current liabilities	27,411	17,846
NET CURRENT ASSETS	216,838	320,955
Net assets	753,189	858,696
EQUITY		
Issued capital	136,996	138,637
Treasury shares	(2,736)	(4,135)
Reserves (note)	618,929	724,194
Total equity	753,189	858,696

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium account RMB'000	Employee share-based compensation reserve RMB'000	Capital redemption reserve RMB'000	Deemed contribution reserve RMB'000	Other reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2018	679,878	30,392	684	6,294	42,519	13,090	772,857
Profit and total comprehensive income for the year	-	-	-	-	-	19,290	19,290
Exercise of share options	12,932	(4,125)	-	-	-	-	8,807
Share-based payments	-	1,448	-	-	-	-	1,448
Final 2017 dividends	(39,710)	-	-	-	-	-	(39,710)
Interim 2018 dividends	(28,557)	-	-	-	-	-	(28,557)
Shares cancelled	(9,941)	-	622	-	-	(622)	(9,941)
At 31 December 2018 and 1 January 2019	614,602	27,715	1,306	6,294	42,519	31,758	724,194
Loss and total comprehensive loss for the year	-	-	-	-	-	(17,605)	(17,605)
Exercise of share options	4,368	(2,950)	-	-	-	-	1,418
Share-based payments	-	368	-	-	-	-	368
Final 2018 dividends	(42,734)	-	-	-	-	-	(42,734)
Interim 2019 dividends	(29,117)	-	-	-	-	-	(29,117)
Shares cancelled	(17,595)	-	1,883	-	-	(1,883)	(17,595)
At 31 December 2019	529,524	25,133	3,189	6,294	42,519	12,270	618,929

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2020.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below:

	Year ended 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
REVENUE	1,395,638	1,290,490	1,155,400	856,952	781,993
PROFIT BEFORE TAX	233,990	245,262	249,954	171,104	79,147
Income tax expense	(33,962)	(35,107)	(46,213)	(24,230)	(17,928)
PROFIT FOR THE YEAR	200,028	210,155	203,741	146,874	61,219
Attributable to:					
Owners of the parent	195,643	183,301	194,887	143,856	62,272
Non-controlling interests	4,385	26,854	8,854	3,018	(1,053)
	200,028	210,155	203,741	146,874	61,219

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
TOTAL ASSETS	2,566,331	2,489,143	2,272,024	1,800,600	1,588,235
TOTAL LIABILITIES	(877,828)	(819,945)	(750,871)	(771,474)	(697,264)
NON-CONTROLLING INTERESTS	(16,563)	(105,634)	(79,078)	(24,622)	(16,239)
	1,671,940	1,563,564	1,442,075	1,004,504	874,732