Shinelong Automotive Lightweight Application Limited
勳龍汽車輕量化應用有限公司

(Incorporated in Cayman Islands with limited liability)

Stock Code : 1930

2019
Annual Report

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Lin Wan-Yi *(Chairman)*
Mr. Yung Chia-Pu
Mr. Cheng Ching-Long
Mr. Lu Jen-Chieh

Non-executive Director

Ms. Hsieh Pei-Chen

Independent Non-executive Directors

Mr. So George Siu Ming
Mr. Lin Lien-Hsing
Mr. Fan Chi Chiu

BOARD COMMITTEES

Audit Committee

Mr. So George Siu Ming *(Committee chairman)*
Mr. Lin Lien-Hsing
Mr. Fan Chi Chiu

Remuneration Committee

Mr. Lin Lien-Hsing *(Committee chairman)*
Mr. Lin Wan-Yi
Mr. Fan Chi Chiu

Nomination Committee

Mr. Lin Wan-Yi *(Committee chairman)*
Mr. So George Siu Ming
Mr. Lin Lien-Hsing

JOINT COMPANY SECRETARIES

Ms. Shen Xuejuan
Ms. Lam Nim Chi

AUTHORISED REPRESENTATIVES

Mr. Lin Wan-Yi
Ms. Lam Nim Chi

AUDITOR

Ernst & Young

COMPLIANCE ADVISER

Ballas Capital Limited

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Zhangpu Town, Kunshan City
Jiangsu Province
the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

INVESTOR RELATIONS

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STOCK CODE

1930

Corporate Information

LISTING INFORMATION

Equity Securities

The ordinary shares of Shinelong Automotive Lightweight Application Limited (the "**Company**") (the "**Shares**") (stock code: 1930) are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**").

Financial Calendar

Annual results announcement	:	Thursday, 26 March 2020
2019 annual general meeting (the "**2019 AGM**")	:	Friday, 29 May 2020

Closure of Register of Members and other Key Dates

The Company's register of members will be closed during the following periods:

— To determine the shareholders of the Company (the "**Shareholders**") who are entitled to attend and vote at the 2019 AGM

Latest time for lodging transfer documents of shares	:	4:30 p.m. on Monday, 25 May 2020
Period of closure of register of members	:	Tuesday, 26 May 2020 to Friday, 29 May 2020 (both dates inclusive)

— To determine the Shareholders' entitlement to the final dividend (the "**Final Dividend**")

Latest time for lodging transfer documents of shares	:	4:30 p.m. on Wednesday, 3 June 2020
Period of closure of register of members	:	Thursday, 4 June 2020 to Friday, 5 June 2020 (both dates inclusive)
Record date	:	Friday, 5 June 2020

To qualify for attending and voting at the 2019 AGM and entitlement to the Final Dividend, all properly completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than the above latest time for lodging transfer documents of shares.

Subject to the approval by the Shareholders in the 2019 AGM, the proposed Final Dividend will be paid on Friday, 17 July 2020 to Shareholders whose names appear on the register of members of the Company on Friday, 5 June 2020.

Corporate Information

ANNUAL GENERAL MEETING

The 2019 AGM will be held on Friday, 29 May 2020. Notice of the 2019 AGM will be set out in the Company's circular dated Wednesday, 15 April 2020 and will be despatched together with this annual report to the Shareholders. Notice of the 2019 AGM and the proxy form will also be published on the Company's website (http://www.shinlone.com.cn) and the Hong Kong Stock Exchange's website (http://www.hkex.com.hk).

DESPATCH OF CORPORATE COMMUNICATIONS

This annual report (both Chinese and English versions) will be delivered to Shareholders. This annual report is also published on the Company's website (http://www.shinlone.com.cn) and the Hong Kong Stock Exchange's website (http://www.hkex.com.hk).

For environmental protection reasons, the Company encourages the Shareholders to view this annual report posted on the aforesaid websites where possible.

Financial Summary

SUMMARY OF THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the year ended 31 December		
	2019	2018	Change
Revenue (RMB'000)	**230,228**	217,216	6.0%
Gross profit (RMB'000)	**77,576**	72,913	6.4%
Gross profit margin	**33.7%**	33.6%	0.1 percentage points
Net profit (RMB'000)	**23,713**	31,351	-24.4%
Net profit margin	**10.3%**	14.4%	-4.1 percentage points
Adjusted net profit (RMB'000) [Note 1]	**38,313**	38,266	0.1%
Adjusted net profit margin [Note 1]	**16.6%**	17.6%	-1.0 percentage points
Basic earnings per share (RMB cents)	**4.1**	N/A [Note 2]	N/A

Notes:

1. Adjusted net profit and adjusted net profit margin are calculated based on the net profit for the year before listing expenses for the listing of the Company's shares on the Main Board of the Hong Kong Stock Exchange (the "**Listing**").

2. No earnings per share was presented for the year ended 31 December 2018 as it was not considered meaningful due to the reorganisation of the Company together with its subsidiaries (collectively, the "**Group**") for the Listing.

SUMMARY OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December		
	2019	2018	Change
Total assets (RMB'000)	**416,576**	305,908	36.2%
Cash and cash equivalents (RMB'000)	**86,904**	14,112	515.8%
Total liabilities (RMB'000)	**153,896**	174,589	-11.9%
Total equity (RMB'000)	**262,680**	131,319	100.0%
Return on equity	**9.0%**	23.9%	-14.9 percentage points
Return on total assets	**5.7%**	10.2%	-4.5 percentage points
Adjusted return on equity [Note]	**14.6%**	29.1%	-14.5 percentage points
Adjusted return on total assets [Note]	**9.2%**	12.5%	-3.3 percentage points

Note: Adjusted return on equity and adjusted return on total assets are calculated based on the net profit for the year before listing expenses for the Listing.

Chairman's Statement

I am pleased to present the annual results of the Group for the year ended 31 December 2019 (the "**FY2019**").

The Group was successfully listed on the Main Board of the Hong Kong Stock Exchange on 28 June 2019. The Group is a developer and major supplier of customised moulds in the PRC, with a focus on moulds for the production of automotive parts which cater for the growing trend of automotive lightweight application, as well as electrical appliance parts. With over 18 years of experience in the mould manufacturing market, the Group will continue to offer comprehensive moulding services and solutions to the customers, covering product analysis, mould design and development; mould fabrication, assembling, testing and adjustment; trial production and aftersales services.

BUSINESS REVIEW

During the period from 2018 to 2019, global economy was affected by the uncertainties arising from the Sino-US trade frictions. In addition, labour and operation costs increased as the Chinese government tightened the regulations on environmental protection and safety. To cope with the situation, the Group has adopted various internal measures, including strict cost control, strengthening professional training of employees and reinforcing our existing high-quality customer services. Externally, we have proactively explored our oversea customers by establishing business relationships and securing orders with various customers in Turkey, India and Russia.

The revenue of the Group for FY2019 amounted to RMB230.2 million, representing an increase of 6.0% as compared with that of RMB217.2 million for the year ended 31 December 2018 (the "**FY2018**"). Such increase was mainly due to the increase in revenue generated from the sales of automotive moulds. Profit attributable to the owners of the Company for FY2019 amounted to RMB23.7 million, representing a decrease of 24.4% as compared with that of RMB31.4 million for FY2018. Such decrease was mainly due to the listing expenses incurred in FY2019, the increase in compliance costs after listing and the increase in employee benefit expenses as a result of the increase in headcount and annual salary increment. Excluding the listing expenses, profit attributable to the owners of the Company remained relatively stable at RMB38.3 million for FY2018 and FY2019.

OUTLOOK

At the time the Group announces its annual results, China is suffering from a pneumonia pandemic. Further, the growth of China's economy is slowing down and the prospect of global economy is also full of uncertainty. Facing the challenges ahead, the Group will always remain cautious, striving to minimise risks and ensuring a stable development.

As the Group mainly focuses on moulds for the production of automotive parts which cater for the growing trend of automotive lightweight application, as well as electrical appliance parts, the development in the automotive and electrical appliance industry will have certain impact on our business.

Chairman's Statement

In 2019, the automotive sale in China remained its world leading position in spite of the decline in domestic demand. Automotive mould belongs to customised product with a majority of customers as automotive parts providers. In addition, new vehicle models are rapidly introduced to the automotive industry in China while existing models are constantly upgrading. Given that the overall automotive market has been developing into a high-end consumption, together with the growing trend of lightweight application in energy-saving and environmentally friendly automotive and the rise of new energy vehicles, upstream mould manufacturers are required to develop corresponding moulds to cope with such changes in product structure and consumption demand. Hence, the automotive mould market presents both challenges and opportunities..

While the electrical appliance market faces fierce competition, electrical appliance products are developing towards a trend of personalisation, customisation, and intelligentisation. With the advance of the 5G industry, there will be challenges and new development opportunities for both upstream and downstream industries.

The State Council of China issued the "Opinion on Further Improving Employment Stability" in December 2019, which proposed to "encourage the renewal consumption of automotive, electrical appliance and consumer electronics, promote the retirement and replacement of old automotive in an effective and orderly manner, and encourage cities that restricted automotive purchase to refine their management measures". The Group expects the PRC Government will launch more measures to stimulate the economy, help stabilise employment and boost consumer confidence.

In 2020, the Group will formulate the development strategies based on the current situation of the global automotive and electrical appliance markets, striving to expand the domestic and overseas markets. The Group will continue to implement the strategies and expansion plans as set out in its prospectus dated 17 June 2019 (the "**Prospectus**"). In response to the market demand of new energy vehicles and the trend of lightweight application in energy-saving automotive, the Group will install its second hot-pressing moulds debugging line as planned, so as to comprehensively enhance our overall competitiveness and increase customer stickiness. With expanded factory scale, the Group will continue to improve the production efficiency and reduce operating costs in order to maintain the competitive advantage. The Group will continue to invest in technology research and development, as well as enhance the product quality, so as to strengthen the customers' recognition and confidence in the Group's products.

DIVIDEND

Taking into account the Group's business development needs and the Shareholders' investment returns, the board (the "**Board**") of directors (the "**Directors**") of the Company proposed a Final Dividend of RMB0.562 cents per share for FY2019.

APPRECIATION

On behalf of the board, I would like to extend our gratitude to all of our employees and management team for their effort and contribution, and also thank our Shareholders and business partners for their trust and support. Going forward, the Group will strive to achieve a stable growth and create higher value for our Shareholders.

Lin Wan-Yi
Chairman and executive Director
Hong Kong, 26 March 2020

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

The revenue of the Group amounted to RMB230.2 million for FY2019, representing an increase of RMB13.0 million or 6.0% as compared with that of RMB217.2 million for FY2018.

The following table sets forth a breakdown of the revenue of the Group by business segment:

	For the year ended 31 December		
	2019	2018	Change
	RMB'000	RMB'000	%
Sales of moulds			
Automotive moulds	**162,102**	123,869	30.9
Electrical appliance moulds	**55,235**	68,909	-19.8
Other moulds	**1,254**	1,472	-14.8
Sub-total	**218,591**	194,250	12.5
Parts processing services	**9,328**	20,802	-55.2
Other sundry income	**2,309**	2,164	6.7
Total	**230,228**	217,216	6.0

(i) Sales of moulds

The Group principally engages in the design, develop, manufacture and sales of customised hot-pressing moulds, hydroforming moulds and injection moulds which are used in auto manufacturing. Apart from automotive moulds, the Group also engages in the design, develop, manufacture and sales of customised plastic injection moulds for the production of electrical appliance. Sales of moulds accounted for 95% of the Group's revenue for FY2019.

The revenue generated from sales of automotive moulds for FY2019 amounted to RMB162.1 million, representing an increase of RMB38.2 million or 30.9% as compared with that of RMB123.9 million for FY2018. Such increase was primary due to the increase in revenue generated from one of the Group's major customers, which was attributable by the confirmed orders received from such customer in 2018 which both the contract value per mould and the number of automotive moulds placed from such customer increased. The Directors believe that this customer increased its business with the Group as a result of (a) the more frequent introduction of new passenger vehicle models to meet the changing taste and needs of customers; and (b) increased adoption of lightweight technology by this customer and hence increased demand for the Group's hot-pressing automotive moulds.

The revenue generated from sales of electrical appliance moulds for FY2019 amounted to RMB55.2 million, representing a decrease of RMB13.7 million or 19.8% as compared with that of RMB68.9 million for FY2018. Such decrease was mainly caused by a drop in revenue generated from two of the Group's customers, largely due to the lower average selling price per electrical appliance moulds and the decrease in orders placed.

(ii) Parts processing services

Parts processing services principally include services provided to the customers for (i) modification of moulds the Group manufactured and sold; and (ii) processing machine parts that are used in automotive moulds and electrical appliance moulds. The revenue generated from parts processing services for FY2019 amounted to RMB9.3 million, representing a decrease of RMB11.5 million or 55.2% as compared with that of RMB20.8 million for FY2018. Such decrease was primarily due to the decrease in demand of processing services of auto machine parts.

Cost of sales

The Group's cost of sales primarily consists of direct materials, direct labour, manufacturing overhead and subcontracting expenses. The major raw materials used by the Group in the production of moulds include, among others, mould steel, mould parts, hot runner and mould carrier.

The cost of sales of the Group for FY2019 amounted to RMB152.7 million, representing an increase of RMB8.3 million or 5.8% as compared with that of RMB144.3 million for FY2018. Such increase was primary due to the increase in direct materials resulting from the increase in the Group's sales volume of moulds.

Gross profit and gross profit margin

The gross profit of the Group for FY2019 amounted to RMB77.6 million, representing an increase of RMB4.7 million or 6.4% as compared with that of RMB72.9 million for FY2018. The overall percentage increase in the Group's gross profit was in line with that for the revenue. The gross profit margin remained stable at 33.6% for FY2018 and 33.7% for FY2019.

Management Discussion and Analysis

The following table sets forth a breakdown of the gross profit and gross profit margin of the Group by business segment:

	For the year ended 31 December				
	2019		2018		
	Gross profit	**Gross profit margin**	Gross profit	Gross profit margin	Change
	RMB'000	**%**	RMB'000	%	%
Sales of automotive moulds	**60,438**	**37.3**	42,978	34.7	40.6
Sales of electrical appliance moulds	**11,669**	**21.1**	18,100	26.3	-35.5
Sales of other moulds	**173**	**13.8**	486	33.0	-64.4
Parts processing services	**4,012**	**43.0**	10,101	48.6	-60.3
Other sundry income	**1,284**	**55.6**	1,248	57.7	2.9
	77,576	**33.7**	72,913	33.6	6.4

The gross profit margin from sales of automotive moulds increased from 34.7% for FY2018 to 37.3% for FY2019, which was mainly due to the fact that the Group had received a larger proportion of acceptance reports from one of the Group's major customers which had a relatively higher gross profit margin when comparing to other customers.

The gross profit margin from sales of electrical appliance moulds decreased from 26.3% for FY2018 to 21.1% for FY2019, which was mainly due to the decrease in gross profit margin for sales to three of the Group's customers as (i) the Group charged a lower mark-up to these customers to remain competitive in the tendering process; and (ii) the moulds produced to these customers in FY2019 were relatively less complex and hence the margin was lower than that for FY2018.

The gross profit margin from parts processing services decreased from 48.6% for FY2018 to 43.0% for FY2019, which was mainly due to the relatively low gross profit margin from some of the Group's new customers as the Group offered competitive pricing to these new customers in order to attract new businesses.

Other income and gains

The other income and gains of the Group mainly consisted of government grants, interest income and foreign exchange differences. The amount increased from RMB0.9 million for FY2018 to RMB2.0 million for FY2019 which was mainly due to the increase in interest income and the recognition of foreign exchange gains for the year.

Selling and distribution expenses

The selling and distribution expenses of the Group mainly consist of staff costs for sales staff, provision for warranty and logistics expenses for delivery of moulds to customers. The amount remained relatively stable at RMB8.3 million for FY2018 and RMB8.1 million for FY2019.

General and administrative expenses

The general and administrative expenses of the Group for FY2019 amounted to RMB38.9 million, representing an increase of RMB12.2 million or 45.9% as compared with that of RMB26.7 million for FY2018. The listing expenses in relation to the Listing recognised for FY2018 and FY2019 were RMB6.9 million and RMB14.6 million, respectively. Excluding the listing expenses, the general and administrative expenses for FY2019 amounted to RMB24.3 million, representing an increase of RMB4.5 million or 23.1% as compared with that of RMB19.8 million for FY2018. Such increase was mainly due to the increase in compliance costs after listing and the increase in employee benefit expenses as a result of the increase in headcount and annual salary increment.

Finance costs

The finance costs of the Group mainly consisted of interest expenses on lease liabilities and discounted notes receivable. The amount increased from RMB0.7 million for FY2018 to RMB1.1 million for FY2019 which was mainly due to the increase in interest expenses on lease liabilities pursuant to the adoption of IFRS 16 *Leases* from 1 January 2019.

Income tax expenses and effective tax rate

The income tax expenses of the Group increased from RMB6.7 million for FY2018 to RMB7.7 million for FY2019. The effective tax rate, representing income tax expense divided by profit before taxation, was 17.7% and 24.4% for FY2018 and FY2019, respectively. Excluding the listing expenses, the effective tax rate would have increased from 14.9% for FY2018 to 16.7% for FY2019, which was mainly due to the increase in the non-deductible tax losses attributable to the Company for FY2019.

Net profit and net profit margin

The Group recorded net profit of RMB31.4 million and RMB23.7 million for FY2018 and FY2019, with a net profit margin of 14.4% and 10.3%, respectively. Excluding the listing expenses, the adjusted net profit margin of the Group would have decreased from 17.6% for FY2018 to 16.6% for FY2019, which was mainly due to the increase in general and administrative expenses as mentioned above.

Capital expenditure and commitments

The Group's capital expenditure in FY2019 primarily comprised expenditure on machinery and furniture, fixtures and equipment and amounted to a total of RMB4.8 million (31 December 2018: RMB20.9 million).

As at 31 December 2019, the Group had no capital commitments (31 December 2018: no capital commitments).

Management Discussion and Analysis

Liquidity and financial resources

The Group's operations were primarily financed through its operating activities. The Group derived its cash inflow from operating activities primarily through the receipt of payments from the customers in relation to the sales of moulds and parts processing services. The Group's cash outflows from operating activities primarily comprised payments for purchases of raw materials, direct labour costs, subcontracting fees to third-party contractors and operating expenses such as staff costs.

As at 31 December 2019, the Group's total current assets and current liabilities were RMB330.6 million (31 December 2018: RMB232.8 million) and RMB137.5 million (31 December 2018: RMB173.4 million), respectively, while the current ratio was 2.4 times (31 December 2018: 1.3 times). The increase in total current assets as at 31 December 2019 was mainly attributable to the increase in cash and cash equivalents in relation to the net proceeds from the Listing and the increase in trade and notes receivables. As at 31 December 2019, the Group had a cash and bank balance amounted to RMB86.9 million (31 December 2018: RMB14.1 million).

As at 31 December 2019, the Group has aggregate banking facilities of RMB230 million. The Group's gearing ratio was 5.8% as at 31 December 2019 (31 December 2018: 4.9%).

Going forward, the Group expects to fund its future operations and expansion plans primarily with listing proceeds, cash generated from operations and borrowings.

Reserves and capital structure

As at 31 December 2019, the Group's total equity was RMB262.7 million (31 December 2018: RMB131.3 million), which represented share capital of RMB5.8 million (31 December 2018: less than RMB1,000) and reserves of RMB256.9 million (31 December 2018: RMB131.3 million). The increase in total equity was primarily due to the issuance of shares of the Group for the Listing and net profit for the year.

Property, plant and equipment

The Group's property, plant and equipment mainly comprised of buildings, machinery, furniture, fixtures and equipment, leasehold improvements and motor vehicles. As at 31 December 2019, the Group's property, plant and equipment amounted to RMB62.9 million (31 December 2018: RMB67.1 million).

Inventories

The Group's inventories comprised (i) raw materials and low value consumables used in production, (ii) work-in-progress for products being manufactured in the production plants, and (iii) finished goods which comprised moulds that have only passed the customers' initial inspection for which the Group had not received their final acceptance reports. As at 31 December 2019, the Group's inventories amounted to RMB138.4 million (31 December 2018: RMB139.0 million).

Management Discussion and Analysis

Trade and notes receivables

The Group's trade and notes receivables represented amounts receivable from the customers in relation to the sales of moulds and the provision of parts processing services. The Group's notes receivable were issued by the customers with which the Group could receive the amount at a fixed future date, or could readily be discounted into cash at an expense of finance charge. As at 31 December 2019, the Group's trade and notes receivables amounted to RMB103.4 million (31 December 2018: RMB75.4 million). Such increase was mainly due to the increase in notes receivable issued by one of the Group's major customers with terms ranging from 2 to 6 months.

Trade and notes payables

The Group's trade and notes payables primarily consisted of payable to the suppliers in relation to the purchase of the raw materials for the manufacture of moulds, and subcontracting fees payable to third-party contractors. As at 31 December 2019, the Group's trade and notes payables amounted to RMB50.2 million (31 December 2018: RMB66.4 million). Such decrease was mainly due to (i) the fact that a part of the trade payables was unsettled as at 31 December 2018 because of the unsatisfactory quality of the raw materials supplied and the amount was subsequently paid in FY2019; and (ii) the amount of raw materials purchased during the fourth quarter of FY2019 was less than that for the same period of FY2018 which was largely attributable to the decrease in confirmed orders received.

Contract liabilities

The Group's contract liabilities consisted of the short-term advances received to deliver moulds. Pursuant to the contract, the Group generally requires the customers to pay around 30% of the total fee when they place a purchase order and around 40% to 50% of the total fee when the moulds have been fabricated and are ready for delivery to the customers. Such payments from the customers were recorded as contract liabilities and the moulds related to these contract liabilities were recorded as work-in-progress for products being manufactured in production plants and finished goods in the Group's inventories.

After the moulds passed the customers' final inspection and examination, the customers would issue final acceptance reports to the Group, at which time, the Group would recognise the sales and reverse the related contract liabilities and record the remaining balance of around 20% to 30% of the total fee as trade receivables.

As at 31 December 2019, the Group's contract liabilities amounted to RMB65.9 million (31 December 2018: RMB81.2 million), most of which represented payments from the customers for moulds that had passed their initial inspection but for which the Group had not received their final acceptance reports.

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As at 31 December 2019, the Group had 358 employees (31 December 2018: 351 employees), all of whom were in the PRC. To promote employees' knowledge and technical expertise, the Group offers training programmes to employees from time to time according to their job duties. Employees' remuneration packages are determined with reference to the market information and individual performance and will be reviewed on a regular basis. The remuneration policy will be reviewed by the Board from time to time. In addition to basic remuneration, the Group also makes contributions to mandatory social security funds for the benefit of the PRC employees that provide for pension insurance, medical insurance, unemployment insurance, maternity insurance, occupational injury insurance and housing funds.

The total staff cost including remuneration, other employee benefits and contributions to retirement schemes for the Directors and other staff of the Group for FY2019 amounted to RMB38.3 million (FY2018: RMB31.8 million). The increase in staff cost was mainly due to the increase in headcount and annual salary increment.

MATERIAL ACQUISITIONS AND DISPOSALS

During FY2019, the Group had no acquisitions or disposals of subsidiaries and associated companies.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group had no material contingent liabilities (as at 31 December 2018: nil).

CHARGES OVER GROUP'S ASSETS

As at 31 December 2019, the Group pledged notes receivable of RMB4.0 million as security for the issuance of the Group's notes to its suppliers.

SIGNIFICANT INVESTMENTS HELD

The Group did not have any significant investments held as at 31 December 2019.

FOREIGN CURRENCY EXPOSURE

Since the Group generated most of the revenue and incurred most of the costs in Renminbi for FY2019, there was no significant exposure to foreign exchange rate and the Group did not maintain any hedging policy against foreign exchange risk. The management will consider hedging significant currency exposure should the need arise.

USE OF PROCEEDS

The net proceeds from the Listing (the "**Net Proceeds**"), after deducting the underwriting fees and other related expenses in connection with the Listing, was approximately HK$95.6 million. The Company intends to apply the Net Proceeds in accordance with the proposed application as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

The following table sets out the utilisation of the Net Proceeds as at 31 December 2019:

	Percentage of Net Proceeds	Net Proceeds from the global offering HK$' million	Utilised up to 31 December 2019 HK$' million	Unutilised as at 31 December 2019 HK$' million
Lease the premises for new factory	4.0%	3.8	0.5	3.3
General set up costs of the factory	3.2%	3.1	–	3.1
Purchase new production equipment	76.3%	72.9	3.4	69.5
Purchase softwares	6.5%	6.2	1.0	5.2
Supplement working capital	10.0%	9.6	3.8	5.8
		95.6	8.7	86.9

As the 31 December 2019, the unutilised net proceeds of approximately HK$86.9 million have been placed as interest bearing deposits with a licensed bank in the PRC and are intended to be applied in a manner consistent with the proposed allocations in the Prospectus. The Directors regularly evaluate the Group's business objective and may change or modify plans against the changing market condition to ascertain the business growth of the Group. The Directors currently do not consider any modification of the use of proceeds described in the Prospectus is required.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL PROGRESS

An analysis comparing the business objectives of the Group as set out in the Prospectus with the Group's actual business progress for FY2019 is set out below:

Business objectives	Implementation plans	Actual business progress
Setting up a new factory	— Lease and set up a new factory	— The Group has leased a factory with a gross floor area of approximately 1,800 sq.m. in Kunshan in September 2019.
Expanding the production facilities and capabilities	— Purchase new production equipment	— The Group has utilised an aggregate of HK$3.4 million to acquire two sets of computerised numerical control machines for mould production.
		— The Group is in the course of identifying suitable production equipment and has obtained quotations relating thereto from certain suppliers.
	— Purchase softwares	— The Group has utilised an aggregate of HK$1.0 million to acquire computer softwares for product analysis and mould design.

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Lin Wan-Yi (林萬益), aged 59, is the executive Director, Chairman and chief executive officer of the Company, who founded the Group in January 2002. He is the chairman of the Nomination Committee and a member of the Remuneration Committee of the Board. Mr. Lin was appointed as the Director of the Company on 2 October 2018, and was re-designated as the executive Director, Chairman and chief executive officer of the Company since then. Mr. Lin is also a director of certain subsidiaries of the Company. He is primarily responsible for supervising the operations and planning the business and marketing strategies of the Group. Mr. Lin is the controlling Shareholder of the Company (within the meaning of Part XV of the Securities and Future Ordinance (the "**SFO**")).

Mr. Lin has more than 30 years of experience in moulding industry. From November 1991 to December 2015, he served as a director of Shin Lone Industrial Company Limited (勳龍工業股份有限公司) ("**Shin Lone Taiwan**"). Shin Lone Taiwan was a mould manufacturer in Taiwan until it ceased to operate and was dissolved on 31 December 2015. Shin Lone Taiwan was solvent at the time it was dissolved on 31 December 2015.

Mr. Lin obtained a master degree in business administration from Fudan University in the PRC in January 2016.

Mr. Yung Chia-Pu (雍嘉樸), aged 58, is the executive Director of the Company, who joined the Group in January 2002. Mr. Yung was appointed as the Director of the Company on 15 February 2019, and was re-designated as the executive Director of the Company. Mr. Yung is also a director of certain subsidiaries of the Company. He is primarily responsible for overseeing the overall operation and development of the Group.

Mr. Yung has more than 25 years of experience in the moulding industry. From July 1981 to June 1988, Mr. Yung worked as a technician of the Arsenal of the Taiwan Combined Logistics Command (台灣聯勤兵工廠). From October 1988 to October 1990, Mr. Yung worked as a technician of Jet-Shine Machinery Company Limited (振興機械股份有限公司). From October 1990 to October 1991, Mr. Yung worked as a technician of Shang Ming Machinery Industry Company Limited (上銘機械工業股份有限公司). From November 1991 to December 2015, Mr. Yung worked as a director of Shin Lone Taiwan.

Mr. Yung obtained an associate degree in mechanical engineering from Lee-Ming Institute of Technology (黎明技術學院) in Taiwan in June 1989.

Mr. Cheng Ching-Long (鄭景隆), aged 44, is the executive Director and vice president of operation of the Company, who joined the Group in February 2008. Mr. Cheng was appointed as the Director of the Company on 15 February 2019, and was re-designated as the executive Director of the Company. Mr. Cheng is also a director of certain subsidiaries of the Company. He is primarily responsible for overseeing the daily operations of the Group and planning the overall operation and development of the Group.

Mr. Cheng has more than 14 years of experience in moulding industry. From March 1997 to September 2002, Mr. Cheng worked as a fitter in Titan Mold Corporation (冠譽股份有限公司). From October 2002 to June 2007, Mr. Cheng worked as a factory director of Kunshan Jiateng Photoelectric Plastic Company Limited (昆山佳騰光電塑膠有限公司).

Mr. Cheng obtained a diploma in human resources management from Beijing Institute of Technology (北京理工大學) in the PRC in January 2018.

Biographies of Directors and Senior Management

Mr. Lu Jen-Chieh (盧仁傑), aged 48, is the executive Director of the Company, who joined the Group in June 2015. Mr. Lu was appointed as the Director of the Company on 15 February 2019, and was re-designated as the executive Director of the Company. Mr. Lu is also a director of certain subsidiaries of the Company. He is primarily responsible for overseeing the daily operations of the Group and the operation of CNC machines in the production processes.

Mr. Lu has more than 25 years of experience in moulding industry. From 1993 to 1996, Mr. Lu worked as a technician of Shin Lone Taiwan. From 1996 to 2001, Mr. Lu worked as an engineer of Yang Iron Works Company Limited (楊鐵工廠股份有限公司). From 2002 to 2015, Mr. Lu returned to Shin Lone Taiwan and worked as a technician. He was also responsible for management during that period.

Mr. Lu obtained a diploma in industrial engineering and management from China University of Science and Technology Affiliated Junior College of Continuing Education (中華技術學院附設專科進修學校) in Taiwan in June 2002.

NON-EXECUTIVE DIRECTOR

Ms. Hsieh Pei-Chen (謝佩真), aged 46, was appointed as the Director of the Company on 26 April 2019 and was re-designated as the non-executive Director of the Company. She is primarily responsible for advising on finance, accounting and corporate governance matters of the Group. Ms. Hsieh is a shareholder of Shine Art International Limited ("**Shine Art**") and is regarded as a controlling Shareholder of the Company. Ms. Hsieh is the sister of Mr. Hsieh Chi-Hung, a shareholder of Shine Art and is regarded as a controlling Shareholder of the Company.

Ms. Hsieh has more than 19 years of accounting experience with mould manufacturers. From October 1999 to November 2015, Ms. Hsieh worked as an accounting officer of Shin Lone Taiwan. Since December 2015, Ms. Hsieh has worked as an accounting officer of Hung Shuen Company (鴻順工業股份有限公司).

Ms. Hsieh obtained a diploma in industrial engineering and management (工業工程與管理) from Oriental Institute of Technology (亞東工業專科學校) in Taiwan in June 1994.

Biographies of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. So George Siu Ming (蘇少明), aged 61, was appointed as the independent non-executive Director of the Company on 6 June 2019. He is the chairman of the Audit Committee and a member of the Nomination Committee of the Board. He is primarily responsible for providing independent views on the management of the Group and does not participate in the day-to-day management of the business operations.

Mr. So has more than 35 years of experience in auditing, accounting and finance areas. Mr. So worked in FDG Electric Vehicles Limited (五龍電動車(集團)有限公司) (formerly known as Carico Holdings Limited (中汽資源投資有限公司), Jia Sheng Holdings Limited (嘉盛控股有限公司) and Thunder Sky Battery Limited (中聚雷天電池有限公司)) (stock code: 729), a company listed on the Main Board of the Hong Kong Stock Exchange, as an executive director from May 2007 to June 2010 and held various positions including chief operating officer, chief financial officer and company secretary between May 2007 to August 2010. From December 2011 to July 2013, Mr. So was an independent non-executive director of South China Land Limited (南華置地有限公司), currently known as South China Assets Holdings Limited (南華資產控股有限公司) (stock code: 8155), a company listed on the GEM of the Hong Kong Stock Exchange, during which he held positions including the chairman of the remuneration and nomination committee and a member of the audit committee. From March 2007 to May 2011, Mr. So was employed at Asset Managers (Asia) Company Limited (亞盛(亞洲)有限公司), where he served as chief financial officer from March 2007 to May 2011 and chief operating officer from December 2008 to May 2011.

Mr. So obtained a bachelor degree in arts from the University of Toronto in Canada in June 1983 and a master degree in science from the Chinese University of Hong Kong in December 2005. Mr. So was admitted as a certified public accountant and a fellow of Hong Kong Institute of Certified Public Accountants in July 1993 and December 2005, respectively. Mr. So was also granted the designation of Chartered Professional Accountant by, and admitted as a member of, the Institute of Chartered Accountants of Ontario in November 2012 and April 2014, respectively.

Mr. Lin Lien-Hsing (林連興), aged 50, was appointed as the independent non-executive Director of the Company on 6 June 2019. He is the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Board. He is primarily responsible for providing independent views on the management of the Group and does not participate in the day-to-day management of the business operations.

From August 1996 to September 1999, Mr. Lin was a member of the financial department at Yang Ming Marine Transport Corporation (陽明海運股份有限公司). From September 1999 to February 2008, Mr. Lin was a finance manager of Data Systems Consulting Company Limited (鼎新電腦股份有限公司). From April 2010 to March 2015, Mr. Lin was employed at Digiwin Software Company Limited (鼎捷軟件股份有限公司) (stock code: 300378), a company listed on the Shenzhen Stock Exchange, during which he served the respective roles of secretary of the board of directors, finance manager and director. Mr. Lin was a partner of Strait Capital Investment Group (海峽資本管理顧問股份有限公司) from April 2015 to July 2019 and has served as consultant from August 2019.

Mr. Lin obtained a bachelor degree in management from the National Taiwan University in Taiwan in 1992. Mr. Lin obtained a secretary to board of directors qualification from the Shenzhen Stock Exchange in 2018.

Biographies of Directors and Senior Management

Mr. Fan Chi Chiu (范智超), aged 34, was appointed as the independent non-executive Director of the Company on 6 June 2019. He is a member of the Audit Committee and the Remuneration Committee of the Board. He is primarily responsible for providing independent views on the management of the Group and does not participate in the day-to-day management of the business operations.

Mr. Fan has more than 11 years of working experience in the auditing and financial management industry. From October 2007 to June 2011, he worked at PricewaterhouseCoopers, with his last position as a senior associate. From July 2011 to February 2014, he worked at Barclays Investment Bank, with his last position as analyst. From April 2014 to March 2015, Mr. Fan worked as a finance director at Vantasia Holdings (H.K.) Limited. Mr. Fan has been the chief financial officer of the ELL Environmental Holdings Limited (stock code: 1395), a company listed on the Main Board of the Hong Kong Stock Exchange since April 2015. He has also been an executive director of Grace Wine Holdings Limited (stock code: 8146), a company listed on the GEM of the Hong Kong Stock Exchange, since July 2017 and an independent non-executive director of Hevol Service Group Co. Limited (stock code: 6093), a company listed on the Main Board of the Hong Kong Stock Exchange, since June 2019.

Mr. Fan obtained a bachelor degree in professional accountancy from the Chinese University of Hong Kong in Hong Kong in December 2007. Mr. Fan is a member of the Hong Kong Institute of Certified Public Accountants.

SENIOR MANAGEMENT

Mr. Lin Wan-Yi (林萬益) is the chief executive officer of the Company. For the biographies of Mr. Lin, please see the sub-section "Biographies of Directors and Senior Management — Executive Directors" above.

Mr. Cheng Ching-Long (鄭景隆) is the vice president of operation of the Company. For the biographies of Mr. Cheng, please see the sub-section "Biographies of Directors and Senior Management — Executive Directors" above.

Mr. Lu Jen-Chieh (盧仁傑) is the equipment and technical vice president of the CNC department of the production management centre of the Company. For the biographies of Mr. Lu, please see the sub-section "Biographies of Directors and Senior Management — Executive Directors" above.

Mr. Chen Ming-Chih (陳明志), aged 37, is the chief technology officer of the Company, who joined the Group in March 2017. He is primarily responsible for supervising the daily operations, research and development.

Mr. Chen has more than 11 years of experience in the moulding industry. Prior to joining the Group, from January to June 2007, Mr. Chen was the mould engineer of Lee Chi Enterprises Co. Ltd. (利奇機械工業股份有限公司) (TPE: 1517), a company listed on the Taiwan Stock Exchange. From September 2010 to March 2016, Mr. Chen was the engineer, assistant manager and manager of the department of technology of Shanghai Kunyi Precise Metal Molding Products Company Limited (上海坤億精密金屬成型製品有限公司). From June 2016 to March 2017, Mr. Chen was the automobile parts technology manager of Aritex Products Company Limited (緯航企業有限公司).

Mr. Chen obtained a master degree in mechanical engineering from National Taiwan University (國立臺灣大學) in Taiwan in June 2010.

Ms. Liu Huaping (劉華平), aged 40, was appointed as the chief financial officer of the Company in January 2019. She is primarily responsible for supervising the financial management and accounting of the Group.

Ms. Liu has over nine years of experience in the listing procedures particularly reorganisation, internal control, taxation and finance for A-share companies. From September 2009 to December 2018, Ms. Liu was a consultant of Fulagai Accounting (Shanghai) Company Limited (上海富拉凱會計師事務所有限公司).

Ms. Liu obtained a diploma in finance from Henan College of Finance and Taxation (河南財政稅務高等專科學校) in July 1999. Ms. Liu obtained a bachelor degree in management and a diploma in accounting from Henan College of Finance (河南財經學院) in the PRC in June 2006.

Ms. Liu obtained the qualification for medium level accounting approved and issued by Ministry of Personnel of the People's Republic of China (中華人民共和國人事部) in May 2005. Ms. Liu was approved and authorised as a Registered Tax Agent by the Ministry of Human Resources and Social Security of the People's Republic of China (中華人民共和國人力資源和社會保障部) in June 2008. Ms. Liu obtained qualification for fundamental knowledge of financial market and fundamental regulations for securities market from Securities Association of China (中國證券業協會) in February 2017. Ms. Liu has been registered as a certified public accountant by the Ministry of Finance of the People's Republic of China (中華人民共和國財政部) since May 2010.

JOINT COMPANY SECRETARIES

Ms. Shen Xuejuan (沈雪娟), aged 41, is one of the joint company secretaries of the Company, who joined the Group in March 2014. Ms. Shen was appointed as the joint company secretaries of the Company in February 2019. Ms. Shen has more than 18 years of experience in operation and secretarial matters. Prior to joining the Group, from the period of June 2001 to April 2003, Ms. Shen was responsible for procurement at the PRC office of PAK 2000. From April 2004 to June 2006, Ms. Shen was a sales assistant of Kunshan New China Biotech Company Limited (昆山新華聯合生物科技有限公司). From December 2006 to May 2013, Ms. Shen was an operation officer of Solid-State (Kunshan) Precision Industries Company Limited (碩利特(昆山)精密工業有限公司). From June 2013 to January 2014, Ms. Shen was a clerk at Kunshan Henry Metal Technology Company Limited (昆山亨利金屬科技有限公司).

Ms. Shen obtained a diploma in public relation and secretary from Huainan United University (淮南聯合大學) in the PRC in July 2001. Ms. Shen also obtained a secretary to board of directors qualification from the Shanghai Stock Exchange in May 2016.

Ms. Lam Nim Chi (林念慈), aged 29, was appointed as one of the joint company secretaries of the Company on 28 August 2019. She is mainly responsible for compliance matters in relation to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "**Listing Rules**") as well as other Hong Kong regulatory requirements. Ms. Lam has seven years of experience in the corporate secretarial field. Ms. Lam has been employed by Tricor Services Limited, a global professional services provider specialising in integrated business, corporate and investor services, since 4 July 2012, and her current position is a manager in corporate services.

Ms. Lam obtained a bachelor degree in business administration from City University of Hong Kong (香港城市大學) on 16 July 2012. Ms. Lam has been registered as a chartered secretary, and an associate member of both the Hong Kong Institute of Chartered Secretaries and the Chartered Governance Institute (formerly 'the Institute of Chartered Secretaries and Administrators') in the United Kingdom since 30 November 2015.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Shares have been listed on the Hong Kong Stock Exchange since 28 June 2019. The Board is committed to maintaining high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of Shareholders of the Company, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the principles and code provisions of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Listing Rules as the basis of the Company's corporate governance practices.

The Board is of the view that, since the Listing and up to the date of this report, the Company has complied with all the code provisions as set out in the CG Code, except for code provision A.2.1 as set out below and number of board meetings held during the year as set out in the paragraph headed "Board Meetings and Directors' Attendance Records" in this Corporate Governance Report.

Pursuant to code provision A.2.1 of the CG Code, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, the Group does not have a separate chairman and chief executive officer and Mr. Lin Wan-Yi currently performs these two roles. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman of the Board and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

The Company has also put in place certain recommended best practices as set out in the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND EMPLOYEES

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.

Specific enquiry has been made of all the Directors and they have confirmed that they have complied with the Model Code since the Listing and up to the date of this report.

The Company has also adopted Model Code for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Model Code by the employees was noted by the Company since the Listing and up to the date of this report.

Corporate Governance Report

BOARD OF DIRECTORS

The Company is headed by an effective Board which oversees the Group's businesses, strategic decisions and performance and takes decisions objectively in the best interests of the Company.

The Board regularly reviews the contribution required from a Director to perform his/her responsibilities to the Company, and whether the Director is spending sufficient time performing them.

Board Composition

The Board currently comprises the following Directors:

Executive Directors

Mr. Lin Wan-Yi *(chairman and chief executive officer)*
Mr. Yung Chia-Pu
Mr. Cheng Ching-Long
Mr. Lu Jen-Chieh

Non-executive Director

Ms. Hsieh Pei-Chen

Independent Non-executive Directors

Mr. So George Siu Ming
Mr. Lin Lien-Hsing
Mr. Fan Chi Chiu

The biographical details of each Director are set out in the section headed "Biographies of Directors and Senior Management" on pages 16 to 20 of this annual report. The Directors have no financial, business, family or other material/relevant relationship with each other.

Board Meetings and Directors' Attendance Records

Pursuant to code provision A.1.1 of the CG Code, regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, of a majority of Directors. As the Company was listed on 28 June 2019, only 2 Board meetings were held since the Listing to 31 December 2019.

Directors may participate in meetings either in person or through electronic means of communication. All Directors are given not less than fourteen days' notice for regular Board meetings. For other Board and Board committee meetings, reasonable notice will be given.

The joint company secretaries of the Company (the "**Joint Company Secretaries**") assist the chairman in preparing the agenda of regular Board meetings and circulate the draft Board meeting agenda to all Directors for their perusal and comment. Directors are invited to include any matters in the agenda which they think appropriate. The Board meeting agenda will be issued by the Joint Company Secretaries after incorporating all the comments of Directors (if any). Relevant meeting materials are provided to the Directors at least three days before the meetings to ensure that they are given sufficient review time and are adequately prepared for the meetings.

The minutes of the Board meetings and Board committees meetings are drafted and kept by the Joint Company Secretaries. All meeting minutes will set out in detail the matters discussed and considered at the meetings, including, among others, any queries made or views expressed by the Directors. The Joint Company Secretaries will distribute the draft meeting minutes to all Directors for their comment and final version of the meeting minutes to all Directors for their record within reasonable time after holding of the meetings.

A summary of the attendance records of the Directors at the Board meetings held is set out below:

Name of Directors	Attendance
Executive Directors	
Mr. Lin Wan-Yi	2/2
Mr. Yung Chia-Pu	2/2
Mr. Cheng Ching-Long	2/2
Mr. Lu Jen-Chieh	2/2
Non-executive Director	
Ms. Hsieh Pei-Chen	2/2
Independent Non-executive Directors	
Mr. So George Siu Ming	2/2
Mr. Lin Lien-Hsing	2/2
Mr. Fan Chi Chiu	2/2

Apart from regular Board meetings, the Chairman also held one meeting with the independent non-executive Directors without the presence of other Directors since the Listing to 31 December 2019.

No general meeting of the Company was held from the Listing to 31 December 2019.

Chairman and Chief Executive Officer

The chairman and chief executive officer of the Company are held by Mr. Lin Wan-Yi who is the founder of the Company and has extensive experience in the industry.

The chairman provides leadership for the Board and ensures the effectiveness of the Board in fulfilling its roles and responsibilities and the establishment of sound corporate governance practices and procedures for the Company. The chairman is also responsible for formulating the overall strategies and policies of the Company and monitoring their implementation. Meanwhile, the chairman, acting as chief executive officer, shall be delegated the authority by the Board to lead the senior management of the Company for the daily operation and business management of the Group in accordance with the objectives, directions, and risk management and internal control policies laid down by the Board.

The Board believes that Mr. Lin Wan-Yi can provide the Company with strong and consistent leadership that allows for effective and efficient planning and implementation of business decisions and strategies/vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management.

Independent Non-executive Directors

Independent non-executive Directors play a significant role in the Board by virtue of their independent judgement and their views carry significant weight in the Board's decisions. They are experienced professionals in areas such as financial accounting and financial management. Their extensive experiences significantly contribute to enhancing the decision-making of the Board and achieving a sustainable and balanced development of the Group. In particular, they bring impartial views and opinions on issues of the Company's strategy, performance and control, and take the lead in solution where potential conflicts of interests arise. The Board believes that its culture of openness and debate facilitates the effective contribution of executive Directors, non-executive Director and independent non-executive Directors in particular, to the Board and ensures constructive relationship among executive Directors, non-executive Director and independent non-executive Directors.

During the period from the Listing to 31 December 2019, the Board has met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors, representing one-third of the Board, with at least one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Appointment and Re-election of Directors

The executive Directors and non-executive Director have entered into service agreements with the Company for a fixed term of three years commencing from the Listing subject to termination in certain circumstances as stipulated in the relevant service agreements or by not less than three months' (for executive Directors) and one month's (for non-executive Director) notice in writing sent by either party to the other. Each of the independent non-executive Directors has accepted his appointment with the Company with an initial term of three years commencing from the Listing subject to termination in certain circumstances as stipulated in the relevant letters of appointment.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association and the nomination policy of the Company. The Nomination Committee is responsible for reviewing the Board composition, assessing the independence of independent non-executive Directors and making recommendations to the Board on the appointment or re-election of Directors and succession planning for Directors.

All Directors are subject to retirement by rotation and re-election at the annual general meetings. Under the Articles of Association of the Company, at each annual general meeting, one-third of the Directors for the time being, or if their number is not three of a multiple of three, the number nearest to but not less than one-third shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. The Company's Articles of Association also provides that all Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment. The retiring Directors shall be eligible for re-election.

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

All Directors have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

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

The Directors have disclosed to the Company details of other offices held by them.

Corporate Governance Report

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

Continuous Professional Development of Directors

Directors have kept abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director has received a formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors have participated in appropriate continuous professional development to develop and refresh their knowledge and skills. During the year ended 31 December 2019, the Company organised training sessions conducted by the qualified professionals/legal advisers for all Directors. The training sessions covered a wide range of relevant topics including directors' duties and responsibilities, corporate governance and regulatory updates. In addition, relevant reading materials including compliance manual/legal and regulatory updates/seminar handouts have been provided to the Directors for their reference and studying.

The training records of the Directors for the year ended 31 December 2019 are summarised as follows:

Directors	Type of Training Note
Executive Directors	
Mr. Lin Wan-Yi	A and B
Mr. Yung Chia-Pu	A and B
Mr. Cheng Ching-Long	A and B
Mr. Lu Jen-Chieh	A and B
Non-executive Director	
Ms. Hsieh Pei-Chen	A and B
Independent Non-executive Directors	
Mr. So George Siu Ming	A and B
Mr. Lin Lien-Hsing	A and B
Mr. Fan Chi Chiu	A and B

Notes:

A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops

B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee (collectively, the "**Board Committees**"). All Board Committees are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of each of the Board Committees are posted on the Company's website and the Hong Kong Stock Exchange's website and are available to Shareholders upon request.

The list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

Audit Committee

The Audit Committee consists of three independent non-executive Directors, namely Mr. So George Siu Ming, Mr. Lin Lien-Hsing and Mr. Fan Chi Chiu. Mr. So George Siu Ming is the chairman of the Audit Committee.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code.

The main duties of the Audit Committee are to (i) make recommendations to the Board on the appointment, re-appointment and dismissal of the external auditor; (ii) review the financial information of the Company; (iii) oversee the Company's financial reporting system, risk management and internal control system; (iv) establish a whistleblowing policy and system for employees and those who deal with the Company or its subsidiaries to raise concerns.

As the Company was listed on 28 June 2019, since the Listing to 31 December 2019, the Audit Committee held 1 meeting. A summary of work of the Audit Committee during the year is set out below:

— reviewed the interim financial results and reports and significant issues on the financial reporting;

— reviewed the operational and compliance controls, and the effectiveness of the risk management and internal control systems;

— monitored the external auditor's independence and objectivity, and effectiveness of the audit process in accordance with applicable standard, and discussed with the independent auditor before the audit commenced, the nature and scope of the audit and the reporting obligation contained in them;

— provided recommendations to the Board for the proposal for re-appointment of the external auditor and approval of the remuneration and terms of engagement of the external auditor;

— established procedures for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditor once without the presence of the executive Directors since the Listing to 31 December 2019 to discuss matters relating to its audit fees, any issue arising from the audit and any other matters the auditor may wish to raise. The Board has not taken any different view from that of the Audit Committee regarding the re-appointment of the external auditor.

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

Name of Members of the Audit Committee	Attendance
Mr. So George Siu Ming *(Committee chairman)*	1/1
Mr. Lin Lien-Hsing	1/1
Mr. Fan Chi Chiu	1/1

Remuneration Committee

The Remuneration Committee consists of three members, namely Mr. Lin Lien-Hsing, Mr. Lin Wan-Yi and Mr. Fan Chi Chiu. Mr. Lin Lien-Hsing is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code.

The main duties of the Remuneration Committee are to (i) make recommendations to the Board on the overall remuneration policy and the structure for all Directors and senior management of the Group; (ii) make recommendations to the Board on the remuneration packages of individual executive Directors and senior management of the Group; (iii) review performance-based remuneration; and (iv) ensure that no Directors or any of their associates are involved in deciding their own remuneration.

The Company has adopted a share option scheme as an incentive to eligible persons, details are set out in the paragraph "Share Option Scheme" under the section "Report of the Directors" in this annual report.

As the Company was listed on 28 June 2019, since the Listing to 31 December 2019, the Remuneration Committee held one meeting to consider the relevant matters regarding/to review and make recommendation to the Board on the remuneration policy and the remuneration packages of the Directors and senior management.

The Group's remuneration policy is structured to attract and retain high quality staff and to enable smooth operation. The Group offered competitive remuneration packages which considered factors such as corporate result, individual capability and performance, salaries paid by comparable companies, time commitment, responsibilities and employment conditions. The remuneration packages are subject to review on a regular basis. Details of the remuneration of the senior management by band are set out in Note 8 to the Financial Statements for the year ended 31 December 2019.

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

Name of Members of the Remuneration Committee	Attendance
Mr. Lin Lien-Hsing *(Committee chairman)*	1/1
Mr. Lin Wan-Yi	1/1
Mr. Fan Chi Chiu	1/1

Nomination Committee

The Nomination Committee consists of three members, namely Mr. Lin Wan-Yi, Mr. So George Siu Ming and Mr. Lin Lien-Hsing. Mr. Lin Wan-Yi is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code.

The main duties of the Nomination Committee are to (i) review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations to the Board on any proposed changes to the Board to complement the Company's corporate strategy; (ii) identify individuals suitably qualified as potential Directors and select or make recommendations to the Board on the selection of individuals nominated for directorships; (iii) assess the independence of independent non-executive Directors; and (iv) make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular that of the chairman and the chief executive officer.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy as stated below. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Director Nomination Policy as stated below that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

As the Company was listed on 28 June 2019, since the Listing to 31 December 2019, the Nomination Committee held one meeting to review the structure, size and composition of the Board and the independence of the independent non-executive Directors. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

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

Name of Members of the Nomination Committee	Attendance
Mr. Lin Wan-Yi *(Committee chairman)*	1/1
Mr. So George Siu Ming	1/1
Mr. Lin Lien-Hsing	1/1

Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board. The Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee of the Board is committed to diversity at all levels and will consider a number of aspects, including but not limited to knowledge, skills, professional experience, gender, age, cultural and educational background, ethnicity, length of service and any other factors that the Board may consider appropriate from time to time taking into account the Company's business model and specific needs.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

At present, the Nomination Committee considered that the Board is sufficiently diverse. The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Board.

The Company has adopted a Director Nomination Policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- whether the individual's educational background and qualification, skills and experience are relevant to the Company's business model and specific needs;
- the individual's character and reputation for integrity;
- whether the individual would be able to devote sufficient time to the Board;
- (in respect of appointment and re-appointment of independent non-executive Directors) independence of the individual with reference to the independence criteria set out in Rule 3.13 of the Listing Rules;
- how the individual would be able to contribute to the diversity of the Board with reference to the factors set out in the Board Diversity Policy of the Company from time to time in force; and
- Board succession planning considerations.

The Nomination Committee of the Board will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

During the year, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

Apart from regular Board meetings, the Chairman also held meetings with the independent non-executive Directors without the presence of other Directors since the Listing to 31 December 2019.

RISK MANAGEMENT AND INTERNAL CONTROLS

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

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee of the Board assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions, including project management, sales, financial reporting, human resources and information technology.

The Company's risk management and internal control systems have been developed with the following principles, features and processes:

The Board will cautiously review any material risk related to significant business decisions before making or approving such decisions.

Each department head and senior management of the Group monitor daily operations and any associated operational risks of the Group. They are also responsible for identifying and assessing potential market risks related to changes in macroeconomic environment and movements in market variables and report irregularities in connection with operational and market risks to the executive Directors for formulating policies to mitigate these risks.

The financial management center will closely monitor and track the ageing of trade receivables, and regularly update the status of outstanding/unpaid payments due to the Group to ensure that timely and necessary measures are taken to recover outstanding receivables.

The Internal Audit Department is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The Internal Audit Department examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee.

The Board, through the Audit Committee, has continuously monitored and annually reviewed the adequacy and effectiveness of the Group's risk management and internal control systems.

The Group has appointed Ballas Capital Limited as compliance adviser of the Company in compliance with the Listing Rules and appointed a PRC legal adviser to advise us on PRC laws and regulations related to the Group's business operations.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2019.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls and considered that such systems for the year ended 31 December 2019 are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

Whistleblowing procedures are in place to facilitate employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorised access and use of inside information are strictly prohibited.

DISCLOSURE OF INSIDE INFORMATION

The Group acknowledges its responsibilities under the SFO and the Listing Rules and the overriding principle that inside information should be announced immediately when it is the subject of a decision. The procedures and internal controls for the handling and dissemination of inside information are as follows:

— the Group conducts its affairs with close regard to the disclosure requirement under the Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Futures Commission of Hong Kong in June 2012;

— the Group has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and its website;

— the Group has strictly prohibited unauthorised use of confidential or inside information; and

— the Group has established and implemented procedures for responding to external enquiries about the Group's affairs, so that only the executive Directors, the Joint Company Secretaries and investor relations officers are authorised to communicate with parties outside the Group.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2019.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 52 to 56.

AUDITOR'S REMUNERATION

The remuneration paid to the external auditor of the Company in respect of audit services and non-audit services for the year ended 31 December 2019 amounted to RMB2.7 million and RMB0.2 million, respectively. An analysis of the remuneration paid to the external auditor of the Company, Ernst & Young, in respect of audit services and non-audit services for the year ended 31 December 2019 is set out below:

Service Category	**Amount** (RMB'000)
Audit Services	
— Annual audit	1,419
— Audit for the Listing	1,321
Non-audit Services	
— Internal control evaluation service	85
— Others	66
Total	2,891

JOINT COMPANY SECRETARIES

Ms. Shen Xuejuan ("**Ms. Shen**") and Ms. Lam Nim Chi ("**Ms. Lam**") have been appointed as the Joint Company Secretaries. The biographical details of the Ms. Shen and Ms. Lam are set out in the section headed "Biographies of Directors and Senior Management" of this annual report.

Ms. Lam was appointed as a joint company secretary of the Company with effect from 28 August 2019 in replace of Mr. Sit Man Pan who resigned on the same day. Ms. Lam has been nominated by Tricor Services Limited under an engagement made between the Company and Tricor Services Limited.

All Directors have access to the advice and services of the joint company secretaries on corporate governance and board practices and matters. Ms. Shen has been designated as the primary contact person at the Company which would work and communicate with Ms. Lam on the Company's corporate governance and secretarial and administrative matters.

For the year ended 31 December 2019, Ms. Shen and Ms. Lam have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

The Company engages with Shareholders through various communication channels.

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

Convening an Extraordinary General Meeting and Putting Forward Proposals at General Meetings

Pursuant to Article 58 of the Company's Articles of Association, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

To put forward proposals at a general meeting of the Company, a Shareholder should lodge a written notice of his/her proposal with his/her detailed contact information at the Company's principal place of business in Hong Kong.

The request will be verified with the Company's branch share registrar in Hong Kong and upon their confirmation that the request is proper and in order, the Board will be asked to include the proposal in the agenda for the general meeting.

Putting Forward Enquiries to the Board

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

Shareholders may also make enquiries to the Board at the general meeting of the Company. In addition, Shareholders can contact Tricor Investor Services Limited, the branch share registrar of the Company in Hong Kong, if they have any enquiries about their shareholdings and entitlements to dividend.

Contact Details

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

Address: 2 Middle Yangguang Road, Zhangpu Town, Kunshan City, Jiangsu Province, the PRC
(For the attention of the Company Secretary)

Telephone: (+86) 512-3683 2657

Email: sophia@shinlone.com.cn

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

INVESTOR RELATIONS

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

During the year ended 31 December 2019, the Company has amended its Articles of Association. A copy of the Company's Articles of Association is also available on the Company's website and the Hong Kong Stock Exchange's website.

Policies relating to Shareholders

The Company has in place a Shareholders' Communication Policy to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

The Company has adopted its dividend policy, pursuant to which the Company plans to pay a total dividend in respect of each year of not less than 40% of the consolidated profit attributable to Shareholders for the year ending 31 December 2020 and the years thereafter. When proposing a dividend, the Company will take into account, among other things, the future operations and earnings, the business development, capital requirements and surplus, general financial conditions, contractual restrictions and such other factors as the Directors consider appropriate. There is no requirement or assurance that the Company will declare and pay any dividends. Any declaration and payment as well as the amount of dividends will be subject to the Articles of Association and the Cayman Companies Law. Any declaration of final dividends will also require the approval of the Shareholders in general meeting. No dividend shall be declared or paid except out of the distributable profit and lawfully available for distribution under the Cayman Companies Law.

Report of the Directors

The Board of Shinelong Automotive Lightweight Application Limited presents their report together with the audited financial statements of the Group for the year ended 31 December 2019.

GENERAL INFORMATION

The Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 2 October 2018. The principal place of business of the Company in the PRC is located at 2 Middle Yangguang Road, Zhangpu Town, Kunshan City, Jiangsu Province, the PRC. The principal place of business of the Company in Hong Kong is located at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

The Company's Shares were listed on the Main Board of the Hong Kong Stock Exchange on 28 June 2019.

PRINCIPAL ACTIVITIES

The Group is a developer and major supplier of customised moulds in the PRC, with a focus on moulds for the production of automotive parts which cater for the growing trend of automotive lightweight application, as well as electrical appliance parts.

GEOGRAPHICAL ANALYSIS OF OPERATIONS

An analysis of the Group's revenue from operations by geographical locations of customers for the year ended 31 December 2019 is set out in Note 4 to the Financial Statements.

FINANCIAL RESULTS

The results of the Group for the year ended 31 December 2019 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income of this annual report.

BUSINESS REVIEW

The business review of the Group during the year and a discussion of the Group's future business development are set out in the section headed "Chairman's Statement" on pages 6 to 7 of this annual report. An analysis of the Group's performance during 2019 based on the financial key performance indicators is set out in the section headed "Four-Year Financial Summary" on pages 130 of this annual report.

Major Risks and Uncertainties

There are certain risks and uncertainties involved in the Group's operations, some of which are beyond the Directors' control. Save as disclosed in Note 33 to the Financial Statements of this annual report, the major risks and uncertainties the Group faces during the year are set out below:

(i) the Group derives a significant portion of the revenue from its top five customers and any decrease or termination of the sales to any one of them may have a material adverse effect on the business and financial condition of the Group;

(ii) the Group does not enter into long-term purchase contracts with its customers, and any disruption of the business relationships with its customers or fluctuations in their demand for the Group's products may have material adverse effect on the business, results of operations, financial condition and prospects of the Group;

(iii) the financial performance may be affected by fluctuations in raw material prices, as the Group may not always be able to pass on the increase in raw material costs to its customers;

(iv) the long examination period of the moulds by the Group's customers may affect the revenue recognition, cash flow position, and results of the operation, and may cause material fluctuation in the revenue in the future;

(v) the Group is exposed to risks of obsolete and slow-moving inventory which may adversely impact the cash flow and liquidity;

(vi) the Group is exposed to credit risk of its customers;

(vii) any labour shortages, increased labour costs or other factors affecting labour supply for the production could adversely affect the business, financial condition, results of operations and prospects of the Group;

(viii) if the Group is unable to adequately protect its proprietary technology and intellectual property rights, the business may be materially and adversely affected;

(ix) if the Group fails to respond to technological changes in a timely manner, the Group may not be able to effectively compete with its competitors;

(x) unsatisfactory performance of, or defects in, the Group's products may give rise to liability claim and additional expenses, damage to the reputation and decline in the sales of the Group;

(xi) the Group may not be able to implement the business strategies and future plans successfully, which may have a material adverse effect on the profitability and prospects;

(xii) there is no assurance that the Group will be able to continue to enjoy certain preferential enterprise income tax rates when the current preferential tax qualifications expire;

(xiii) the Group's business, operation and group structure may be affected by changes to regulatory requirements in China.

To properly manage these risks, the Group has established the following risk management structures and measures:

— the Board of Directors is responsible and has the general power to manage the direction of the Company, and is in charge of the overall risk control of the Group. Any significant business decision involving material risks, such as decisions to expand into new businesses or geographic regions or construction of facilities are reviewed, analysed and approved by the Board of Directors to ensure a thorough examination of the associated risks at the Group's highest corporate governance body; and

— the Group maintains insurance coverage which is believed to be in line with the customary practice in the PRC moulding industry.

The above is not an exhaustive list. For further details of risk management and internal control of the Group, please refer to the section headed "Risk Management and Internal Control" on pages 32 to 33 in this annual report. Investors are advised to make their own judgment or consult their own investment advisors before making any investment in the Shares.

ENVIRONMENTAL, HEALTH AND SAFETY AND COMPLIANCE WITH LAWS AND REGULATIONS

The Group's business is subject to certain health, work safety, social and environmental laws and regulations in the PRC. Ms. Shen Xuejuan, one of the Joint Company Secretaries, is responsible for monitoring compliance with legal and regulatory requirements and the internal standards in respect of such matters. The Group believes that sustainable development is crucial to the development of a corporate and actively implements the concept of sustainable development at every level of the operation so as to create a better future for the community and the corporate. The Company will issue separately an Environmental, Social and Governance Report under the Environmental, Social and Governance Reporting Guide as specified in Appendix 27 of the Listing Rules.

During the year, the Group has not been subject to any material claim or penalty in relation to health, work safety, social and environmental protection and has not encountered any fatal accidents involving the Group's employees or products.

So far as the Board and the Company's management are aware of, the Group is in compliance with the relevant laws and regulations that have a significant impact on the Group's businesses and operations in all material aspects. There was no material violation of or non-compliance with applicable laws and regulations by the Group during the year.

RELATIONSHIP WITH KEY STAKEHOLDERS

Employees

The Group believes that employees are valuable assets. Training and retaining good employees are always at top priorities. Besides on-the-job trainings and funding for continuous learning, the Group provides a competitive remuneration package to attract and motivate employees. The Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market standard. The Group is also passionately committed to developing staff and provides employees with rewarding career paths and a friendly working environment.

Customers

Keeping strong relationship with the customers is critical to maintain the competitiveness of the Group. The Group enhances the relationship by continuous interaction with customers to gain insight on the changing market demand for the Group's products and services so that the Group can respond proactively. The Group has also established procedures in place for handling customers' complaints to ensure customers' complaints are dealt with in a prompt and timely manner. In addition, the Group engages in market research and business development activities by attending product exhibitions and industry conferences from time to time to exploring market trends and discovering business opportunities with potential customers.

Suppliers

The Group maintains a list of approved suppliers and sub-contractors which are selected based on a number of factors including their product quality, price and ability to accommodate the production schedule. Some of the customers may require the Group to purchase particular raw materials that are only supplied by particular suppliers. In procuring raw materials, the Group usually obtains quotations from three approved suppliers and makes the decision on suppliers according to their product quality, price, delivery time, reputation and the customers' specifications. To ensure quality and timely delivery, the Group reinforces business partnerships with suppliers and sub-contractors by ongoing communication in a proactive and effective manner.

DIVIDEND

The Board recommends the payment of Final Dividend of RMB0.562 cents per share, amounting to a total of RMB3.7 million, for the year ended 31 December 2019. The proposed Final Dividend is subject to the approval of the Shareholders at the 2019 AGM to be held on Friday, 29 May 2020 and is expected to be payable by cash on Friday, 17 July 2020.

CLOSURE OF REGISTER OF MEMBERS FOR THE 2019 AGM

The 2019 AGM will be held on Friday, 29 May 2020 and for the purpose of determining the Shareholders' eligibility to attend and vote at the 2019 AGM, the register of members of the Company will be closed from Tuesday, 26 May 2020 to Friday, 29 May 2020, both days inclusive, during the period no transfer of the shares will be registered. To qualify for attending and voting at the 2019 AGM, all properly completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 25 May 2020. Shareholders whose names appear on the register of member of the Company on Friday, 29 May 2020 will be entitled to attend and vote at the 2019 AGM.

CLOSURE OF REGISTER OF MEMBERS FOR THE ENTITLEMENT OF FINAL DIVIDEND

Upon obtaining approval of the Shareholders at the forthcoming 2019 AGM, for the purpose of determining the Shareholders' entitlement to the Final Dividend, the register of members of the Company will be closed from Thursday, 4 June 2020 to Friday, 5 June 2020, both days inclusive, during the period no transfer of the shares will be registered. To qualify for the proposed Final Dividend, all properly completed share transfer forms together with the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 3 June 2020. Shareholders whose names appear on the register of members of the Company on Friday, 5 June 2020 will be entitled to receive the Final Dividend (subject to the approval by the Shareholders at the 2019 AGM).

DONATION

Charitable and other donations made by the Group during the year amounted to RMB50,000 (2018: RMB50,000).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2019 are set out in Note 13 to the Financial Statements.

SHARE CAPITAL

The Company issued 165,000,000 new Shares at the issue price of HK$0.88 per Share in connection with the Listing. The net proceeds, after deducting the underwriting fees, commissions and expenses payable by the Company in connection with the Listing, amounted to approximately HK$95.6 million. For details of the utilisation of the Net Proceeds as at 31 December 2019, please refer to the section headed "Use of Proceeds" in this annual report.

Further details of movements in the share capital of the Company during the year ended 31 December 2019 are set out in Note 26 to the Financial Statements.

RESERVES AND DISTRIBUTABLE RESERVES

Details of the movements in the reserves of the Company and of the Group for the year ended 31 December 2019 are set out in the Consolidated Statement of Changes in Equity on pages 60 to 61 of this annual report and Note 27 and Note 35 to the Financial Statements.

As of 31 December 2019, the Company's aggregate amount of reserve available for distribution to Shareholders amounted to RMB216.2 million.

EQUITY LINKED AGREEMENTS

No equity linked agreements were entered into by the Company during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or applicable laws of the Cayman Islands where the Company is incorporated.

FOUR-YEAR FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the most recent four years is set out in the section headed "Four-Year Financial Summary" on page 130 of this annual report.

TAX RELIEF AND EXEMPTION OF HOLDER OF LISTED SECURITIES

The Company is not aware of any tax relief or exemption available to Shareholders by reason of their holding of the Company's securities.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's Shares since the period commencing from the Listing and up to the date of this annual report.

SHARE OPTION SCHEME

The Company has conditionally adopted the share option scheme on 6 June 2019 (the "**Share Option Scheme**"). The following is a summary of the principal terms of the Share Option Scheme:

(i) Purpose of the scheme

The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group.

(ii) Who may join

(a) any employee of the Company, any of the subsidiaries or any entity ("**Invested Entity**") in which any member of the Group holds an equity interest;

(b) any non-executive directors (including independent non-executive directors) of the Company, any of the subsidiaries or any Invested Entity;

(c) any supplier of goods or services to any member of the Group or any Invested Entity;

(d) any customer of any member of the Group or any Invested Entity;

(e) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity;

(f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

(g) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity;

(h) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group.

(iii) Maximum number of the Shares

(a) The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 30% of the share capital of the Company in issue from time to time;

(b) The total number of the Shares which may be allotted and issued upon the exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of the Group) to be granted under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the Shares in issue (i.e. not exceeding 66,000,000 Shares) on the date of the Listing.

(iv) Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon the exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the number of Shares in issue for the time being.

(v) Grant of options to the Directors, chief executive or Substantial Shareholders of the Company or their respective associates

Any grant of options under the Share Option Scheme to a Director, chief executive or Substantial Shareholder of the Company or any of their respective associates must be approved by independent non-executive Directors (excluding the independent non-executive Director who or whose associates is the proposed grantee of the options).

Any change in the terms of options granted to a substantial shareholder or an independent non-executive Director of the Company or any of their respective associates must be approved by the Shareholders in general meeting. The grantee, his associates and all core connected persons of the Company must abstain from voting in favour at such general meeting.

(vi) Time of acceptance and exercise of option

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence from the date of the offer for the grant of options is made, but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer for the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

(vii) Performance targets

Unless the Directors otherwise determined and stated in the offer for the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

(viii) Subscription price for the Shares and consideration for the option

The subscription price for the Shares under the Share Option Scheme shall be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Hong Kong Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of Shares as stated in the Hong Kong Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a Share. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

(ix) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

During the period between the Listing and 31 December 2019, no share options have been granted, exercised or cancelled by the Company under the Share Option Scheme.

DIRECTORS

The Directors during the year and up to the date of this report are:

Executive Directors

Mr. Lin Wan-Yi *(Chairman)*
Mr. Yung Chia-Pu
Mr. Cheng Ching-Long
Mr. Lu Jen-Chieh

Non-executive Director

Ms. Hsieh Pei-Chen

Independent Non-executive Directors

Mr. So George Siu Ming
Mr. Lin Lien-Hsing
Mr. Fan Chi Chiu

In accordance with the Company's Articles of Association, all Directors will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Biographical details of Directors and senior management are set out on pages 16 to 20 of this annual report.

INDEPENDENCE CONFIRMATION

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors and non-executive Director has entered into a service contract with the Company for a fixed term of three years commencing from the Listing. Either the Company or the Director has the right to give the other party not less than three months (for executive Directors) and one month (for non-executive Director) prior written notice to terminate the agreement. It is also subject to termination in certain circumstances as stipulated in the relevant service agreements.

Each of the independent non-executive Directors has signed a letter of appointment with the Company with an initial term of three years commencing from the Listing subject to termination in certain circumstances as stipulated in the relevant letters of appointment.

None of the Directors proposed for re-election at the forthcoming annual general meeting has entered into any service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE COMPANY'S BUSINESS

Save as disclosed in Note 8 to the Financial Statements, neither Director nor any entity connected with any of the Directors had a material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party as at 31 December 2019 or at any time during the year ended 31 December 2019.

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the year, so far as the Directors are aware, none of the Directors and controlling Shareholders, neither themselves nor their respective close associates, had held any position or had interests in any businesses or companies that were materially competing or might materially compete with the business of the Group, or gave rise to any concern regarding conflict of interest.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATION

As at 31 December 2019, the interests or short positions of the Directors of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO, which (i) were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be recorded in the register therein; or (iii) were required to be notified to the Company and The Hong Kong Stock Exchange pursuant to the Model Code, were as follows:

(i) Interests in the Company

Name of Director	Nature of interest	Number of ordinary shares held (Note 1)	Approximate percentage of shareholding
Mr. Lin Wan-Yi ("**Mr. Lin**")	Interest in a controlled corporation (Note 2)	324,225,000 (L)	49.125%
Mr. Lin	Beneficial owner	990,000 (L)	0.15%

Notes:

1. The letter "L" denotes the person's long position in the shares.

2. The Company was directly owned as to 49.125% by Shine Art which was directly held as to 58.312% by Mr. Lin. Accordingly, by virtue of the SFO, Mr. Lin is deemed to be interested in the same number of shares of the Company held by Shine Art.

(ii) Interests in the associated corporation

Name of Director	Name of associated corporation	Nature of interest	Number of ordinary shares held	Approximate percentage of shareholding in the associated corporation	Approximate percentage of shareholding in the Company
Mr. Lin	Shine Art	Beneficial owner	29,156	58.312%	28.646%
Mr. Yung Chia-Pu	Shine Art	Beneficial owner	7,712	15.424%	7.577%
Mr. Cheng Ching-Long	Shine Art	Beneficial owner	7,468	14.936%	7.337%
Mr. Lu Jen-Chieh	Shine Art	Beneficial owner	467	0.934%	0.459%
Ms. Hsieh Pei-Chen	Shine Art	Beneficial owner	454	0.908%	0.446%

Save as disclosed above and so far as is known to the Directors, as at 31 December 2019, none of the Directors or chief executive of the Company had or was deemed to have any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

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

So far as is known to the Directors, as at 31 December 2019, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or shorts positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of interests required to be kept by the Company under section 336 of the SFO:

Name of substantial shareholder	Nature of interest	Number of ordinary shares held (Note 1)	Approximate number of shareholding
Shine Art	Beneficial owner	324,225,000 (L)	49.125%
Friendly Holdings (HK) Co., Limited ("**Friendly Holdings**")	Beneficial owner	91,080,000 (L)	13.80%
Hammurabi International Limited ("**Hammurabi**")	Interest in a controlled corporation (Note 2)	91,080,000 (L)	13.80%
Mr. Liu Fang Jung ("**Mr. Liu**")	Interest in a controlled corporation (Note 2)	91,080,000 (L)	13.80%
Digital Link Overseas Co., Ltd ("**Digital Link**")	Beneficial owner	47,718,000 (L)	7.23%
Mr. Lo Ter-Chong ("**Mr. Lo**")	Interest in a controlled corporation (Note 3)	47,718,000 (L)	7.23%
Ms. Su Su-Mei ("**Ms. Su**")	Interest of spouse (Note 4)	325,215,000 (L)	49.275%

Notes:

1. The letter "L" denotes the person's long position in the shares.

2. The Company was directly owned as to 13.80% by Friendly Holdings which was directly held as to 100% by Hammurabi, which was in turn directly held as to 100% by Mr. Liu. Accordingly, by virtue of the SFO, Mr. Liu is deemed to be interested in the same number of shares of the Company held by Friendly Holdings.

3. The Company was directly owned as to 7.23% by Digital Link which was directly held as to 100% by Mr. Lo. Accordingly, by virtue of the SFO, Mr. Lo is deemed to be interested in the same number of shares of the Company held by Digital Link.

4. Ms. Su is the spouse of Mr. Lin. Under the SFO, Ms. Su is deemed to be interested in the same number of shares of the Company in which Mr. Lin is interested.

Save as disclosed above, as at 31 December 2019, the Directors and the chief executives of the Company are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed above, at no time during the year ended 31 December 2019 and up to the date of this report have the Directors and the chief executive of the Company and their respective close associates (as defined under the Listing Rules) had any interest in, or had been granted, or exercised any rights to subscribe for shares or underlying shares of the Company and/or its associated corporations (within the meaning of the SFO).

Save as disclosed above and in the section "Share Option Scheme" of this annual report, at no time during the year ended 31 December 2019 and up to the date of this report was the Company, any of its subsidiaries, its associated companies or its holding companies a party to any arrangements to enable the Directors or the chief executive of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company and/or its associated corporations (within the meaning of the SFO).

UPDATES ON DIRECTORS' INFORMATION

There are no changes in the Directors' biographical details that is required to be disclosed pursuant to Rule 13.51B of the Listing Rules since the despatch date of the interim report of the Company for the six months ended 30 June 2019 and up to the date of this annual report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2019, the percentage of (i) revenue attributable to the Group's major customers; and (ii) purchases from the Group's major suppliers are set out below:

	Approximate percentage of the Group's	
	Revenue	Cost of services
The largest customer	61.1%	–
Five largest customers in aggregate	83.0%	–
The largest supplier	–	9.0%
Five largest suppliers in aggregate	–	31.1%

None of the Directors or any of their associates or any Shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) had an interest in the Group's five largest customers and suppliers as mentioned above.

RETIREMENT BENEFITS PLAN

Details of retirement benefits plan of the Group for the year ended 31 December 2019 are set out in Note 2.4 to the Financial Statements.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the Directors' remuneration and the five highest paid individuals for the year ended 31 December 2019 are set out in Notes 8 and 9 to the Financial Statements.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTION

During the year ended 31 December 2019, the Group had not entered into any connected transactions or continuing connected transactions.

DISCLOSURE UNDER RULE 14A.72 OF THE LISTING RULES

With regard to the related party transactions disclosed in Note 30 to the Financial Statements for the year ended 31 December 2019, there are no transactions constitute connected transactions or continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, as at the date of this annual report, the Directors confirm that the Company maintained sufficient public float as required under the Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

The outbreak of Coronavirus COVID-19 in early 2020 has affected businesses and economic activities in Mainland China and other countries. While the full impact of the outbreak of the Coronavirus COVID-19 is yet to be assessed, the Directors believe that the business operations and financial performance of the Group will be sustainable. The Directors also confirmed that, as at the date of this annual report, there has been no material adverse change in the business operations, financial conditions or trading positions since 31 December 2019, being the date to which the audited consolidated financial information was prepared, and up to the date of this annual report.

As at the date of this annual report, the Group did not have any other significant event after the reporting period.

PERMITTED INDEMNITY PROVISIONS

Pursuant to the Company's Articles of Association, the Directors, auditor and other officers of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts; provided that such indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons.

The Company has arranged appropriate insurance covering the potential legal actions against its Directors and senior management arising out of corporate activities.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by Ballas Capital Limited (the "**Compliance Adviser**"), the Company's compliance adviser, save for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 19 February 2019, neither the Compliance Adviser nor any of its directors, employees or close associates, has or may have, any interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities) or otherwise in relation to the Company which is required to be notified the Company.

AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2019 have been audited by Ernst & Young who retire and, being eligible, offer themselves for re-appointment at the 2019 AGM. A resolution will be proposed at the 2019 AGM to re-appoint Ernst & Young as auditor of the Company.

There has been no change of auditor of the Company since the Listing.

On behalf of the Board
Lin Wan-Yi
Chairman and executive Director

Hong Kong, 26 March 2020

Independent Auditor's Report

To the shareholders of
Shinelong Automotive Lightweight Application Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Shinelong Automotive Lightweight Application Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 57 to 129, which comprise the consolidated statement of financial position of the Group as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 (the "**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 the 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 matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of sales of moulds	
For the year ended 31 December 2019, revenue from sales of moulds amounted to approximately RMB218,591,000 and accounted for 95% of the total revenue of the Group. The Group produces moulds that are highly customized for the particular customers with no alternative use for others and the moulds preliminarily accepted by the customers are subject to examination and testing before final acceptance, which creates complexity in determining the timing of satisfaction of performance obligations. This matter is identified as a key audit matter as the determination of the timing of satisfaction of performance obligations requires judgement, which may have crucial impacts on the consolidated financial statements of the Group. The Group's disclosures about revenue recognition of sales of moulds are included in notes 2.4, 3 and 4 to the consolidated financial statements.	The following procedures were performed, among others, to address the identified key audit matter: • We evaluated the design, implementation, and operating effectiveness of the key internal controls over the revenue recognition of sales of moulds; • We discussed with management and, on a sample basis, obtained and reviewed major revenue contracts effective during the year ended 31 December 2019 and assessed whether the Group's accounting policy adopted to recognize revenue from sales of moulds was in accordance with IFRS 15 "*Revenue from Contracts with Customers*". • We inspected, on a sample basis, the supporting documents (including but not limited to contracts, acceptance reports, shipment documents, invoices, etc.) for sales of moulds recognized during the year ended 31 December 2019 and assessed whether the related revenue had been recognized in accordance with the Group's revenue recognition accounting policy. • We inspected the supporting documents (including but not limited to contracts, acceptance reports, shipment documents, invoices, etc.) for sales of moulds recognized during a certain period of time before and after 31 December 2019 and assessed whether related revenue had been recognized in the correct period.

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 and fair presentation of the consolidated financial statements in accordance with IFRSs and the disclosure requirements of 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 has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong

26 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2019

	Notes	Year ended 31 December 2019 RMB'000	2018 RMB'000
REVENUE	4	**230,228**	217,216
Cost of sales		**(152,652)**	(144,303)
Gross profit		**77,576**	72,913
Other income and gains, net	5	**1,992**	898
Selling and distribution expenses		**(8,136)**	(8,324)
General and administrative expenses		**(38,946)**	(26,693)
Finance costs	6	**(1,104)**	(723)
PROFIT BEFORE TAX	7	**31,382**	38,071
Income tax expense	10	**(7,669)**	(6,720)
PROFIT FOR THE YEAR		**23,713**	31,351
Attributable to:			
Owners of the Company		**23,713**	31,351
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent years:			
Changes in fair value of debt investments at fair value through other comprehensive income, net of tax		**(84)**	59
Currency translation differences		**1,622**	16
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**1,538**	75
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**25,251**	31,426
Attributable to:			
Owners of the Company		**25,251**	31,426
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (in RMB cent per share)	12	**4.1**	Not applicable

Consolidated Statement of Financial Position

31 December 2019

	Notes	As at 31 December 2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**62,912**	67,110
Right-of-use assets	15	**15,670**	–
Prepaid land lease payments	15	**–**	800
Intangible assets	14	**3,162**	3,625
Prepayments	19	**–**	60
Deferred tax assets	16	**3,894**	1,474
Net investments in subleases	15	**362**	–
Total non-current assets		**86,000**	73,069
CURRENT ASSETS			
Inventories	17	**138,419**	138,952
Trade and notes receivables	18	**103,395**	75,442
Prepayments, other receivables and other assets	19	**1,478**	4,021
Net investments in subleases	15	**380**	–
Amount due from a related party	25	**–**	312
Cash and cash equivalents	20	**86,904**	14,112
Total current assets		**330,576**	232,839
CURRENT LIABILITIES			
Trade and notes payables	21	**50,174**	66,434
Other payables and accruals	22	**14,440**	16,673
Government grants	24	**454**	234
Contract liabilities	23	**65,942**	81,154
Dividends payable	11	**–**	367
Amounts due to related parties	25	**–**	6,956
Income tax payable		**3,136**	1,536
Lease liabilities	15	**3,333**	–
Total current liabilities		**137,479**	173,354
NET CURRENT ASSETS		**193,097**	59,485
TOTAL ASSETS LESS CURRENT LIABILITIES		**279,097**	132,554

Consolidated Statement of Financial Position *(Continued)*

31 December 2019

	Notes	As at 31 December 2019 RMB'000	2018 RMB'000
NON-CURRENT LIABILITIES			
Government grants	24	**1,937**	1,235
Deferred tax liabilities	16	**2,521**	–
Lease liabilities	15	**11,959**	–
Total non-current liabilities		**16,417**	1,235
Net assets		**262,680**	131,319
EQUITY			
Equity attributable to the owners of the Company			
Share capital	26	**5,806**	–*
Reserves	27	**256,874**	131,319
Total equity		**262,680**	131,319

* The amount is less than RMB1,000, which is RMB87.62.

Lin Wan-Yi
Director

Cheng Ching-Long
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Attributable to the owners of the Company							
	Share capital RMB'000	Share premium* RMB'000	Merger reserve* RMB'000	Statutory reserve* RMB'000	Fair value reserve* RMB'000	Exchange reserve* RMB'000	Retained profits* RMB'000	Total RMB'000
As at 1 January 2018	–	–	52,970	5,728	(289)	–	48,277	106,686
Profit for the year	–	–	–	–	–	–	31,351	31,351
Other comprehensive income for the year:								
Changes in fair value of debt investments at fair value through other comprehensive income, net of tax	–	–	–	–	59	–	–	59
Currency translation differences	–	–	–	–	–	16	–	16
Total comprehensive income for the year	–	–	–	–	59	16	31,351	31,426
Declaration of dividends to the then shareholders	–	–	–	–	–	–	(6,793)	(6,793)
Acquisition of subsidiaries under common control pursuant to the Reorganization	–	668	(668)	–	–	–	–	–
Profit appropriation to statutory reserve	–	–	–	3,479	–	–	(3,479)	–
As at 31 December 2018	–**	668	52,302	9,207	(230)	16	69,356	131,319

Consolidated Statement of Changes in Equity *(Continued)*

Year ended 31 December 2019

	Attributable to the owners of the Company							
	Share capital RMB'000	Share premium* RMB'000	Merger reserve* RMB'000	Statutory reserve* RMB'000	Fair value reserve* RMB'000	Exchange reserve* RMB'000	Retained profits* RMB'000	Total RMB'000
As at 31 December 2018	–	668	52,302	9,207	(230)	16	69,356	131,319
Profit for the year	–	–	–	–	–	–	23,713	23,713
Other comprehensive income for the year:	–	–	–	–	–	–	–	–
Changes in fair value of debt investments at fair value through other comprehensive income, net of tax	–	–	–	–	(84)	–	–	(84)
Currency translation differences	–	–	–	–	–	1,622	–	1,622
Total comprehensive income for the year	–	–	–	–	(84)	1,622	23,713	25,251
Issue of shares for the initial public offering ("IPO") (Note 26)	1,452	126,279	–	–	–	–	–	127,731
Share issue expenses	–	(21,621)	–	–	–	–	–	(21,621)
Capitalization issue (Note 26)	4,354	(4,354)	–	–	–	–	–	–
Profit appropriation to statutory reserves	–	–	–	4,274	–	–	(4,274)	–
As at 31 December 2019	5,806	100,972	52,302	13,481	(314)	1,638	88,795	262,680

* These reserve accounts comprise the reserves of approximately RMB256,874,000 (2018: RMB131,319,000) in the consolidated statement of financial position.

** The amount is less than RMB1,000.

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	Year ended 31 December 2019 RMB'000	 2018 RMB'000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		**31,382**	38,071
Adjustments for:			
Depreciation of property, plant and equipment	13	**8,930**	8,211
Amortization of intangible assets	14	**1,256**	1,177
Write-down of inventories to net realizable value	7	**2,517**	1,086
Impairment losses for trade and notes receivables, net	18	**30**	80
Depreciation of right-of-use assets/recognition of prepaid land lease payments	15	**2,538**	24
Net foreign exchange differences		**(257)**	332
Gain on derecognition of right-of-use assets due to subleases classified as finance leases	15	**(195)**	–
Government grants	24	**(401)**	(246)
Interest income	5	**(579)**	(79)
Finance costs	6	**1,104**	363
Loss on disposals of items of property, plant and equipment	5	**9**	72
		46,334	49,091
Increase in inventories		**(1,985)**	(20,393)
Increase in trade and notes receivables		**(28,067)**	(24,028)
Decrease/(increase) in prepayments, other receivables and other assets		**1,900**	(3,170)
(Decrease)/increase in trade and notes payables		**(16,260)**	18,852
(Decrease)/increase in other payables and accruals		**(2,233)**	5,933
Decrease in amounts due to a related party		**–**	(126)
(Decrease)/increase in contract liabilities		**(15,212)**	5,297
Cash (used in)/generated from operations		**(15,523)**	31,456
Income tax paid		**(5,968)**	(5,087)
Net cash flows (used in)/from operating activities		**(21,491)**	26,369

Consolidated Statement of Cash Flows *(Continued)*

Year ended 31 December 2019

	Notes	Year ended 31 December **2019** **RMB'000**	 2018 RMB'000
CASH FLOW FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(4,758)**	(20,922)
Purchases of items of intangible assets		**(793)**	(777)
Proceeds from disposal of items of property, plant and equipment		**77**	358
Receipt of government grants	24	**1,323**	800
Receipt of the principal portion of finance lease payments arising from the subleases		**372**	–
Interest received	5	**579**	79
Net cash flows used in investing activities		**(3,200)**	(20,462)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of shares for the incorporation of the Company		**–**	356
Proceeds from issue of shares for the IPO	26	**127,731**	–
Proceeds from issue of shares for the Reorganization		**312**	–
Share issue expenses		**(21,621)**	–
Cash paid in connection with the Reorganization		**(548)**	(118)
Payment of interest expense on discounted notes receivable	6	**(200)**	–
Principal portion of lease payments		**(2,758)**	–
Interest portion of lease payments	6	**(904)**	–
Loan from a related party	30	**8,500**	–
Repayment of loan from a related party	30	**(8,500)**	–
Dividends paid		**–**	(6,426)
Repayment of bank borrowings		**–**	(25,310)
Repayment of interest on bank and other borrowings		**–**	(385)
(Payments to)/receipts from related parties	30	**(6,408)**	6,408
Net cash flows from/(used in) financing activities		**95,604**	(25,475)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**70,913**	(19,568)
Cash and cash equivalents at 1 January	20	**14,112**	33,631
Effect of foreign exchange rate changes, net		**1,879**	49
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	20	**86,904**	14,112

1. GENERAL INFORMATION

Shinelong Automotive Lightweight Application Limited (the "Company") is an exempted company with limited liability incorporated in the Cayman Islands on 2 October 2018. The registered office address of the Company is Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (collectively "the Group") are involved in the provision of comprehensive moulding services and solutions, covering product analysis, mould design and development; mould fabrication, assembling, testing and adjustment; trial production and Aftersales services.

The Company and its subsidiaries now comprising the Group underwent a reorganization (the "Reorganization") in preparation for an IPO through the incorporation of the Company, acquisition of Shinelong Intellectual Manufacture Precision Applied Materials (Suzhou) Company Limited ("Shinelong (Suzhou)") and Kunshan Longjun Management Consulting Company Limited ("Kunshan Longjun") by the Company, further allotment of ordinary shares and capitalization issue. The Company's shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") since 28 June 2019.

In the opinion of the directors of the Company (the "Directors") , the holding company of the Company is Shine Art International Limited ("Shine Art"), a company incorporated in the British Virgin Islands and the ultimate controlling shareholder of the Company is Mr. Lin Wan-Yi.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Company name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shinelong (Suzhou) (Note (a))	PRC/Mainland China	RMB39,000,000	99.9	0.1	Design, manufacture and sale of moulds
Qingdao Xunzhan Molding Technology Company Limited ("Xunzhan") (Note (b))	PRC/Mainland China	RMB6,000,000	–	100	Design, manufacture and sale of moulds
Kunshan Longjun (Note (b))	PRC/Mainland China	US$50,000	100	–	Inactive

1. GENERAL INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Notes:

(a) Shinelong (Suzhou) was established on 8 January 2002 under the name of Shinelong Precision Moulds (Kunshan) Company Limited as a limited liability company under the law of the PRC, which was converted to a company limited by shares on 29 March 2016 and renamed as Shinlone Intellectual Manufacture Precision Applied Materials (Suzhou) Company Limited. It was further renamed as Shinelong (Suzhou) on 28 December 2018. Shinelong (Suzhou) is a wholly owned subsidiary of the Company.

(b) Registered as limited liability companies under the PRC law.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise all standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements have been prepared under the historical cost convention, except for notes receivable measured at fair value through other comprehensive income. 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 now comprising the Group 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 the ability to affect those returns through its power over investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

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. 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 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 derecognizes (i) the assets and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognizes (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 recognized 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	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to IFRSs 2015–2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Other than as explained below regarding the impact of IFRS 16 *Leases*, the new and revised standards are not relevant to the preparation of the Group's financial statements. The nature and impact of IFRS 16 *Leases* are described below:

Adoption of IFRS 16

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 recognize 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.

For a sublease arrangement, the classification of the sublease is made by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset.

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

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.

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

Adoption of IFRS 16 *(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 factories and venues, parking lots and a parcel of land in its operation. 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 recognize 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 recognizing rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognizes depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

As a lessee — Leases previously classified as operating leases

Impacts on transition

Lease liabilities at 1 January 2019 were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The Group elected to present the lease liabilities separately in the statement of financial position.

The right-of-use assets were measured at the amount of the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognized 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 expedient when applying IFRS 16 at 1 January 2019:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics

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

Adoption of IFRS 16 *(Continued)*

Financial impact at 1 January 2019

The impact arising from the adoption of IFRS 16 as at 1 January 2019 was as follows:

	Increase/ (decrease) RMB'000
Assets	
Increase in right-of-use assets	17,662
Decrease in prepaid land lease payments	(825)
Decrease in prepayments, other receivables and other assets	(252)
Increase in total assets	16,585
Liabilities	
Increase in lease liabilities	16,585

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

	RMB'000
Operating lease commitments as at 31 December 2018	20,673
Weighted average incremental borrowing rate as at 1 January 2019	6.31%
Discounted operating lease commitments as at 1 January 2019	16,585
Lease liabilities as at 1 January 2019	16,585

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

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

While the adoption of some of the new and revised IFRSs may result in changes in accounting policies, none of these IFRSs is expected to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

The Group measures its notes receivable at fair value through other comprehensive income 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.

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 categorized 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 recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (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, 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 recognized 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 recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized 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/amortization) had no impairment loss been recognized 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 capitalized 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 recognizes 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:

Type	**Depreciation rate**
Buildings	4.50%
Machinery	9.00%
Furniture, fixtures and equipment	18.00%
Leasehold improvements	Over the shorter of the lease terms and 20.00%
Motor vehicles	18.00%

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

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

Construction in progress represents property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets of the Group represent software which is amortized over an estimated useful life of 5 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 capitalized 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. Expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortized using the straight-line basis over the commercial lives of the underlying products not exceeding four 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 recognizes 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 recognized 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 incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Factories and venues	2 to 10 years
Parking lots	10 years
Leasehold land	50 years

(b) Lease liabilities

Lease liabilities are recognized 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 recognized 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 the incremental borrowing rate at the lease commencement date if 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 future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

The Group's lease liabilities are presented separately in the statement of financial position.

(c) Short-term leases and leases of low-value assets

The Group did not have short-term leases for the reporting period. The Group applies the recognition exemption for leases of low-value assets to leases of office equipment that is considered to be of low value. Lease payments on leases of low-value assets are recognized as an expense on a straight-line basis over the lease term.

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 and other comprehensive income 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 recognized over the lease term on the same basis as rental income. Contingent rents are recognized 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. At the commencement date, the cost of the leased asset is capitalized at the present value of the lease payments and related payments (including the initial direct costs) and presented as a receivable at an amount equal to the net investment in the lease. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

When the Group is an intermediate lessor, a sublease is classified as a finance lease or operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the on-balance sheet recognition exemption, the Group classifies the sublease as an operating lease.

Leases (applicable before 1 January 2019)

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases (applicable before 1 January 2019) *(Continued)*

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 recognized 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 amortized cost and fair value through other comprehensive income.

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. Refer to the accounting policies for revenue recognition.

In order for a financial asset to be classified and measured at amortized 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 amortized 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 recognized 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 amortized cost (debt instruments)

Financial assets at amortized cost are subsequently measured using the effective interest ("EIR") method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, 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 recognized in profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in other comprehensive income. Upon derecognition, the cumulative fair value change recognized in other comprehensive income is recycled to 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 primarily derecognized (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 risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Derecognition of financial assets *(Continued)*

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 recognizes 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.

General approach

ECLs are recognized 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 180 days past due.

The Group considers 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

General approach *(Continued)*

Debt investments at fair value through other comprehensive income and financial assets at amortized 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 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 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 recognizes 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.

Financial liabilities

Initial recognition and measurement

The Group's financial liabilities include trade and notes payables, financial liabilities included in other payables and accruals and lease liabilities. The Group's financial liabilities are classified, at initial recognition, as loans and borrowings and payables.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Subsequent measurement

After initial recognition, trade and notes payables, financial liabilities included in other payables and accruals and lease liabilities, are subsequently measured at amortized cost using EIR method, unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of EIR. The EIR amortization is included as finance costs in the consolidated statement of profit or loss and other comprehensive income.

Derecognition of financial liabilities

A financial liability is derecognized 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

Offsetting of financial instruments

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

Inventories

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

Cash and cash equivalents

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

A provision is recognized 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 recognized for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated statement of profit or loss and other comprehensive income.

The Group provides for warranties in relation to the sale of moulds to certain customers for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognized based on expected warranty work to be performed for goods under the warranty period and labor changes expected to be incurred. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized 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 recognized for all taxable temporary differences, except:

(a) 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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax assets are recognized for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized 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 utilized, except:

(a) 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

(b) In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognized 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 utilized.

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 utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized 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 realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each year.

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 realize 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.

Government grants

Government grants are recognized 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 recognized 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers

Revenue from contracts with customers is recognized 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 recognized 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 recognized 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.

(a) Sale of industrial products

Revenue from the sale of moulds is recognized at the point in time when control of the asset is transferred to the customer, generally when the customers have issued the final acceptance report.

(b) Rendering of services

The Group provides parts processing services, the control of which is transferred at a point in time when the processed parts are accepted by the customers.

(c) Interest income

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

Contract liabilities

A contract liability is recognized 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 recognized as revenue when the Group performs under the contract (i.e. transfers control of the related goods or services to the customer).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits

Defined contribution plans

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme. Under the plans, the Group has no further obligation beyond the contributions made. No forfeited contributions may be used by the employer to reduce the existing level of contributions.

Employee leave entitlements

Employee entitlements to annual leave are recognized as a liability when they accrue to the employees. The estimated liability for leave is recognized for services rendered by employees up to the end of each year.

Borrowing costs

All borrowing costs of the Group are expensed in the period in which they are incurred.

Dividends

Final dividends are recognized as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in Note 11 to the financial statements.

Foreign currencies

These financial statements are presented in RMB, which is different from the Company's functional currency, the Hong Kong dollar ("HK$"). As the major revenues and assets of the Group are derived from operations in the PRC, RMB is chosen as the presentation currency to present the financial statements. Each entity in the Group determines its own functional currency and items included in the consolidated 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 recognized 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 translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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 recognizes 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.

As at the end of the reporting period, for entities whose functional currencies are different from the Group's presentation currency, 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 statements of profit or loss are translated into RMB at the average exchange rates for the year. The resulting exchange differences are recognized in other comprehensive income and accumulated in the exchange reserve. On disposal of these entities, the component of other comprehensive income relating to that particular entity is recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Revenue recognition — the timing of satisfaction of performance obligations

Sales of moulds

Revenue from domestic sales of moulds is recognized at a point in time when control over the moulds is transferred to the customers. Judgement is required to assess whether control is transferred over time or at a point in time. The Group creates moulds that are highly customized for the particular customers with no alternative use for others but has no enforceable right to payment for its performance up to date. Judgement is also required to assess whether control is transferred when the customers preliminary have accepted the moulds or when the customers have issued the final acceptance report after the moulds are examined and tested. The customers will only obtain the legal title of the completed moulds after they have issued the final acceptance report, of which the Group has present the right to the payment and the collection of the consideration is probable. Therefore, the Group concluded that the control over the domestic sales of moulds is transferred at the time, instead of over time, when the customers issue the final acceptance report.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Judgements *(Continued)*

Revenue recognition — the timing of satisfaction of performance obligations *(Continued)*

Sales of moulds *(Continued)*

For overseas sales of moulds, revenue is recognized at a point in time when the control over the moulds is transferred to the customers, that is when the customers obtain the physical possession or the legal title of the completed moulds based on respective shipping terms and the Group has the present right to payment and the collection of the consideration is probable.

Rendering of services

Revenue from the rendering of parts processing services is recognized when control over the processing services is transferred to the customers. Judgement is required to assess whether control is transferred over time or at a point in time. The customers cannot simultaneously receive and consume the benefits provided by the Group's parts processing services as the Group performs. The Group also has no enforceable right to payment for the processing services performed to date. The Group concluded that the control over the processing services is transferred to the customers at a point in time when the processed parts are accepted by the customers.

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 non-financial assets

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

Net realizable value of inventories

Net realizable value of inventories is estimated based on the best available facts and circumstances, including but not limited to the inventory own physical conditions, their market selling prices and estimated costs to be incurred for their sales. The assessment is re-evaluated and adjusted as additional information received affects the amount estimated. The carrying amounts of the Group's inventories at the end of the reporting period are disclosed in Note 17 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Useful lives of property, plant and equipment

The Group's property, plant and equipment are depreciated on a straight-line basis over their respective useful lives. Management estimates the useful lives of these property, plant and equipment to be between 5 and 20 years. Changes in the expected level of usage and technological developments could impact the estimated useful lives and the residual values of these assets, therefore future depreciation charges could be revised. The carrying amounts of these property, plant and equipment at the end of the reporting period are disclosed in Note 13 to the financial statements.

Warranty provision

The Group provides warranty to certain customers. The provision for warranty is estimated based on expected warranty work to be performed for goods under the warranty period and labor charges expected to be incurred. As historical maintenance and service record may not resemble the future maintenance and service of the products sold, differences between the actual amount and the estimated amount of this provision may affect future profit or loss. The carrying amount of the Group's warranty provision at the end of the reporting period is disclosed in Note 22 to the financial statements.

Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

4. REVENUE

4.1 Disaggregated revenue information

An analysis of revenue is as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Sales of moulds		
Automotive moulds	**162,102**	123,869
Electrical appliance moulds	**55,235**	68,909
Other moulds	**1,254**	1,472
Parts processing services	**9,328**	20,802
Others	**2,309**	2,164
	230,228	217,216
Represented by:		
Goods and services transferred at a point in time	**230,228**	217,216
Represented by:		
Geographic markets		
The PRC	**227,607**	209,185
Overseas	**2,621**	8,031
	230,228	217,216

4. REVENUE (Continued)

4.1 Disaggregated revenue information (Continued)

Set below is the amounts of revenue recognized in the current reporting period that were included in contract liabilities at the beginning of the reporting period:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Sales of moulds		
Automotive moulds	**65,568**	57,652
Electrical appliance moulds	**6,673**	8,844
Other moulds	**118**	610
Parts processing services	**41**	1,246
Others	**–**	109
	72,400	68,461

Revenue from major customers which accounted for 10% or more of the Group's revenue during the reporting period is set out below:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Customer 1	**140,713**	79,627
Customer 2	**33,007**	38,448
	173,720	118,075

4. REVENUE *(Continued)*

4.2 Performance obligations

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

Sales of moulds

The performance obligation is satisfied upon the customers' issue of final acceptance report. Generally, customers are required to pay approximately 30% of the total fee as deposit upon the signing of the agreements and approximately 40% to 50% of the total fee when the moulds have been fabricated and are ready for delivery to the customers. The remaining balance is generally due within 20 to 180 days from the issue of the final acceptance report.

Parts processing services

The performance obligation is satisfied at a point in time when the processed parts are accepted by the customers and payment is generally due within 20 to 180 days from the acceptance of processed parts, except for certain customers, where payment in advance is required.

There was only one performance obligation in each of the Group's contracts and all revenues were recognized at a point in time during the reporting period. The transaction prices related to the performance obligations in the existing contracts that were unsatisfied as at the end of the reporting period are as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Amounts expected to be recognized as revenue:		
Within one year	**175,775**	200,825
After one year	**80,783**	46,375
	256,558	247,200

The amounts of transaction prices related to the performance obligations which are expected to be recognized after one year mainly relate to the sales of automotive moulds due to the long inspection and examination period before the customers' final acceptance. All other amounts of transaction prices related to the performance obligations are expected to be recognized within one year. The amounts disclosed above do not include variable consideration which is constrained.

5. OTHER INCOME AND GAINS, NET

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Other income, net		
Government grants (Note)	**1,055**	1,296
Interest income	**579**	79
Others	**(85)**	(40)
	1,549	1,335
Gains/(losses), net		
Gain on derecognition of right-of-use assets due to subleases classified as finance leases	**195**	–
Foreign exchange differences, net	**257**	(365)
Loss on disposals of property, plant and equipment	**(9)**	(72)
	443	(437)
	1,992	898

Note: Government grants consist of: (i) unconditional grants received from the local government from time to time at the discretion of relevant government authorities. Such grants mainly represent cash subsidies granted by the local government to encourage the development of certain enterprises that are established in local special economic regions or to support general operations of those entities, and (ii) government grants received for purchases of certain items of property, plant and equipment, which are recognized initially as a liability in the consolidated statement of financial position and subsequently recognized as other income when the associated costs which the grants are intended to compensate are incurred. There are no unfulfilled conditions or contingencies relating to these grants.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Interest expenses on:		
Lease liabilities	**904**	–
Discounted notes receivable	**200**	360
Interest-bearing bank borrowings	**–**	363
	1,104	723

7. PROFIT BEFORE TAX

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

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Raw materials consumed	**83,737**	76,723
Direct labor cost	**19,672**	16,780
Subcontracting expenses	**22,238**	26,971
Depreciation of property, plant and equipment (Note 13)	**8,930**	8,211
Depreciation of right-of-use assets (2018: amortization of land lease payments) (Note 15)	**2,538**	24
Amortization of intangible assets (Note 14)	**1,256**	1,177
Research and development costs	**7,674**	7,164
Minimum lease payments under operating leases	**–**	2,292
Lease payments not included in the measurement of lease liabilities (Note 15)	**56**	–
Interest on lease liabilities	**904**	–
Listing expenses	**14,600**	6,915
Auditor's remuneration	**1,419**	–
Employee benefit expenses (including directors' and chief executive's remuneration (Note 8))		
Salaries and bonuses	**14,051**	11,397
Pension scheme contributions	**4,605**	3,603
	18,656	15,000
Impairment losses for trade and notes receivables, net (Note 18)	**30**	80
Provision for warranty (Note 22)	**2,238**	2,975
Write-down of inventories to net realizable value	**2,517**	1,086
Foreign exchange differences, net (Note 5)	**(257)**	365

8. DIRECTORS' AND CHIEF EXECUTIVES' REMUNERATION

Mr. Yung Chia-Pu, Mr. Cheng Ching-Long and Mr. Lu Jen-Chieh were appointed as executive directors of the Company on 15 February 2019.

Ms. Hsieh Pei-Chan was appointed as a non-executive director of the Company on 26 April 2019.

Mr. So George Siu Ming, Mr. Lin Lien-Hsing and Mr. Fan Chi Chiu were appointed as independent non-executive directors of the Company on 6 June 2019.

Ms. Liu Huaping was appointed as the chief financial officer of the Group in January 2019.

Certain of the directors also received remuneration from the subsidiary now comprising the Group for their appointment as directors for the year ended 31 December 2018.

Directors' and chief executives' remuneration for the reporting period, disclosed pursuant to 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:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Fees	**609**	172
Other emoluments:		
Salaries, allowances, and benefits in kind	**2,122**	1,489
Performance related bonuses	**441**	322
Pension scheme contributions	**8**	–
	2,571	1,811
	3,180	1,983

8. DIRECTORS' AND CHIEF EXECUTIVES' REMUNERATION *(Continued)*

(a) Independent non-executive directors

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

	Year ended 31 December 2019 RMB'000	2018 RMB'000
Lin Lien-Hsing	124	–
So George Siu Ming	124	–
Fan Chi Chiu	124	–
	372	–

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

(b) Executive directors, a non-executive director and chief executives

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2019					
Executive directors:					
Lin Wan-Yi	72	705	140	–	917
Cheng Ching-Long	48	432	130	–	610
Yung Chia-Pu	48	11	–	–	59
Lu Jen-Chieh	24	254	52	–	330
	192	1,402	322	–	1,916
Non-executive director:					
Hsieh Pei-Chen	21	6	–	–	27
Chief executives:					
Chen Ming-Chih	24	354	84	–	462
Liu Huaping	–	360	35	8	403
	24	714	119	8	865
	237	2,122	441	8	2,808

8. DIRECTORS' AND CHIEF EXECUTIVES' REMUNERATION *(Continued)*

(b) Executive directors, a non-executive director and chief executives *(Continued)*

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Total RMB'000
Year ended 31 December 2018				
Executive directors:				
Lin Wan-Yi	72	756	140	968
Cheng Ching-Long	48	458	130	636
Yung Chia-Pu	48	4	–	52
Lu Jen-Chieh	4	271	52	327
	172	1,489	322	1,983

There was no arrangement under which a director waived or agreed to waive any remuneration during the reporting period.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the reporting period included two directors and two chief executives (2018: three directors), details of whose remuneration are set out in Note 8 above. Details of the remuneration for the reporting period of the remaining one (2018: two) highest paid employee who is not a director or a chief executive of the Group are as follows:

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Salaries, allowance and benefits in kind	**362**	755
Performance related bonuses	**138**	162
	500	917

9. FIVE HIGHEST PAID EMPLOYEES *(Continued)*

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

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Nil to HK$1,000,000	**1**	2

During the reporting period, no share option was granted to a non-director and non-chief executive highest paid employee in respect of his services to the Group.

10. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in the Cayman Islands. Tax on profits assessable in the PRC has been calculated at the applicable PRC corporate income tax ("CIT") rate of 25%. During the reporting period, Shinelong (Suzhou) was qualified as a high and new technology enterprise and enjoyed a preferential income tax rate of 15% (2018: 15%). Xunzhan was certified as a small and micro-sized enterprise ("SME") and enjoyed a 75% reduction in taxable income and the preferential income tax rate of 20% for the year ended 31 December 2019 as its taxable income is below RMB1 million (2018: 25%).

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Current — PRC	**7,568**	5,405
Deferred — PRC	**101**	1,315
Total tax charge for the year	**7,669**	6,720

10. INCOME TAX *(Continued)*

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdictions in which the Company and its major operating subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Profit before tax	**31,382**	38,071
Statutory tax rate	**25%**	25%
Tax at the statutory tax rate	**7,846**	9,518
Lower tax rates enacted by local authority	**(4,731)**	(4,054)
Change of lower tax rates enacted by local authority (Note)	**262**	–
Non-deductible expenses	**92**	70
Tax loss attributed to the Company	**4,269**	1,468
Adjustments in respect of current tax of previous periods	**(12)**	–
Additional deductible allowance for research and development expenses	**(469)**	(282)
Effect of withholding tax at 10% on earnings anticipated to be remitted by the Group's PRC subsidiaries	**412**	–
Total tax charge for the year	**7,669**	6,720

Note: As at 31 December 2019, the Group estimated that taxable income of Xunzhan will not exceed RMB1,000,000 and it will remain as a small and SME in subsequent years. Accordingly, Xunzhan will continue to enjoy a 75% reduction in taxable income and the preferential income tax rate of 20%. The Group, therefore, applied a tax rate of 5% in determining the deferred income tax expense of Xunzhan for the year ended 31 December 2019 (2018: 25%).

11. DIVIDENDS

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Proposed final dividend — RMB0.562 cents (2018: N/A) per ordinary share	**3,709**	Not applicable

On 26 March 2020, the directors proposed a final dividend of RMB0.562 cents per ordinary share totalling approximately RMB3,709,000 for the year ended 31 December 2019, which is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The dividend for the year ended 31 December 2018 was declared and paid by the Company's subsidiary to its then shareholders.

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

The calculation of the basic earnings per share amount is based on the profit for the year ended 31 December 2019 attributable to ordinary equity holders of the Company of approximately RMB23,713,000 and the weighted average number of ordinary shares of 579,313,187 (2018: N/A) in issue during the year, as adjusted to reflect the capitalization issue during the year.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2019 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2019.

No earnings per share information is presented for the year ended 31 December 2018, as its inclusion is not considered meaningful due to the Reorganization as disclosed in Note 1 to the financial statements.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery RMB'000	Furniture, fixtures and equipment RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost						
At 1 January 2018	6,259	80,445	3,289	2,853	1,590	94,436
Additions	–	19,987	781	55	76	20,899
Disposals	–	(1,649)	(146)	–	(26)	(1,821)
At 31 December 2018	6,259	98,783	3,924	2,908	1,640	113,514
Additions	–	4,211	464	–	143	4,818
Disposals	–	(69)	(176)	–	(165)	(410)
At 31 December 2019	6,259	102,925	4,212	2,908	1,618	117,922
Accumulated depreciation						
At 1 January 2018	3,330	31,091	1,787	2,346	1,030	39,584
Depreciation charges for the year (Note 7)	282	7,036	445	238	210	8,211
Disposals	–	(1,237)	(131)	–	(23)	(1,391)
At 31 December 2018	3,612	36,890	2,101	2,584	1,217	46,404
Depreciation charges for the year (Note 7)	282	7,815	492	223	118	8,930
Disposals	–	(48)	(156)	–	(120)	(324)
At 31 December 2019	3,894	44,657	2,437	2,807	1,215	55,010
Net carrying amount						
At 31 December 2018	2,647	61,893	1,823	324	423	67,110
At 31 December 2019	2,365	58,268	1,775	101	403	62,912

As at 31 December 2019, the gross carrying amount of fully depreciated property, plant and equipment of the Group that are still in use is approximately RMB16,498,000 (2018: RMB16,217,000).

14. INTANGIBLE ASSETS

	Software RMB'000
Cost	
At 1 January 2018	6,281
Additions	777
At 31 December 2018	7,058
Additions	793
At 31 December 2019	7,851
Accumulated depreciation	
At 1 January 2018	2,256
Amortization charges for the year (Note 7)	1,177
At 31 December 2018	3,433
Amortization charges for the year (Note 7)	1,256
At 31 December 2019	4,689
Net carrying amount	
At 31 December 2018	3,625
At 31 December 2019	3,162

15. LEASES

The Group as a lessee

The Group has lease contracts for factories and venues, parking lots and a parcel of land in its operations. Lump sum payments were made upfront to acquire the leased land with a lease period of 50 years, and no ongoing payments will be made under the term of the land lease. Leases of factories and venues generally have lease terms between 2 and 10 years. Leases of parking lots generally have a lease term of 10 years. Office equipment generally is individually of low value.

In January 2019, the Group subleased part of one leased building in Qingdao to third parties. The subleases were classified as finance leases. Accordingly, as an intermediate lessor, the Group recognized net investments in subleases amounting to RMB1,114,000 and derecognized the corresponding right-of-use asset of the head lease amounting to RMB919,000, resulting in a gain of RMB195,000 recognized in profit or loss at the sublease commencement date.

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

	RMB'000
Carrying amount at 1 January 2018	849
Recognized in profit or loss during the year	(24)
Carrying amount at 31 December 2018	825
Current portion included in prepayments, other receivables and other assets (Note 19)	(25)
Non-current portion	800

(b) Right-of-use assets

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

	Factories and venues RMB'000	Parking lots RMB'000	Leasehold land RMB'000	Total RMB'000
As at 1 January 2019	16,328	509	825	17,662
New leases	1,532	–	–	1,532
Modification	–	(67)	–	(67)
Subleases	(919)	–	–	(919)
Depreciation charges	(2,454)	(59)	(25)	(2,538)
As at 31 December 2019	14,487	383	800	15,670

15. LEASES (Continued)

The Group as a lessee (Continued)

(c) Lease liabilities

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

	RMB'000
Carrying amount at 1 January 2019	16,585
New leases	1,532
Accretion of interest recognized during the year	904
Modification	(67)
Payments	(3,662)
Carrying amount at 31 December 2019	15,292
Analyzed into:	
Current portion	3,333
Non-current portion	11,959

(d) The amounts recognized in profit or loss in relation to leases during the reporting period are as follows:

	2019 **RMB'000**
Interest on lease liabilities	**904**
Depreciation charges of right-of-use assets	**2,538**
Gain on derecognition of right-of-use assets due to subleases classified as finance leases	**(195)**
Expense relating to leases of low-value assets (mainly included in general and administrative expenses and cost of sales)	**56**
Total amount recognized in profit or loss	**3,303**

(e) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are nil.

15. LEASES *(Continued)*

The Group as an intermediate lessor

At 31 December 2019, the undiscounted lease receivables by the Group in future periods under non-cancellable leases are as follows:

	Undiscounted lease receivables 2019 RMB'000	Present value of lease receivables 2019 RMB'000
Amounts receivable:		
Within one year	385	362
In the second year	385	344
Total	770	706
Future finance income		36
Total net investment in subleases		742
Portion classified as current assets		362
Non-current portion		380

16. DEFERRED TAX

The movements in deferred tax assets during the reporting period are as follows:

Deferred tax assets

	Losses available for offsetting against future taxable income RMB'000	Write-down of inventories to net realizable value RMB'000	Unrealized profit arising from intra-group transactions RMB'000	Asset related government grants RMB'000	Provision for warranties RMB'000	Lease liabilities RMB'000	Other temporary differences RMB'000	Total RMB'000
At 31 December 2018	–	332	252	220	550	–	120	1,474
Effect of adoption of IFRS 16	–	–	–	–	–	2,246	–	2,246
At 1 January 2019 (restated)	–	332	252	220	550	2,246	120	3,720
Deferred tax credited/(charged) to profit or loss during the year (Note 10)	24	249	(142)	138	99	(122)	(72)	174
At 31 December 2019	24	581	110	358	649	2,124	48	3,894

	Losses available for offsetting against future taxable income RMB'000	Write-down of inventories to net realizable value RMB'000	Unrealised profit arising from intra-group transactions RMB'000	Asset related government grants RMB'000	Provision for warranties RMB'000	Other temporary differences RMB'000	Total RMB'000
At 1 January 2018	422	218	481	137	460	1,071	2,789
Deferred tax credited/(charged) to profit or loss during the year (Note 10)	(422)	114	(229)	83	90	(951)	(1,315)
At 31 December 2018	–	332	252	220	550	120	1,474

16. DEFERRED TAX *(Continued)*

The movements in deferred tax liabilities during the reporting period are as follows:

Deferred tax liabilities

	Rights-of-use assets RMB'000	Net investments in subleases RMB'000	Effect of withholding tax on earnings anticipated to be remitted by the Group's PRC subsidiaries RMB'000	Total RMB'000
At 31 December 2018	–	–	–	–
Effect of adoption of IFRS 16	2,246	–	–	2,246
At 1 January 2019 (restated)	2,246	–	–	2,246
Deferred tax charged/(credited) to profit or loss during the year (Note 10)	(173)	36	412	275
A 31 December 2019	2,073	36	412	2,521

As at 31 December 2019, the Group recognized deferred income tax liabilities of approximately RMB412,000 on earnings anticipated to be remitted by certain PRC subsidiaries in the foreseeable future. No withholding tax had been provided for the retained profits of approximately RMB37,078,000 expected to be retained by the PRC subsidiaries and not to be remitted in the foreseeable future based on several factors, including the Company's dividend policy and management's estimation of overseas funding requirements. The aggregate amount of temporary differences associated with these retained profits for which deferred tax liabilities have not been recognized was approximately RMB108,050,000 as at 31 December 2019.

17. INVENTORIES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Finished goods	**92,873**	96,741
Work in progress	**44,161**	40,417
Raw materials and low value consumables	**1,385**	1,794
	138,419	138,952

18. TRADE AND NOTES RECEIVABLES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Trade receivables	**60,527**	54,994
Notes receivable	**42,979**	20,529
Impairment	**(111)**	(81)
	103,395	75,442

The Group generally grants a credit period of 20 to 180 days to customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimize credit risk. Overdue balances are reviewed regularly by management. The Group does not hold any collateral or other credit enhancements over its trade and notes receivable balances. Trade and notes receivables are non-interest-bearing.

Details of the concentration of credit risk arising from the customers are set out in Note 33 to the financial statements.

18. TRADE AND NOTES RECEIVABLES *(Continued)*

An aging analysis of the trade receivables as at the end of the reporting period, based on the date of the final acceptance report and net of loss allowance for impairment, is as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Within 30 days	**22,755**	15,063
31–60 days	**4,257**	10,014
61–90 days	**5,462**	9,504
91–180 days	**8,922**	8,086
181–365 days	**14,322**	8,510
Over 365 days	**4,698**	3,736
	60,416	54,913

Set out below is the movements in loss allowance for impairment of trade and notes receivables:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
At the beginning of year	**81**	1
Impairment losses, net	**30**	80
At the end of year	**111**	81

There are no significant changes in the loss allowance for impairment of trade and notes receivables in 2019 and 2018.

The Group has applied the simplified approach to providing for ECLs prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days of ageing. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off when there is no reasonable expectation of recovering additional cash. Indicators that there is no reasonable expectation of recovery, include, among others, the bankruptcy of the customer and a failure to make contractual payments for a period of greater than 36 months.

18. TRADE AND NOTES RECEIVABLES *(Continued)*

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

	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
31 December 2019					
Gross carrying amount	**55,778**	**4,749**	**–**	**–**	**60,527**
Expected credit loss rate	**0.10%–0.11%**	**1.00%–1.09%**	**N/A**	**N/A**	
Expected credit losses	**60**	**51**	**–**	**–**	**111**
31 December 2018					
Gross carrying amount	51,217	3,777	–	–	54,994
Expected credit loss rate	0.00%–0.08%	0.00%–1.24%	N/A	N/A	
Expected credit losses	40	41	–	–	81

The Group's notes receivable are recognized as debt investments at fair value through other comprehensive income and the Group applies the low credit risk simplification for the assessment of ECLs on notes receivable. At the end of the reporting period, the Group evaluated that the notes receivable are considered to have low credit risk and there has not been a significant increase in credit risk when contractual payments are more than 180 days past due.

The Group entered into a note receivable pledge pool arrangement (the "Arrangement") with Jiangsu Kunshan Rural Commercial Bank Company Limited ("KRCB") in August 2019. Under the Arrangement, the Group could pledge up to RMB30,000,000 notes overdraft facilities, of which RMB4,015,000 has been utilized for pledge as security for the issue of the Group's notes to its vendors as at the end of the reporting period.

19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	31 December 2019 RMB'000	1 January 2019 RMB'000	31 December 2018 RMB'000
Non-current			
Prepayments	–	60	60
Current			
Deposits and other receivables	818	516	516
Prepayments (Note)	427	975	1,227
Annual listing fee	130	–	–
Input value added tax ("VAT") to be deducted	103	–	–
Deferred listing expenses	–	2,253	2,253
Prepaid land lease payments (Note)	–	–	25
	1,478	3,744	4,021

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The Group applies the general approach to provide for expected credit losses on the financial assets measured at amortized cost, for which the Group assesses the impairment individually based on the internal credit rating of these debtors. Based on the assessment, there is no significant increase in credit risk since initial recognition. No impairment loss has been recognized under the 12-month ECL based on the information about the exposure to credit risk for these financial assets which are assessed individually as at 31 December 2019.

Note: As a result of the initial recognition of IFRS 16, prepaid land lease payments were adjusted to the right-of-use assets recognized at 1 January 2019 (refer to Note 2 to the financial statements for further details).

20. CASH AND CASH EQUIVALENTS

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Cash on hand and at banks	**86,904**	14,112

At 31 December 2019, the Group's cash and bank balances denominated in RMB amounted to RMB13,956,000. 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 that are authorized to conduct foreign exchanges business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

21. TRADE AND NOTES PAYABLES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Trade payables	**46,159**	66,434
Notes payable	**4,015**	–
	50,174	66,434

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Within 30 days	**23,724**	20,772
31–60 days	**9,242**	11,727
61–90 days	**8,990**	10,141
91–120 days	**1,094**	10,073
Over 120 days	**7,124**	13,721
	50,174	66,434

The trade payables are non-interest-bearing and are normally settled on 30 to 120-day terms.

22. OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Staff cost and welfare accruals	**8,348**	7,357
Provision for warranty (Note)	**4,328**	3,669
Professional service fee payables	**714**	3,112
Other tax payables	**208**	1,556
Other payables	**842**	979
	14,440	16,673

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

Note:

Provision for warranty

	2019	2018
	RMB'000	RMB'000
At the beginning of year	**3,669**	3,068
Provision	**2,238**	2,975
Payment	**(1,579)**	(2,374)
At the end of year	**4,328**	3,669

23. CONTRACT LIABILITIES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Contract liabilities	**65,942**	81,154

Contract liabilities include short-term advances received to deliver moulds.

24. GOVERNMENT GRANTS

	2019 RMB'000	2018 RMB'000
At the beginning of year	**1,469**	915
Receipt	**1,323**	800
Release to profit or loss	**(401)**	(246)
At the end of year	**2,391**	1,469
Current portion	**(454)**	(234)
Non-current portion	**1,937**	1,235

Government grants have been received for the purchase of certain items of property, plant and equipment. There are no unfulfilled conditions or contingencies attached to these grants.

25. AMOUNTS DUE FROM/TO RELATED PARTIES

	As at 31 December 2019 RMB'000	Maximum amount outstanding during the year RMB'000	As at 31 December 2018 RMB'000	Maximum amount outstanding during the year RMB'000
Due from a related party				
Non-trade				
Talent Chain Limited ("Talent Chain") (Note (a))	–	**312**	312	312
Due to related parties				
Non-trade				
Friendly Holdings (HK) Co., Limited ("Friendly Holdings") (Note (b))	–		6,408	
Talent Trading (Shanghai) Limited Company ("Talent Trading") (Note (a))	–		312	
Lin Wan-Yi (Note (c))	–		118	
Fulagai Consulting (Shanghai) Company Limited ("Fulagai") (Note (d))	–		118	
At 31 December 2019	–		6,956	

25. AMOUNTS DUE FROM/TO RELATED PARTIES *(Continued)*

Notes:

(a) The amount due from a shareholder of the Company, Talent Chain, as at 31 December 2018 represented the unpaid consideration for its application for the allotment of the Company's shares pursuant to the Reorganization, which was subsequently received in January 2019. Talent Trading was a shareholder of Shinelong (Suzhou) prior to the Reorganization, which was directly and wholly owned by Talent Chain. The amount due to Talent Trading represented the Company's unpaid consideration for Talent Trading's equity interests in Shinelong (Suzhou) pursuant to the Reorganization. The amount was paid in January 2019.

(b) Friendly Holdings, a shareholder of the Company, paid RMB6,408,000 (equivalent of HK$5,953,000, US$115,000 and RMB404,000) listing expenses on behalf of the Company in December 2018. The balance with Friendly Holdings was non-interest bearing, unsecured and fully repaid in May 2019.

(c) The amount due to the controlling shareholder, Lin Wan-Yi, as at 31 December 2018 was the unpaid consideration for his equity interest in Kunshan Longjun pursuant to the Reorganization, which was settled in January 2019.

(d) The amount due to Fulagai, a direct and wholly owned subsidiary of Friendly Holdings, represented the unpaid consideration for his equity interest in Shinelong (Suzhou) pursuant to the Reorganization, which was settled in January 2019.

26. SHARE CAPITAL

	31 December 2019	
	HK$'000	**RMB'000**
Issued and fully paid/credited as fully paid:		
660,000,000 ordinary shares of HK$0.01 each	**6,600**	**5,806**

	31 December 2018	
	HK$	RMB
Issued and allotted		
10,000 ordinary shares of HK$0.01 each	100	87.62

The Company was incorporated in the Cayman Islands under the Companies Law of the Cayman Islands as an exempted company with limited liability on 2 October 2018, with authorized share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each. 10,000 ordinary shares were issued at par pursuant to the Reorganization.

26. SHARE CAPITAL (Continued)

On 6 June 2019, the authorized share capital of the Company was increased by HK$19,620,000 by the creation of 1,962,000,000 shares to HK$20,000,000 divided into 2,000,000,000 shares.

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

	Number of shares in issue	Share capital RMB'000
At 2 October 2018 (Date of incorporation)	–	–
Issue of shares	10,000	–*
At 31 December 2018 and 1 January 2019	10,000	–
Issue of shares for IPO (Note (a))	165,000,000	1,452
Capitalization issue (Note (b))	494,990,000	4,354
At 31 December 2019	660,000,000	5,806

* The amount is less than RMB1,000, which is RMB87.62.

Notes:

(a) On 28 June 2019, upon its listing on the Hong Kong Stock Exchange (the "Listing"), the Company issued 165,000,000 ordinary shares with a par value of HK$0.01 each at HK$0.88 each, and raised gross proceeds of approximately HK$145,200,000 (equivalent to approximately RMB127,731,000). The share capital and share premium arising from the new issue were approximately RMB1,452,000 and RMB126,279,000, respectively.

(b) On 28 June 2019, 494,990,000 ordinary shares with a par value of HK$0.01 each were issued and credited as fully paid to the shareholders, whose names appeared on the register of members of the Company at the close of business on 27 June 2019 in proportion to their then shareholding in the Company, by way of capitalization of the share premium account of approximately HK$4,950,000 (equivalent to approximately RMB4,354,000) upon the completion of the Listing.

27. RESERVES

The amounts of the Group's reserves and the movements therein for the reporting period are presented in the consolidated statement of changes in equity.

Share premium

The increase in the Group's share premium for the reporting period was as a result of the Listing and the capitalization issue upon the completion of the Listing as described in Note 26 to the financial statements.

Merger reserve

There was no change in the merger reserve of the Group, which represents the reserve arose pursuant to the Reorganization and the reserve arose pursuant to Shinelong (Suzhou)'s conversion as a limited liability company in March 2016.

Statutory reserve

The statutory reserve of the Group represents all the appropriation of net profits (after offsetting accumulated losses from prior years) made by the Group's subsidiaries in the PRC. The percentage of appropriation to statutory reserve is 10%. When the balances of the statutory reserve reach 50% of the registered capital, such transfer need not be made.

Fair value reserve

The fair value reserve of the Group represents the fair value changes of debt investments measured at fair value through other comprehensive income, which will be reclassified subsequently to profit or loss upon disposal.

Exchange reserve

The exchange reserve of the Group represents all relevant exchange differences arising from the translation of the financial statements of an entity whose functional currency is different from the Group's presentation currency.

28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the reporting period, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB1,465,000 and RMB1,465,000, respectively, in respect of lease arrangements for factories and venues. In addition, RMB367,000 of the Group's dividends payable was settled through the net off with receivable from High Chance Limited.

Other than the items described above, there are no other major non-cash transactions for the year ended 31 December 2019.

(b) Changes in liabilities arising from financing activities

Changes in liabilities arising from financing activities during the reporting period are as follows:

2019

	As at 31 December 2018 RMB'000	Effect of adoption of IFRS 16 RMB'000	At 1 January 2019 (restated) RMB'000	Changes from financing cash flows RMB'000	Interest expense RMB'000	Non-cash transaction (Note 28 (a)) RMB'000	As at 31 December 2019 RMB'000
Dividends payable	367	–	367	–	–	(367)	–
Lease liabilities	–	16,585	16,585	(3,662)	904	1,465	15,292
Amount due to a related party	6,408	–	6,408	(6,408)	–	–	–
	6,775	16,585	23,360	(10,070)	904	1,098	15,292

2018

	As at 1 January 2018 RMB'000	Changes from financing cash flows RMB'000	Interest expense RMB'000	Net foreign exchange differences RMB'000	Dividend declared RMB'000	Non-cash transaction RMB'000	As at 31 December 2018 RMB'000
Interest-bearing bank and other borrowings	27,219	(25,310)	–	381	–	(2,290)	–
Interest payable	22	(385)	363	–	–	–	–
Dividends payable	–	(6,426)	–	–	6,793	–	367
Amount due to a related party	–	6,408	–	–	–	–	6,408
	27,241	(25,713)	363	381	6,793	(2,290)	6,775

28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(c) Total cash outflow for leases

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

	Year ended 31 December 2019 RMB'000
Within operating activities	**53**
Within financing activities	**3,662**
	3,715

29. COMMITMENTS

(a) At the end of the reporting period, the Group did not have any significant commitments.

(b) Operating lease commitments as of 31 December 2018.

The Group leased certain factories, venues and parking lots under operating lease arrangements. Leases for factories, venues and parking lots are negotiated for terms ranging from 1 to 10 years.

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

	As at 31 December 2018 RMB'000
Within one year	3,412
In the second to fifth years, inclusive	11,062
After five years	6,199
	20,673

(c) The Group did not have any lease contracts that have not yet commenced as at 31 December 2019.

30. RELATED PARTY TRANSACTIONS

(a) The Group's related parties and the relationships with them:

Name	Relationship
Shine Art International Limited	Controlling Shareholder
Friendly Holdings (HK) Co., Limited	Shareholder
Digital Link Overseas Co., Limited	Shareholder
High Chance Limited	Shareholder
Talent Chain Limited	Shareholder
Lin Wan-Yi	Ultimate controlling shareholder, Chairman, Executive Director and chief executive officer
Talent Trading (Shanghai) Limited Company	Controlled by a shareholder
Fulagai Consulting (Shanghai) Company Limited	Controlled by Friendly Holdings

(b) The Group had the following transactions with related parties during the reporting period:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Loan from a related party:		
Shine Art (Note (i))	**8,500**	–
Reorganization proceeds from a related party:		
Talent Chain (Note 25)	**312**	–
Payment on behalf of the Company:		
Friendly Holdings (Note 25)	**–**	6,408
	8,812	6,408
Payment of loan from a related party:		
Shine Art (Note (i))	**8,500**	–
Repayment of amount due to a related party		
Friendly Holdings (Note 25)	**6,408**	–
Repayment of investment from related parties:		
Talent Trading (Note 25)	**312**	–
Lin Wan-Yi (Note 25)	**118**	–
Fulagai (Note 25)	**118**	–
	15,456	–

30. RELATED PARTY TRANSACTIONS *(Continued)*

(b) *(Continued)*

Note:

(i) Shine Art is the controlling shareholder of the Group. It granted an unsecured loan with principal of RMB8,500,000 in January 2019 to the Group for the repayment of listing expenses. The loan was non-interest-bearing, unsecured and fully repaid in May 2019.

(c) Other transactions with related parties

The controlling shareholder of Friendly Holdings, which is one of the Company's shareholders, guaranteed certain bank loan facilities made to the Group of up to RMB10,000,000, which expired as at 28 April 2019. There were no guarantees as at the end of the reporting period.

(d) Details of the Group's amounts due to/from related parties as at the end of the reporting period are included in Note 25 to the financial statements.

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

The key management personnel of the Group included three directors and two chief executives of the Group (2018: three directors) whose emoluments were disclosed in Note 8 to the financial statements.

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**–**	377
Performance related bonuses	**–**	50
Pension scheme contributions	**–**	–
Total compensation paid to key management personnel	**–**	427

31. 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:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		
Debt investments — Notes receivable	**42,979**	20,529
FINANCIAL ASSETS AT AMORTIZED COST		
Trade receivables	**60,416**	54,913
Cash and cash equivalents	**86,904**	14,112
Net investments in subleases	**742**	–
Financial assets included in prepayments, other receivables and other assets	**647**	347
Amount due from a related party	**–**	312
	148,709	69,684

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
FINANCIAL LIABILITIES		
Trade and notes payables	**50,174**	66,434
Lease liabilities	**15,292**	–
Financial liabilities included in other payables and accruals	**1,555**	4,091
Amounts due to related parties	**–**	6,956
	67,021	77,481

32. 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				
Notes receivable	**43,293**	20,759	**42,979**	20,529

Management has assessed that the fair values of cash and cash equivalents, trade receivables, financial assets included in prepayments, other receivables and other assets, trade and notes payables, financial liabilities included in other payables and accruals and contract liabilities approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance management center is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyzes the movements in the values of financial instruments and determines the major inputs applied in the valuation.

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 following methods and assumptions were used to estimate the fair values:

The fair values of notes receivable have been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the Directors to make estimates about the expected future cash flows of the notes receivable. The Directors believe that the estimated fair values resulting from valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in the consolidated statement of profit or loss and other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2019

	Fair value measurement using			
	Quoted price in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Notes receivable	**–**	**42,979**	**–**	**42,979**

As at 31 December 2018

	Fair value measurement using			
	Quoted price in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Notes receivable	–	20,529	–	20,529

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

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

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of Directors reviews and agrees policies for managing each of these risks and they are summarized below:

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the foreign currency exchange rate, with all other variables held constant, of the Group's profit before tax.

	Increase/ (decrease) in foreign currency rate	Increase/(decrease) in profit before tax As at 31 December	
		2019	2018
	%	**RMB'000**	RMB'000
If RMB weakens against USD	5	**115**	92
If RMB strengthens against USD	(5)	**(115)**	(92)
If RMB weakens against HKD	5	**(73)**	(21)
If RMB strengthens against HKD	(5)	**73**	21

Credit risk

The Group trades only with recognized 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 and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables and deposits, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty. The Group had certain concentrations of credit risk as the trade and notes receivables in terms of the following percentages were due from the five largest customers out of the Group's total trade and notes receivables:

	As at 31 December	
	2019	2018
	%	%
Due from the Group's five largest customers	**76%**	78%

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk *(Continued)*

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 2019 and 2018. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2019

	12-month ECLs	**Lifetime ECLs**			
	Stage 1 RMB'000	**Stage 2 RMB'000**	**Stage 3 RMB'000**	**Simplified approach RMB'000**	**RMB'000**
Trade receivables	**–**	**–**	**–**	**60,416**	**60,416**
Notes receivable	**42,979**	**–**	**–**	**–**	**42,979**
Cash and cash equivalents	**86,904**	**–**	**–**	**–**	**86,904**
Net investments in subleases	**742**	**–**	**–**	**–**	**742**
Financial assets included in prepayments, other receivables and other assets	**647**	**–**	**–**	**–**	**647**
	131,272	**–**	**–**	**60,416**	**191,688**

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	RMB'000
Trade receivables	–	–	–	54,913	54,913
Notes receivable	20,529	–	–	–	20,529
Cash and cash equivalents	14,112	–	–	–	14,112
Financial assets included in prepayments, other receivables and other assets	347	–	–	–	347
Amount due to a related party	312	–	–	–	312
	35,300	–	–	54,913	90,213

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk *(Continued)*

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and notes receivables are disclosed in Note 18 to the financial statements.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of lease liabilities and projected cash flows from operations.

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:

	On demand or no later than 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at 31 December 2019				
Trade and notes payables	**50,174**	**–**	**–**	**50,174**
Lease liabilities	**4,113**	**9,427**	**4,649**	**18,189**
Financial liabilities included in other payables and accruals	**1,555**	**–**	**–**	**1,555**
	55,842	**9,427**	**4,649**	**69,918**
As at 31 December 2018				
Trade and notes payables	66,434	–	–	66,434
Financial liabilities included in other payables and accruals	4,091	–	–	4,091
Amounts due to related parties	6,956	–	–	6,956
	77,481	–	–	77,481

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain 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 reporting period.

34. EVENTS AFTER THE REPORTING PERIOD

The outbreak and spread of the Coronavirus COVID-19 (the "Coronavirus Outbreak") in early 2020 has affected businesses and economic activities in Mainland China and other countries. The Directors have assessed the impact of the Coronavirus Outbreak on the Group's financial position and performance.

As of the date of this annual report, the Directors have not identified any significant adverse impact on the Group's consolidated financial statements as a result of the Coronavirus Outbreak. However, the full financial impact cannot be reasonably estimated at this stage.

The Group will closely monitor the latest development of the Coronavirus Outbreak so as to adopt positive counter-measures to overcome any challenges arising and to assess the related impact to the Group on a continuous basis.

Except for the non-adjusting subsequent event as described above and the events elsewhere mentioned in these financial statements, as at the date of approval of these financial statements, there is no other significant event subsequent to 31 December 2019.

35. 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:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**137,175**	137,175
Amount due from a subsidiary	**13,623**	–
Total non-current assets	**150,798**	137,175
CURRENT ASSETS		
Prepayments, other receivables and other assets	**289**	2,162
Amount due from a related party	**–**	312
Cash and cash equivalents	**72,727**	204
Total current assets	**73,016**	2,678
CURRENT LIABILITIES		
Amount due to a subsidiary	**1,050**	–
Other payables and accruals	**787**	2,231
Amounts due to related parties	**–**	6,303
Total current liabilities	**1,837**	8,534
NET CURRENT ASSETS/(LIABILITIES)	**71,179**	(5,856)
TOTAL ASSETS LESS CURRENT LIABILITIES	**221,977**	131,319
Net assets	**221,977**	131,319
EQUITY		
Share capital	**5,806**	–*
Reserves (Note)	**216,171**	131,319
Total equity	**221,977**	131,319

* The amount is less than RMB1,000.

Lin Wan-Yi	**Cheng Ching-Long**
Director	*Director*

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

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

	Share premium RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
As at 2 October 2018 (date of incorporation)	–	–	–	–	–
Loss for the period	–	–	–	(5,872)	(5,872)
Other comprehensive income for the period:					
Currency translation differences	–	–	16	–	16
Total comprehensive loss for the period	–	–	16	(5,872)	(5,856)
Acquisition of subsidiaries under common control pursuant to the Reorganization	668	136,507	–	–	137,175
As at 31 December 2018 and 1 January 2019	668	136,507	16	(5,872)	131,319
Loss for the year	–	–	–	(17,074)	(17,074)
Other comprehensive income for the year:					
Currency translation differences	–	–	1,622	–	1,622
Total comprehensive loss for the year	–	–	1,622	(17,074)	(15,452)
Issue of shares for the IPO	126,279	–	–	–	126,279
Share issue expenses	(21,621)	–	–	–	(21,621)
Capitalization issue	(4,354)	–	–	–	(4,354)
As at 31 December 2019	100,972	136,507	1,638	(22,946)	216,171

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of Directors on 26 March 2020.

Four-Year Financial Summary

RESULTS

	For the year ended 31 December			
	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**230,228**	217,216	178,450	130,705
Gross profit	**77,576**	72,913	66,235	51,475
Profit before tax	**31,382**	38,071	43,370	24,487
Profit for the year	**23,713**	31,351	37,572	20,922
Adjusted net profit Note 1	**38,313**	38,266	34,610	26,430
Basic earnings per share (RMB cents)	**4.1**	N/A Note 2	N/A Note 2	N/A Note 2

PROFITABILITY ANALYSIS

	For the year ended 31 December			
	2019	2018	2017	2016
Gross profit margin	**33.7%**	33.6%	37.1%	39.4%
Net profit margin	**10.3%**	14.4%	21.1%	16.0%
Adjusted net profit margin Note 1	**16.6%**	17.6%	19.4%	20.2%

Notes:

1. Adjusted net profit and adjusted net profit margin are calculated based on the net profit for the year after excluding the effect of (i) the listing expenses for the Listing; (ii) the listing expenses for the previous listing application for A-Share filed by the Company's subsidiary on 23 December 2016 ("**A-Share Listing Application**"); and (iii) the cash-subsidies granted by the local government in relation to the A-Share Listing Application.

2. No earnings per share was presented for the years ended 31 December 2016, 2017 and 2018 as it was not considered meaningful due to the reorganisation of the Group for the Listing.

ASSETS AND LIABILITIES

	As at 31 December			
	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**416,576**	305,908	270,382	182,057
Cash and cash equivalents	**86,904**	14,112	33,631	19,381
Total liabilities	**153,896**	174,589	163,696	112,688
Borrowings	**–**	–	27,219	–
Total equity	**262,680**	131,319	106,686	69,369